



INTERNAL AUDIT DIVISION

REPORT 2016/033

Advisory engagement on the
Statement on Internal Control project
at the United Nations Joint Staff
Pension Fund

25 April 2016
Assignment No. VS2015/800/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE, SCOPE AND METHODOLOGY	1
III. RESULTS OF THE ADVISORY ENGAGEMENT	2
IV. ACKNOWLEDGEMENT	2
ANNEX I Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement.	
APPENDIX I Management response	

Advisory engagement on the Statement on Internal Control project at the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an advisory engagement on the Statement on Internal Control (SIC) project at the United Nations Joint Staff Pension Fund (UNJSPF).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) effective and efficient operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Chief Executive Officer of the Fund (CEO) and Representative of the Secretary-General for the Investment of the Assets of the Fund (RSG) are responsible for establishing and maintaining a sound system of internal controls, in their respective areas of responsibility, to ensure the accomplishment of objectives, the economic use of resources, reliability and integrity of information, compliance with rules and regulations, and safeguarding of assets. The Fund management initiated the SIC project in 2013, which was the means by which the CEO and the RSG stated their approach to, and responsibility for, risk management and internal control. The Statement was supported by assertion letters signed by various business process owners in the Fund.
4. The 2014 SIC did not clearly specify its scope; however, based on the feedback provided by the Fund management, and considering the methodology followed by the Fund in identifying key controls, OIOS established that the Fund intended to identify and review key controls over financial reporting. Therefore, the advisory engagement focused on the objective of financial reporting in assessing the methodology and mechanisms developed by the Fund.

II. OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the advisory engagement was to **assess whether the UNJSPF had in place adequate mechanisms and processes to support management assertions in the annual Statement on Internal Control and to provide advice on how to improve the underlying process.**
6. The engagement was included in the 2015 OIOS risk-based work plan in response to a request from the CEO and due to the risk that the methodology to implement SIC may not be adequate to support management assertions.
7. OIOS conducted the engagement from September to December 2015. It covered the 2014 SIC included in the financial statements for the year ended 31 December 2014.
8. The engagement methodology included interviews of key staff, reviews of policies and procedures on risk management and internal control, review of management's walkthroughs of the procedures for the preparation of the SIC, and review of relevant records. The assignment also included a review of management's assessment of the adequacy of information and communications technology (ICT) systems and applications that supported key financial controls.
9. OIOS reviewed the processes and documentation supporting the SIC to determine whether there were any gaps between internationally recognized best practices on internal control and assessment approaches, and the framework and methodology applied by UNJPSF.

10. OIOS did not test the operating effectiveness of the controls.

III. RESULTS OF THE ADVISORY ENGAGEMENT

11. UNJSPF had made some progress in implementing the SIC project. However, the Fund needed to address some gaps to meet best practices that could enable it to accomplish the objectives of SIC.

12. For a meaningful and valued-adding SIC, UNJSPF could benefit from:

- Clarifying the main scope of SIC to indicate which of the three categories of control objectives the Statement covered, and ensuring a common understanding across stakeholders;
- Adopting a recognized internal control framework that could be used as the criteria for management's assessment of key controls;
- Assessing key internal controls so that management would have a basis for forming an opinion the effectiveness of key internal controls;
- Including management's conclusion on the effectiveness of key controls in the SIC;
- Further improving the processes and methodology supporting the SIC;
- Clarifying the roles of external and internal auditors with respect to the SIC; and
- Strengthen project governance by appointing a senior staff who could secure management support for the successful implementation of the SIC project.

13. Annex I provides details of the criteria, gap assessment and opportunities for improvement.

IV. ACKNOWLEDGEMENT

14. 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

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>A. Scope of SIC</p> <p>UNJSPF management was expected to clearly define the scope of SIC, and ensure a common understanding across stakeholders.</p>	<p>For the preparation of its SIC, UNJPSF followed a toolkit prepared by the United Nations Task Force on Accounting Standards, which was similar to a model statement used by a national government. However, the national government discontinued to use this model in 2011 and replaced it with a new governance statement.</p> <p>The 2014 SIC did not clearly articulate which of the three categories of control objectives it covered, i.e., (i) efficiency and effectiveness of operations; (ii) compliance with regulations and rules; and (iii) reliability of financial reporting. Some interviewees stated that there was a need to clarify its main scope. Even though UNJSPF policy papers mention internal controls over financial reporting, they are not publicly available. Therefore, SIC, which is a publicly available document, needs to clearly state its scope.</p> <p>After the first SIC was issued in 2013, the UNJSPF Audit Committee requested the scope to be expanded to cover other areas such as key personnel, critical processes and related controls without mentioning the related category of the internal control objective. Consequently, in the budget of 2016-2017, the Fund included “expansion of the scope of SIC” as one of the indicators of achievement.</p>	<p>1. UNJSPF could clearly define the scope of SIC and define the internal control objective(s) that would be covered by the Statement.</p>
<p>B. Framework/criteria to assess internal control</p> <p>Best practices require that management assesses its system of internal control using a recognized framework.</p>	<p>According to policy papers, the implementation of SIC in the Fund Secretariat would be generally guided by the UNJSPF Enterprise-wide Risk Management (EWRM) Policy, and complemented by the Internal Control Policy and EWRM methodology. These policy papers used certain terminologies from the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and were informed by its concepts. However, the papers did not fully adopt COSO as the criteria for assessment. The Fund has not formally adopted these frameworks/standards but</p>	

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
	<p>considered them as guidance.</p> <p>Internal control frameworks are generally integrated and their components complement each other. There was no assurance that combining elements from different frameworks would produce more effective assessment criteria. Additionally, in the initial stages of implementing SIC, it might be more pragmatic for the Fund to adopt an internationally recognized control framework that has been developed by experts and widely tested, rather than attempt to develop one internally.</p>	<p>2. UNJPSF could fully adopt COSO or another generally accepted internal control framework as the basis for internal control assessment.</p>
<p>C. Basis for management’s conclusion regarding internal control effectiveness and content of SIC</p> <p>For a meaningful and value-adding SIC, OIOS expected to see management’s documentation and assessment of the effectiveness of key internal controls.</p>	<p><u>(i) Testing and assessment of key internal controls</u></p> <p>The Fund conducted a scoping exercise to identify its key “financially relevant” business processes and critical applications, which also included a risk assessment of the significant accounts in the financial statements, and identification of relevant key internal controls. However, the Fund did not formally assess or test the design and operating effectiveness of key controls.</p> <p>In the 2014 SIC, management stated under the heading “Review of the effectiveness of internal controls” that “the preparation of the Statement on Internal Control did not involve the testing of key internal controls by management”.</p> <p>Testing of key controls is an essential element of the SIC. Even though some of the Fund’s processes and controls were documented, the existence of a policy or manual alone did not mean that the control was effective.</p> <p>The Chief of Investment Management Division (IMD) Information</p>	

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
	<p>Systems Section stated in his 2014 assertion letter that there were significant weaknesses in IMD ICT which required immediate attention. Similarly, the Chief, Information Technology Operations Unit of the Fund Secretariat also acknowledged various weaknesses in ICT and stated that they were addressing them through multi-year business upgrade projects. The 2014 SIC, however, did not reflect these perspectives, which may be important factors in assessing the effectiveness key internal controls.</p> <p>In the assertion letters that supported the 2014 SIC, business process owners stated that their assessment of internal control was informed by the work of the Board of Auditors and OIOS conducted during the financial year. Management, however, needed to conduct its own assessment rather than solely rely on the reviews conducted by external and internal auditors who only focused on certain risk areas, and may not necessarily conduct audits as at the financial year-end.</p> <p><u>(ii) Management conclusion on the effectiveness of internal controls</u></p> <p>The Fund did not provide a conclusion on the results of its assessment of key controls. Assessment of internal controls and management's conclusion are essential elements of SIC. In the absence of a conclusion on the effectiveness of internal controls, SIC may not be very beneficial since it is meant to provide assurance to stakeholders on how effectively management has executed its responsibility for internal control, including its approach to address any shortcomings. Accordingly, management needed to conclude clearly whether or not controls were effective. Where management is unable to do so, it must define the impediments that were preventing it from reaching a conclusion.</p>	<p>3. UNJPSF could formally assess, document and substantiate its assertions on the effectiveness of key internal controls.</p>

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
	Without management's assessment and conclusion, the objective of SIC would not be achieved.	4. UNJSPF could include management's conclusion on the effectiveness of key internal controls in the SIC.
<p>D. SIC Methodology</p> <p>(i) The Fund was expected to develop guidelines for interpreting the results of testing of internal controls;</p> <p>(ii) OIOS expected to see SIC policy and procedures which covered both the Fund Secretariat and IMD;</p> <p>(iii) Best practices indicate that it is not practical to design and implement a system of internal control unless the entity's objectives are established, set, and specified for the organization. The objectives must be specified with sufficient clarity to enable the identification and assessment of risks</p>	<p>(i) <u>Guidelines for interpreting the results of testing of internal controls</u></p> <p>The SIC methodology did not define key terms such as materiality¹ and control deficiency² that would be used to rate and report observed weaknesses. A deficiency could be material, significant or insignificant, and management needs to provide guidance to establish the significance of a control deficiency, considering both qualitative and quantitative factors. Definitions of materiality and control deficiency would also assist reviewers to consistently interpret the results of tests and draw conclusions on control effectiveness. As suggested by best practices, the Fund could also consider agreeing management's determination of materiality with the external auditors to avoid future disagreements.</p> <p>(ii) <u>SIC policy and procedures</u></p> <p>The EWRM Policy and SIC methodology exclusively mentioned the "Secretariat" of the Fund. To ensure consistency, the Fund</p>	<p>5. UNJPSF could update its SIC methodology by defining the guidelines to be used in interpreting the results of internal control testing.</p>

¹ Materiality: Materiality concerns the significance of an item to users of an entity's financial statements. A matter is "material" if there is a substantial likelihood that a reasonable person would consider it important. While the use of a percentage as a numerical threshold could be an initial step in assessing materiality, magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment. Qualitative factors may cause misstatements of quantitatively small amounts to be material, e.g., whether the misstatement affects the entity's compliance with regulatory requirements, whether the misstatement masks a change in earnings or other trends, misappropriation by senior staff etc.

² A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors or deviations on a timely basis.

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>relating to objectives;</p> <p>(iv) Best practices indicate that entity-level controls were aspects of internal control that had a pervasive effect on an entity's system of internal control. Consequently, if management focused exclusively on transaction-level controls to draw a conclusion about all elements of internal control, they might reach inappropriate conclusions about internal control taken as a whole. Best practices also required responsibility to be assigned for each control activity at the entity-level and transaction-level;</p> <p>(v) One of the COSO principles on control activities required organizations to select and develop general controls over technology to support the achievement of objectives. Best practices also indicate that deficiencies in ICT general controls could result in material error if not mitigated or compensated for by controls in other areas. Therefore, it was recommended that management identify a set of control objectives to address each sub-area of ICT general controls;</p>	<p>Management needs to update its policy and procedures to include both the Fund Secretariat and IMD.</p> <p>Some IMD process owners, particularly Front Office staff did not participate in risk and control assessment for the purpose of the SIC methodology. Also, IMD did not specify responsibility of each office/unit concerning transaction-level controls.</p> <p><u>(iii) Objective setting, risk prioritization and scoping</u></p> <p>UNJSPF prepared risk and control matrixes for various processes and sub-processes both at the entity-level (control environment, risk assessment) and the activity- or transaction level without describing their objectives. Articulating SMART³ objectives make it easier for staff and other stakeholders to understand what the Fund is trying to achieve and more likely to identify the pertinent risks that threaten their achievement. Objectives also help to set the context and boundaries within which the risk assessment occurs. Organizations must consider the key linkages between objectives, risks and the internal controls that support the achievement of objectives.</p> <p>The SIC methodology broadly defined a number of factors for rating the risks of significant general ledger accounts such as financial impact, transaction volume, level of judgement required and level of automation. However, additional factors needed to be considered to adequately analyze and identify risks related to individual accounts and financial statement disclosures such as: account characteristics, business process characteristics, fraud risk, and entity-wide factors. There was also a need to assign a weighting for each factor so that the</p>	<p>6. UNJPSF could include IMD in the policy and procedures relating to implementation of SIC.</p>

³ Specific, measurable or observable, attainable, relevant and time-bound.

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>(vi) An organization needs to consider the potential for fraud in assessing risks to the achievement of objectives. Further, best practices require management, along with those who have responsibility for oversight of the financial reporting process, to set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. Moreover, management was responsible for adopting sound accounting policies and for establishing and maintaining internal control that would, among others, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements; and</p> <p>(vii) Best practices indicate that management's failure to adequately document internal control was a deficiency that might also be a material weakness. Further, process mapping was important for identifying risks and key controls in a process, including ICT controls, and it enabled a reasonable person to have a basis upon which to</p>	<p>basis for risk rating of each account would be transparent, documented and consistent.</p> <p>The Fund's SIC methodology required that only high risk accounts were to be included in the SIC scope, but some low and medium risk accounts were also included in the scope, e.g., tax receivables and accrued investment income. On the other hand, actuarial liability with a value of \$131 billion was rated as medium risk (same risk rating with the administrative expenses account whose year-end balance was \$83 million), although the amount was more than twice the value of total assets. Therefore, the logical relationship between the significant accounts and related key financial risks and controls was not clearly established or consistent.</p> <p>Scoping and risk assessment of significant accounts and disclosures were done at the financial statement line-item level (Control Account) instead of sub-ledger level, e.g. the investments balance was assessed as one significant account although it was composed of investments of different risk and nature such as short-term investments, equities, fixed income, real assets, alternative and other investments. By scoping significant accounts at the sub-ledger level, the Fund would be able to rate each sub-ledger account according to its specific risk and design related appropriate controls.</p> <p><u>(iv) Entity-level controls</u></p> <p>While the assertion letters that supported the 2014 SIC included transaction-level controls, they did not mention entity-level controls, therefore, there was no assurance on the adequacy and effectiveness of entity-level controls. Responsibilities for assessing and implementing entity-level controls were also not assigned.</p>	<p>7. UNJPSF could: (i) define objectives at the entity and transaction level and link objectives, risks and controls; (ii) scope significant accounts, disclosures and major transactions at the sub-ledger level; and (iii) outline the basis for risk rating and selection of significant accounts.</p>

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>assess the design of the controls. In addition, COSO stated that some level of documentation is always necessary to assure management that each of the components and relevant principles are present and functioning and components are operating together.</p>	<p>When developing the entity-level controls matrix, the Fund adopted the 5 components and 17 principles of COSO internal control framework; however, it did not ensure that the controls established encompassed COSO points of focus, which describe important characteristics of COSO principles. Even though points of focus were not mandatory, they provided a structured approach in designing and assessing controls, and therefore, the Fund may not have assessed all the necessary aspects of a principle without taking into account points of focus.</p> <p>(v) <u>ICT risks and controls</u></p> <p>The Information Support Section (ISS) of IMD identified 32 general ICT process controls, but the Chief ISS stated that the controls covered all three categories of control objectives as the objective of SIC was not clear to him. In light of the Fund's focus on financially relevant processes, IMD needed to select only those ICT process controls that would have an impact on the financial reporting objective, i.e., if a deficiency in a specific ICT control would result in inaccurate financial reporting.</p> <p>The Information Management Systems Section (IMSS) of the Fund Secretariat and ISS scoped their significant systems/applications and assessed the risks; however, even though the risk assessment process called for a consideration of factors such as dollar amount and volume of transactions processed by the systems, complexity of processing and sensitivity of data and transactions, the ICT Sections did not provide any information on these factors so the basis for rating the systems as high, medium and low risks was unclear. Also, IMSS and ISS needed to link significant applications with the key automated or</p>	<p>8. UNJSPF could: (i) assign responsibility for entity-level controls; and (ii) consider COSO points of focus for entity-level controls to ensure an effective design of controls.</p>

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
	<p>hybrid financial controls to which they were related.</p> <p>The financial information upon which the senior management relies is processed and stored in the ICT systems, and therefore, if the security or integrity of ICT systems can be compromised, then the information in them can also be compromised. Developing key ICT controls would assure management that the Fund's ICT systems adequately addressed financial reporting risks.</p> <p>(vi) <u>Fraud risk</u></p> <p>The Fund Secretariat included fraud in the entity-level controls matrix stating that anti-fraud policies were in place; however, it did not specifically identify the risk of fraudulent financial reporting and assess the effectiveness of the corresponding controls. Financial statements fraud risks include overstating assets or revenue or understating liabilities and expenses, false records, omission of transactions, inappropriate accounting policies, and misappropriation of assets. IMD also needed to consider fraud risks as part of the SIC exercise.</p> <p>(vii) <u>Process documentation</u></p> <p>To further improve its process and control documentation, the Fund would need to cross-reference objectives, risks, business processes and related controls; adequately document management's walkthrough of key business processes; and include organizational charts depicting roles and responsibilities of staff for each key process.</p>	<p>9. UNJSPF could: (i) define ICT objectives and risks relating to financial reporting; and (ii) develop ICT controls at the entity/transaction level that are necessary for the proper operation of key automated and hybrid controls designed to adequately address financial reporting risks.</p> <p>10. UNJSPF could consider the potential for fraud in assessing the risks to the achievement of financial reporting objectives.</p> <p>11. UNJSPF could improve process documentation by mapping end-to-end key business processes and describing management's walkthroughs.</p>
E. Roles of external and internal auditors	The 2014 SIC stated that management did not test key internal controls but relied on the work of OIOS in obtaining assurance that internal	

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>Management was expected to clarify the roles of external and internal auditors relating to SIC.</p>	<p>controls were adequate and functioning effectively. However, UNJSPF had not yet reached agreement with OIOS on the extent to which internal audit activities constituted testing of internal controls on behalf of UNJSPF management. SIC requires an annual assessment of key controls by management, while OIOS aimed to cover high and medium risk areas of the Fund over three years and may not have audited all the relevant controls during the year to provide a basis for this reliance. Additionally, guidance by the Internal Institute of Auditors, which has been adopted by OIOS, specify the roles internal auditors may play in supporting organizations in issuing statements like SIC.</p> <p>There was a need to clarify the roles of auditors with respect to SIC. If the scope of SIC would be financial reporting controls, then the Fund would need to engage in discussions with the United Nations Board of Auditors to enable it to review the Statement prior to its issuance. On the other hand, if the scope of SIC would be operations or compliance controls, then Fund management would need to reach agreement with OIOS on the appropriate support to the process.</p>	<p>12. UNJSPF could engage in discussions with the United Nations Board of Auditors and OIOS regarding their roles with respect to the SIC issued by the Fund.</p>

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

Criteria	Gap Assessment	Opportunities for improvement to accomplish SIC objective
<p>F. The way forward</p> <p>(i) Best practices indicate that responsibility for the system of internal control within a typical organization is a shared responsibility among all the executives, with leadership normally provided by the Chief Finance Officer, who also certified the financial statements; and</p> <p>(ii) OIOS expected to see formal training of key staff involved in the implementation of the SIC project.</p>	<p>(i) <u>Project leadership</u>:</p> <p>To strengthen project governance, the Fund would need to appoint a senior staff to lead the SIC project.</p> <p>(ii) <u>Project training</u>:</p> <p>There was no formal training provided to key staff on how to develop a SIC in an organization.</p>	<p>13. UNJSPF could strengthen the SIC project governance by appointing a senior staff, preferably the Chief Financial Officer, to ensure management support for effective implementation of the project.</p> <p>14. UNJSPF could consider providing key staff with training on internal controls over financial reporting to equip them with effective tools and resources in implementing the SIC project.</p>

APPENDIX I

Management Response



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

NEW YORK (Headquarters)
c/o United Nations
PO Box 5036, NY, NY, USA 10163-5036
Tel: (212) 963-6931; Fax (212) 963-3146
E-mail: UNJSPF@UN.ORG
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, 19 April 2016

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

From / De : Sergio B. Arvizú, Chief Executive Officer,
United Nations Joint Staff Pension Fund

Carol Boykin, Representative of the
Secretary-General for the investment of the
assets of the UNJSPF 

Subject / Objet: UNJSPF response to draft report on advisory engagement on the Statement on Internal Control project at UNJSPF (Assignment No. VS2015/800/01)

1. This joint response is in relation to your memorandum dated 5 April 2016, which attached the draft report on the advisory engagement on the Statement of Internal Control (SIC) project at the United Nations Joint Staff Pension Fund.
2. The Fund's management thanks OIOS for completing the advisory engagement on the process followed for the preparation of the SIC issued in April 2015.

GENERAL COMMENTS TO THE REPORT

3. Baseline for the assessment: OIOS assessed the progress made by the Fund in the SIC preparation using a combination of best practices and approaches, including certain COSO principles and other criteria defined by OIOS. The Fund's management consistently requested OIOS during the SIC advisory to use as baseline the internal control framework and guidelines used by the Fund, that is, the toolkit prepared by the United Nations Taskforce on Accounting Standards and COSO Internal Control – Integrated Framework; and consider the gradual implementation approach followed by the Fund. To ensure the results of the advisory can be used as a practical roadmap for future enhancements to the SIC process, there is a need to ensure that assessment criteria refer only to aspects covered in the COSO Internal Control – Integrated Framework, and that the expected level of maturity recognizes the gradual implementation approach adopted by the Fund. A comparison against any other criteria or a mix of best practices does not allow assessing the progress achieved by the Fund. In addition, to provide a clear reflection of the current situation, it is requested that the final report and gap assessment reflect the information and clarifications provided by UNJSPF management in previous responses to this report and in this memorandum.
4. Progress in the preparation of UNJSPF Statement of Internal Control: The Fund was one of the first United Nations organizations that completed the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012. The strengthening of internal controls was integral to the adoption of IPSAS as the Fund established a comprehensive set of accounting policies, and adopted key systems, processes and internal controls to generate IPSAS-compliant information. Accordingly, the adoption of IPSAS has allowed the Fund to report its financial results with improved comparability and consistency, increased transparency, annual audits and enhanced accountability.
5. The preparation of the Statement of Internal Control was the subsequent stage in the strengthening of UNJSPF financial reporting process. Accordingly, at its 59th session in July 2012, the Pension Board approved the Audit Committee recommendation that future IPSAS-compliant financial statements include a Statement on Internal

Control. In 2013, the Fund's management presented to the Pension Board a 'gradual' implementation approach for the SIC preparation.

6. It is known by OIOS that UNJSPF used the services of the same specialized accounting consulting firm that assisted in the preparation of IPSAS financial statements, to also assist in the preparation of the SICs in 2013 and 2014 and in the assessment of financial reporting risks. Complementarily, the Fund continued strengthening its risk management and internal control framework with, among other enhancements, the approval of UNJSPF Internal Control Policy in July 2014, to specify the scope, roles and responsibilities in terms of internal control and in the SIC preparation.

7. The Fund's management has completed two cycles of the preparation of the Statement of Internal Control, using as guideline COSO Internal Control Framework and following an approach that is consistent with several other United Nations organizations.

8. Roles of internal and external auditors: OIOS expanded the scope of this advisory to cover governance matters related to the role of internal and external auditors in the SIC preparation. UNJSPF management considers that a discussion about the roles of internal and external auditors with respect to SIC is outside the scope of this advisory as the SIC preparation does not alter the auditors mandate or their role in UNJSPF governance. The Fund will continue following the guidance and previous recommendations and requests made by the Pension Board and its Audit Committee¹. It is important to recall that the Pension Board at its 62nd session endorsed the Audit Committee's recommendation that OIOS starts the testing of internal controls for the Statement of Internal Control as soon as possible. If OIOS considers that further clarification is required, it should request further confirmation and guidance from the Audit Committee of the Pension Board.

GENERAL COMMENTS TO THE OPPORTUNITIES FOR IMPROVEMENT

9. SIC objective and scope: At its 60th session in 2013, the Board was informed that the SIC intended to provide the Fund's governing bodies, management and other stakeholders with a reasonable level of assurance regarding the "effectiveness of internal controls over financial reporting". During the SIC advisory and at the Audit Committee in March 2016, it was confirmed to OIOS that the Fund implemented the SIC as an accountability mechanism to provide assurance to its stakeholders on internal controls over financial reporting (ICFR). Further, the SIC objective and scope is reflected in various UNJSPF policy documents. **In this regard, the Fund kindly requests OIOS to update the report to note that the opportunity for improvement that the Fund clarifies the scope of SIC and ensures a common understanding across stakeholders has been implemented.**

10. Use of a recognized internal control framework: As it was informed to OIOS in memorandum dated 22 March 2016, the Fund's management will continue 'using' COSO Internal Control - Integrated Framework (2013) as guideline for the preparation of the Statement of Internal Control. **Therefore, it is requested that OIOS update the report to note that the Fund's management confirmed it will continue using COSO Internal Control – Integrated Framework as guideline for the SIC preparation.**

11. Assessment and conclusion on the effectiveness of key controls in the SIC: The Fund's management is responsible for the design, on-going execution and monitoring of internal controls over financial reporting. In accordance with COSO Internal Control – Integrated Framework (principle 16²), the Fund utilizes various mechanisms for assessing the effectiveness of internal controls over financial reporting including: i) evaluation of ICFR as part of the SIC preparation; ii) on-going monitoring and assertion letters on the effectiveness of ICFR signed by key officers in the Fund secretariat and IMD; iii) OIOS audits; and iv) third party audits.

12. In accordance to the Fund's governance, UNJSPF relies on the assurance provided by OIOS through its audits. To ensure that OIOS provides assurance on the Fund's key risks and controls, the Pension Board at its 61st session, endorsed the Audit Committee recommendation that OIOS tested the key internal controls supporting the

¹ JSPB/62/R.40

² COSO Principle 16: The organization selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

SIC as soon as possible. **In the SICs 2013 and 2014, UNJSPF management concluded on the effectiveness of internal controls based on the evaluation of the results of ‘all’ assurance activities conducted for the Fund, including OIOS audits. Accordingly, we kindly request OIOS to reflect in the report that the opportunity for improvement in reference to the inclusion by management of a conclusion on the effectiveness of key controls has been implemented.**

13. **Improvements to SIC methodology:** The Fund’s management will carefully study the merits of OIOS suggested enhancements to the SIC methodology and where appropriate it will consider using the services of a specialized consulting firm to assist in the implementation. Specific comments to the related opportunities for improvement are provided in Annex I.

14. **SIC Governance:** As it was informed to OIOS in memorandum of 22 March 2016 and is reflected in the Fund’s internal control policy and Accountability Statement, the Fund’s Chief Financial Officer is responsible for ensuring that an adequate financial control environment of the UNJSPF is in place to protect the Fund’s resources and guarantees the quality and reliability of financial reporting. Accordingly, the Fund’s CEO and RSG have also appointed the CFO to lead the SIC preparation process. **Therefore, we kindly request OIOS to update the report to note that the Fund’s CEO and the RSG confirmed that the Chief Financial Officer leads the SIC preparation process.**

15. Specific comments and clarifications to the opportunities for improvement and other aspects of the report are provided in Annex I.

16. Thank you for giving us the opportunity to provide comments on the draft report.

cc. Mr. P. Dooley, Deputy CEO
Mr. D. Liberatore, Chief Financial Officer ad interim
Ms. J. Sareva, Chief, Risk Management and Legal Services Section, UNJSPF Secretariat
Mr. D. Willey, Chief Compliance Officer, IMD
Ms. K. Manosalvas, Risk Officer, Fund secretariat



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

NEW YORK (Headquarters)
c/o United Nations
PO Box 5036, NY, NY, USA 10163-5036
Tel: (212) 963-6931; Fax (212) 963-3146
E-mail: UNJSPF@UN.ORG
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>

ANNEX I

Statement on Internal Control: Criteria, Gap Assessment and Opportunities for Improvement

OIOS Criteria	OIOS Gap Assessment	OIOS opportunities for improvement to accomplish SIC objective	UNJSPF comments and factual clarifications (in blue)
<p>A. Scope of SIC</p> <p>UNJSPF management was expected to clearly define the scope of SIC, and ensure a common understanding across stakeholders.</p>	<p>For the preparation of its SIC, UNJSPF followed a toolkit prepared by the United Nations Task Force on Accounting Standards, which was similar to a model statement used by a national government. However, the national government discontinued to use this model in 2011 and replaced it with a new governance statement.</p> <p>The 2014 SIC did not clearly articulate which of the three categories of control objectives it covered, i.e., (i) efficiency and effectiveness of operations; (ii) compliance with regulations and rules; and (iii) reliability of financial reporting. Some interviewees stated that there was a need to clarify its main scope. Even though UNJSPF policy papers mention internal controls over financial reporting, they are not publicly available. Therefore, SIC, which is a publicly available document, needs to clearly state its scope.</p> <p>After the first SIC was issued in 2013, the UNJSPF Audit Committee requested the scope to be expanded to cover other areas such as key personnel, critical processes and related controls without mentioning the related category of the internal control objective. Consequently, in the budget of 2016-2017, the Fund included “expansion of the scope of SIC” as one of the indicators of achievement.</p>	<p>1. UNJSPF could clearly define the scope of SIC and define the internal control objective(s) that would be covered by the Statement.</p>	<p>Implemented</p> <p>The following UNSPF policy documents clearly define the scope of the SIC and the internal control objective covered by the SIC:</p> <p>a. Internal Control Policy (presented to Pension Board in July 2014) – SIC Scope: “The CEO, alongside the Representative of the Secretary General for the investments of the assets of the Fund (RSG), shall annually issue a Statement of Internal Control on the effectiveness of internal controls over financial reporting, which will accompany the Fund’s financial statements.”</p> <p>“The RSG, alongside the CEO, shall annually issue a Statement of Internal Control on the effectiveness of internal controls over financial reporting, which will accompany the Fund’s financial statements.”</p> <p>b. Enterprise-wide Risk Management Methodology (July 2015) - SIC Scope: “The scope of the SIC will cover the following elements of the UNJSPF secretariat internal control system:</p> <ul style="list-style-type: none"> • Entity-level controls: These controls operate at the Fund-wide level and have therefore a pervasive effect upon the accomplishment of its objectives. • Key Business controls: Key controls are control activities established to prevent or detect material errors in the transactions that constitute the balances in significant accounts in the financial statements, or

			<p>in the way the financial statements are prepared and presented.</p> <ul style="list-style-type: none"> • Key IT General and application system controls: These controls are necessary for the proper and consistent operation of the key controls designed to address financial reporting risks.” <p>Clarifications:</p> <ul style="list-style-type: none"> • Any actions taken by any national government are not relevant to the Fund. • In 2014, the Audit Committee recommended the Fund to expand the SIC to cover other critical processes and related controls. This recommendation was made and implemented within the scope of internal controls over financial reporting.
<p>B. Framework/criteria to assess internal control</p> <p>Best practices require that management assesses its system of internal control using a recognized framework.</p>	<p>According to policy papers, the implementation of SIC in the Fund Secretariat would be generally guided by the UNJSPF Enterprise-wide Risk Management (EWRM) Policy, and complemented by the Internal Control Policy and EWRM methodology. These policy papers used certain terminologies from the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and were informed by its concepts. However, the papers did not fully adopt COSO as the criteria for assessment. The Fund has not formally adopted these frameworks/standards but considered them as guidance.</p> <p>Internal control frameworks are generally integrated and their components complement each other. There was no assurance that combining elements from different frameworks would produce more effective assessment criteria. Additionally, in the initial stages of implementing SIC, it might be more pragmatic for the Fund to adopt an internationally recognized control framework that has been developed by experts and widely tested, rather than attempt to develop one internally.</p>	<p>2. UNJPSF could fully adopt COSO or another generally accepted internal control framework as the basis for internal control assessment.</p>	<p>As it informed to OIOS in joint memorandum of 22 March 2016 and it is reiterated in this memorandum, the Fund will continue using COSO Internal Control – Integrated Framework as guideline for the preparation of the Statement of Internal Control.</p> <p>Clarifications:</p> <ul style="list-style-type: none"> • The Fund has not mixed elements from various frameworks or standards.
<p>C. Basis for management's</p>	<p>(i) Testing and assessment of key internal controls</p>	<p>3. UNJPSF could formally</p>	<p>In accordance with COSO Internal Control Framework</p>

<p>conclusion regarding internal control effectiveness and content of SIC</p> <p>For a meaningful and value-adding SIC, OIOS expected to see management's documentation and assessment of the effectiveness of key internal controls.</p>	<p>The Fund conducted a scoping exercise to identify its key "financially relevant" business processes and critical applications, which also included a risk assessment of the significant accounts in the financial statements, and identification of relevant key internal controls. However, the Fund did not formally assess or test the design and operating effectiveness of key controls.</p> <p>In the 2014 SIC, management stated under the heading "Review of the effectiveness of internal controls" that "the preparation of the Statement on Internal Control did not involve the testing of key internal controls by management".</p> <p>Testing of key controls is an essential element of the SIC. Even though some of the Fund's processes and controls were documented, the existence of a policy or manual alone did not mean that the control was effective.</p> <p>The Chief of Investment Management Division (IMD) Information Systems Section stated in his 2014 assertion letter that there were significant weaknesses in IMD ICT which required immediate attention. Similarly, the Chief, Information Technology Operations Unit of the Fund Secretariat also acknowledged various weaknesses in ICT and stated that they were addressing them through multi-year business upgrade projects. The 2014 SIC, however, did not reflect these perspectives, which may be important factors in assessing the effectiveness key internal controls.</p> <p>In the assertion letters that supported the 2014 SIC, business process owners stated that their assessment of internal control was informed by the work of the Board of Auditors and OIOS conducted during the financial</p>	<p>assess, document and substantiate its assertions on the effectiveness of key internal controls.</p>	<p>(principle 16), the Fund utilizes various mechanisms for assessing the effectiveness of internal controls.</p> <p>UNJSPF management review of the effectiveness of internal controls as of 31 December 2014 was informed by various parties and not only auditors:</p> <ul style="list-style-type: none"> • Review of internal controls over financial reporting as part of the SIC preparation process. • On-going monitoring and assertion Letters signed by key officers in the Fund secretariat and IMD • Results of OIOS audits. • Third party audits. <p>Therefore, it is requested that OIOS update the final report to indicate that the Fund's management assessed the effectiveness of key controls using the mechanisms listed above, and that at its 62nd session in July 2015, the Pension Board/Audit Committee requested OIOS to start the testing of internal controls supporting the Statement of Internal Control as soon as possible.</p> <p>Regarding to OIOS comment that 2014 SIC did not reflect ICT weaknesses reported by the Chief of ITOU, OIOS was informed in memorandum of 22 March 2016 that prior to issue the 2014 SIC, management evaluated the content of the assertion letters to determine if there were: i) any weaknesses that would have an impact on the financial statements; ii) any material weaknesses; and iii) mitigation plans in place to address any reported material weakness. The aspects reported by the Chief of ITOU were related to business improvements and not to internal control matters and therefore did not need to be reported. At this date, four of the six projects identified by the Chief of ITOU are completed, while two relate to on-going activities with no impact on internal controls.</p> <p>Therefore, the Fund secretariat respectfully requests that OIOS note in the final report that the assertion letter signed by the Chief of ITOU did not include</p>
--	--	--	--

	<p>year. Management, however, needed to conduct its own assessment rather than solely rely on the reviews conducted by external and internal auditors who only focused on certain risk areas, and may not necessarily conduct audits as at the financial year-end.</p>		<p>aspects that needed to be reflected in SIC 2014, and that management considered in the results of on-going and separate evaluations, including OIOS audits, to conclude on the effectiveness of internal controls.</p> <p>Within the Assertion letter signed by the IMD Chief of Information Systems Section it is clearly noted that the “Section has implemented preventive and detective controls to mitigate IMD financial reporting risks” and he is “not aware of any situations IMD Information Systems Section or its personnel have not complied with the Fund’s Regulations and Rules or other internal control procedures.” The “significant weaknesses” referenced in IMD ICT spoke to a trade order management system (Charles River) which has been replaced by Bloomberg AIM. There was a transition to Bloomberg AIM but this activity and any associated risks would not impact the effectiveness of internal controls over financial reporting. For these reasons IMD respectfully requests that in the OIOS final report it be noted that the assertion letter signed by the IMD Chief of Information Systems Section did not have views that needed to be reflected in SIC 2014.</p>
	<p>(ii) Management conclusion on the effectiveness of internal controls</p> <p>The Fund did not provide a conclusion on the results of its assessment of key controls. Assessment of internal controls and management’s conclusion are essential elements of SIC. In the absence of a conclusion on the effectiveness of internal controls, SIC may not be very beneficial since it is meant to provide assurance to stakeholders on how effectively management has executed its responsibility for internal control, including its approach to address any shortcomings. Accordingly, management needed to conclude clearly whether or not controls were effective. Where management is unable to do so, it must define the impediments that were preventing it from reaching a conclusion.</p>	<p>4. UNJSPF could include management’s conclusion on the effectiveness of key internal controls in the SIC.</p>	<p>Implemented</p> <p>As noted above, in the SIC 2014, UNJSPF management provided a conclusion on the effectiveness of internal controls based on the evaluation of the results of ‘all’ assurance activities conducted for the Fund, including OIOS audits.</p> <p>It is requested that OIOS update the final report to indicate that the Fund’s management provided a conclusion on the assessment of key controls, and that at its 62nd session in July 2015, the Pension Board/Audit Committee requested OIOS to start the testing of internal controls supporting the Statement of Internal Control as soon as possible.</p>

	Without management's assessment and conclusion, the objective of SIC would not be achieved.		
D. SIC Methodology	(i) Guidelines for interpreting the results of testing of internal controls	5. UNJPSF could update its SIC methodology by defining the guidelines to be used in interpreting the results of internal control testing.	The Fund's management will study carefully the merits of this opportunity for improvement and where appropriate it will consider using the services of a specialized consulting firm to assist in the implementation.
(i) The Fund was expected to develop guidelines for interpreting the results of testing of internal controls;	The SIC methodology did not define key terms such as materiality ¹ and control deficiency ² that would be used to rate and report observed weaknesses. A deficiency could be material, significant or insignificant, and management needs to provide guidance to establish the significance of a control deficiency, considering both qualitative and quantitative factors. Definitions of materiality and control deficiency would also assist reviewers to consistently interpret the results of tests and draw conclusions on control effectiveness. As suggested by best practices, the Fund could also consider agreeing management's determination of materiality with the external auditors to avoid future disagreements.		
(ii) OIOS expected to see SIC policy and procedures which covered both the Fund Secretariat and IMD;	(ii) SIC policy and procedures The EWRM Policy and SIC methodology exclusively mentioned the "Secretariat" of the Fund. To ensure consistency, the Fund Management needs to update its policy and procedures to include both the Fund Secretariat and IMD. Some IMD process owners, particularly Front Office staff did not participate in risk and control assessment for the purpose of the SIC methodology. Also, IMD did not specify responsibility of each office/unit concerning transaction-level controls.	6. UNJPSF could include IMD in the policy and procedures relating to implementation of SIC.	IMD has coordinated with the Fund secretariat in the implementation of the EWRM methodology. Clarification: UNJSPF EWRM policy and UNJSPF Internal Control Policy cover the Fund secretariat and IMD. Therefore, no update to these policies is required. It should be noted that the IMD Director did provide an assertion letter which addressed Front Office activities. Consideration will be given to a more broad review by IMD Front Office Staff.
(iii) Best practices indicate that it is not practical to design and implement a system of internal control unless the entity's objectives	(iii) Objective setting, risk prioritization and scoping UNJSPF prepared risk and control matrixes for various processes and sub-processes both at the entity-level (control environment, risk assessment) and the activity-	7. UNJPSF could: (i) define objectives at the entity and transaction level and link objectives, risks and controls;	The Fund's management will carefully study the merits of this opportunity for improvement and where appropriate it will consider using the services of a specialized consulting firm to assist in the implementation.

<p>are established, set, and specified for the organization. The objectives must be specified with sufficient clarity to enable the identification and assessment of risks relating to objectives;</p>	<p>or transaction level without describing their objectives. Articulating SMART³ objectives make it easier for staff and other stakeholders to understand what the Fund is trying to achieve and more likely to identify the pertinent risks that threaten their achievement. Objectives also help to set the context and boundaries within which the risk assessment occurs. Organizations must consider the key linkages between objectives, risks and the internal controls that support the achievement of objectives.</p> <p>The SIC methodology broadly defined a number of factors for rating the risks of significant general ledger accounts such as financial impact, transaction volume, level of judgement required and level of automation. However, additional factors needed to be considered to adequately analyze and identify risks related to individual accounts and financial statement disclosures such as: account characteristics, business process characteristics, fraud risk, and entity-wide factors. There was also a need to assign a weighting for each factor so that the basis for risk rating of each account would be transparent, documented and consistent.</p> <p>The Fund's SIC methodology required that only high risk accounts were to be included in the SIC scope, but some low and medium risk accounts were also included in the scope, e.g., tax receivables and accrued investment income. On the other hand, actuarial liability with a value of \$131 billion was rated as medium risk (same risk rating with the administrative expenses account whose year-end balance was \$83 million), although the amount was more than twice the value of total assets. Therefore, the logical relationship between the significant accounts and related key financial risks and controls was not clearly established or consistent.</p> <p>Scoping and risk assessment of significant accounts and disclosures were done at the financial statement</p>	<p>(ii) scope significant accounts, disclosures and major transactions at the sub-ledger level; and (iii) outline the basis for risk rating and selection of significant accounts.</p>	<p>Clarifications:</p> <ol style="list-style-type: none"> 1. The Fund uses a risk prioritization matrix at financial statement line item level to identify the key processes, accounts and disclosures included in the SIC scope. Risk and control matrices are prepared for key processes. 2. As investments account for more than 95% of the Fund's assets, scoping at a sub-ledger level is not required for the Fund secretariat. 3. Actuarial liability and administrative expenses were included in the SIC scope as they are relevant disclosures for a Pension Fund and as IPSAS-compliant financial statements require budget reconciliation between accrual and cash basis.
--	--	--	--

	<p>line-item level (Control Account) instead of sub-ledger level, e.g. the investments balance was assessed as one significant account although it was composed of investments of different risk and nature such as short-term investments, equities, fixed income, real assets, alternative and other investments. By scoping significant accounts at the sub-ledger level, the Fund would be able to rate each sub-ledger account according to its specific risk and design related appropriate controls.</p>		
<p>(iv) Best practices indicate that entity- level controls were aspects of internal control that had a pervasive effect on an entity's system of internal control. Consequently, if management focused exclusively on transaction-level controls to draw a conclusion about all elements of internal control, they might reach inappropriate conclusions about internal control taken as a whole. Best practices also required responsibility to be assigned for each control activity at the entity-level and transaction-level;</p>	<p>(iv) Entity-level controls</p> <p>While the assertion letters that supported the 2014 SIC included transaction-level controls, they did not mention entity-level controls, therefore, there was no assurance on the adequacy and effectiveness of entity-level controls. Responsibilities for assessing and implementing entity-level controls were also not assigned.</p> <p>When developing the entity-level controls matrix, the Fund adopted the 5 components and 17 principles of COSO internal control framework; however, it did not ensure that the controls established encompassed COSO points of focus, which describe important characteristics of COSO principles. Even though points of focus were not mandatory, they provided a structured approach in designing and assessing controls, and therefore, the Fund may not have assessed all the necessary aspects of a principle without taking into account points of focus.</p>	<p>8. UNJSPF could: (i) assign responsibility for entity-level controls; and (ii) consider COSO points of focus for entity-level controls to ensure an effective design of controls.</p>	<p>Implemented</p> <p>The Fund has assessed its entity level controls considering COSO internal control framework components, principles and points of focus.</p> <p>As per COSO guidance, responsibility for the implementation of the entity level controls is shared across the three lines of defense in terms of internal control.</p>
<p>(v) One of the COSO principles on control activities required organizations to select and develop general controls over technology to support the achievement of objectives. Best practices also indicate that deficiencies in ICT</p>	<p>(v) ICT risks and controls</p> <p>The Information Support Section (ISS) of IMD identified 32 general ICT process controls, but the Chief ISS stated that the controls covered all three categories of control objectives as the objective of SIC was not clear to him. In light of the Fund's focus on financially relevant processes, IMD needed to select only those ICT process controls that would have an</p>	<p>9. UNJSPF could: (i) define ICT objectives and risks relating to financial reporting; and (ii) develop ICT controls at the entity/transaction level that are necessary for the proper operation of key automated and hybrid</p>	<p>During the last few years, the Fund secretariat has put emphasis on aligning its ICT management, services and operations with best practice standards and to adopt new or enhanced technologies. As a result, on 6 April 2016, the Fund secretariat obtained the ISO 27001 certification on information security, which confirms the existence and adequate operation of information security controls.</p>

<p>general controls could result in material error if not mitigated or compensated for by controls in other areas. Therefore, it was recommended that management identify a set of control objectives to address each sub-area of ICT general controls;</p>	<p>impact on the financial reporting objective, i.e., if a deficiency in a specific ICT control would result in inaccurate financial reporting.</p> <p>The Information Management Systems Section (IMSS) of the Fund Secretariat and ISS scoped their significant systems/applications and assessed the risks; however, even though the risk assessment process called for a consideration of factors such as dollar amount and volume of transactions processed by the systems, complexity of processing and sensitivity of data and transactions, the ICT Sections did not provide any information on these factors so the basis for rating the systems as high, medium and low risks was unclear. Also, IMSS and ISS needed to link significant applications with the key automated or hybrid financial controls to which they were related.</p> <p>The financial information upon which the senior management relies is processed and stored in the ICT systems, and therefore, if the security or integrity of ICT systems can be compromised, then the information in them can also be compromised. Developing key ICT controls would assure management that the Fund's ICT systems adequately addressed financial reporting risks.</p>	<p>controls designed to adequately address financial reporting risks.</p>	<p>As it was noted in joint memorandum of 22 March 2016, ICT controls exist, operate well, are continuously monitored and have been repeatedly assessed by: OIOS ICT auditors in at least 3 different audit examinations conducted over the last two years; third party audits conducted for the services provided by UNICC and an external ISO27001 accredited certification body.</p> <p>Accordingly, the opportunity for improvement to 'develop ICT controls' necessary for the operation of automated or hybrid controls to address financial reporting risks is not applicable for the Fund secretariat.</p> <p>It is further noted that as OIOS did not test the operating effectiveness of ICT controls during the advisory, any opportunity for improvement to 'enhance' or 'develop' ICT controls is outside of the scope of the SIC advisory.</p> <p>It is therefore requested that OIOS removes this opportunity for improvement from the final report.</p>
<p>(vi) An organization needs to consider the potential for fraud in assessing risks to the achievement of objectives. Further, best practices require management, along with those who have responsibility for oversight of the financial reporting process, to set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. Moreover,</p>	<p>(vi) Fraud risk</p> <p>The Fund Secretariat included fraud in the entity-level controls matrix stating that anti-fraud policies were in place; however, it did not specifically identify the risk of fraudulent financial reporting and assess the effectiveness of the corresponding controls. Financial statements fraud risks include overstating assets or revenue or understating liabilities and expenses, false records, omission of transactions, inappropriate accounting policies, and misappropriation of assets. IMD also needed to consider fraud risks as part of the SIC exercise.</p>	<p>10. UNJSPF could consider the potential for fraud in assessing the risks to the achievement of financial reporting objectives.</p>	<p>Implemented</p> <p>As it was informed to OIOS in memorandum of 22 March 2016, the Fund secretariat has various anti-fraud mechanisms including: Fraud Awareness, Reporting and Escalation Policy, periodic fraud risk assessments and a mix of preventive and detective anti-fraud controls. The fraud awareness, reporting and escalation policy follows best practices such as the guidance from the Association of Certified Fraud Examiners, and it was reviewed by OIOS, the Board of Auditors as well as noted in the latest ACABQ report. In addition, the fraud risk assessment conducted by the Fund secretariat assessed over 30 real fraud scenarios and anti-fraud controls related to: benefit payments, contributions,</p>

management was responsible for adopting sound accounting policies and for establishing and maintaining internal control that would, among others, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements; and

administrative expenses, eligibility and other operations specific to the Fund.

Anti-fraud controls are included in the SIC's scope since they are 'key controls' to prevent or detect material errors in transactions that feed the financial statements, or in the way financial statements are prepared and presented i.e. mandatory ethics training, delegation of authority, segregation of duties between and within offices, role based access to ICT applications, financial disclosure programme, certificate of entitlement, annual contributions review, reconciliation of cash to bank statements, etc.

Therefore, it is requested that, in the case of the Fund secretariat, the opportunity for improvement related to anti-fraud controls be removed from the final report.

Inherent in all of IMD's existing policies (Personal Securities, Mandatory Leave, Gift and Hospitality, Communications and Document Retention), its investment procedures to include the delegation of authority, the segregation of duties (including the assignment and auditing of database user rights and entitlements), Brokerage Committee oversight, the daily trade blotter, and the Quarterly Compliance Report to the RSG - all of which is supplemented by the IMD Annual Ethics Training session (the interactive class examines several ethical investment scenarios based on real cases that challenge participants to consider the various courses of action to address the issues involved) the risk of fraud within IMD is addressed. A formal Fraud Policy to even further emphasis the risk of fraud is in progress. Accordingly, it is respectfully put forth that the opportunity for improvement related to anti-fraud controls for IMD be removed from the final report. (Fraud risks can and will be readily be made a part of the SIC exercise.)

<p>(vii) Best practices indicate that management's failure to adequately document internal control was a deficiency that might also be a material weakness. Further, process mapping was important for identifying risks and key controls in a process, including ICT controls, and it enabled a reasonable person to have a basis upon which to assess the design of the controls. In addition, COSO stated that some level of documentation is always necessary to assure management that each of the components and relevant principles are present and functioning and components are operating together.</p>	<p>(vii) Process documentation</p> <p>To further improve its process and control documentation, the Fund would need to cross-reference objectives, risks, business processes and related controls; adequately document management's walkthrough of key business processes; and include organizational charts depicting roles and responsibilities of staff for each key process.</p>	<p>11. UNJSPF could improve process documentation by mapping end-to-end key business processes and describing management's walkthroughs.</p>	<p>Process maps for key processes and organizational charts exist and are continuously updated.</p> <p>It is therefore requested that OIOS updates the final report to reflect this information.</p>
<p>E. Roles of external and internal auditors Management was expected to clarify the roles of external and internal auditors relating to SIC.</p>	<p>The 2014 SIC stated that management did not test key internal controls but relied on the work of OIOS in obtaining assurance that internal controls were adequate and functioning effectively. However, UNJSPF had not yet reached agreement with OIOS on the extent to which internal audit activities constituted testing of internal controls on behalf of UNJSPF management. SIC requires an annual assessment of key controls by management, while OIOS aimed to cover high and medium risk areas of the Fund over three years and may not have audited all the relevant controls during the year to provide a basis for this reliance. Additionally, guidance by the Internal Institute of Auditors, which has been adopted by OIOS, specify the roles internal auditors may play in supporting organizations in issuing statements like SIC.</p>	<p>12. UNJSPF could engage in discussions with the United Nations Board of Auditors and OIOS regarding their roles with respect to the SIC issued by the Fund.</p>	<p>The roles of internal and external auditors are clearly defined in their respective mandates. A discussion about the roles of internal and external auditors with respect to SIC is outside the scope of this advisory as the SIC preparation does not alter the auditors mandate or their role in UNJSPF governance.</p> <p>It is important to recall that the Pension Board at its 62nd session endorsed the Audit Committee's recommendation that OIOS starts the testing of internal controls for the Statement of Internal Control as soon as possible.</p> <p>The Fund will continue to follow the guidance and previous recommendations and requests made by the Pension Board and its Audit Committee³. If OIOS</p>

³ JSPB/62/R.40

	<p>There was a need to clarify the roles of auditors with respect to SIC. If the scope of SIC would be financial reporting controls, then the Fund would need to engage in discussions with the United Nations Board of Auditors to enable it to review the Statement prior to its issuance.</p> <p>On the other hand, if the scope of SIC would be operations or compliance controls, then Fund management would need to reach agreement with OIOS on the appropriate support to the process.</p>		<p>considers that further clarification is required, it should request further confirmation and guidance from the Audit Committee of the Pension Board.</p>
<p>F. The way forward</p> <p>(i) Best practices indicate that responsibility for the system of internal control within a typical organization is a shared responsibility among all the executives, with leadership normally provided by the Chief Finance Officer, who also certified the financial statements; and</p>	<p>(i) Project leadership:</p> <p>To strengthen project governance, the Fund would need to appoint a senior staff to lead the SIC project.</p>	<p>13. UNJSPF could strengthen the SIC project governance by appointing a senior staff, preferably the Chief Financial Officer, to ensure management support for effective implementation of the project.</p>	<p>Implemented</p> <p>As specified in the Fund's Internal Control Policy, the Chief Financial Officer is responsible for ensuring that an adequate financial control environment of the UNJSPF is in place to protect the Fund's resources and guarantee the quality and reliability of financial reporting. As it was informed to OIOS in memorandum dated 22 March 2016, the Fund's CEO and RSG have appointed the CFO to lead the SIC preparation process.</p> <p>It is requested that OIOS updates the final report to reflect this information.</p>
<p>(ii) OIOS expected to see formal training of key staff involved in the implementation of the SIC project.</p>	<p>(ii) Project training:</p> <p>There was no formal training provided to key staff on how to develop a SIC in an organization.</p>	<p>14. UNJSPF could consider providing key staff with training on internal controls over financial reporting to equip them with effective tools and resources in implementing the SIC project.</p>	<p>Implemented</p> <p>As it was informed to OIOS in memorandum dated 22 March 2016, in February 2016, the Fund's senior managers attended a risk management and internal control training provided by a recognized expert, who is also a member of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) advisory council.</p> <p>It is requested that OIOS updates the final report to reflect this information.</p>