



UNITED NATIONS JOINT STAFF PENSION FUND

Internal Control Policy

May 2014

Table of Contents

	<i>Page</i>
1. Introduction	3
2. Definition	3
3. Internal Control as a Component of UNJSPF Enterprise-wide Risk Management Framework	3
4. Components of the UNJSPF Internal Control System	5
4.1 Control Environment	5
4.2 Risk Assessment	5
4.3 Control Activities	5
4.4 Controls over Financial Reporting	6
4.5 Information, Reporting and Communication	6
4.6 Monitoring activities	6
5. Internal Control Limitations	7
6. UNJSPF Internal Control Mechanisms	7
6.1 Roles and Responsibilities	8

INTERNAL CONTROL POLICY

1. Introduction

The purpose of this policy is to provide United Nations Joint Staff Pension Fund (UNJSPF) management with an internal control system to better manage the organization and support the achievement of objectives, and its governing bodies with increased ability to oversee internal control. This document will also provide clarity on internal control by using a common definition and integrating various internal control components into a process designed to assist management and other interested parties in assessing the effectiveness of the UNJSPF internal control and reporting.

2. Definition

As defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹, internal control is the process effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, in the following categories:

- Effectiveness and efficiency and operations: These pertain to the effectiveness and efficiency of operations, including operations and financial performance goals and the safeguarding of assets.
- Reliability of reporting: These pertain to the reliability of reporting, including internal and external financial and non-financial reporting.
- Compliance with applicable laws and regulations: These relate to the adherence to regulatory framework applicable to the Fund. The UNJSPF as a subsidiary organ of the United Nations General Assembly, it must refer to the appropriate resolution and decisions of that body, and it must also refer to its own policy documents, rules and regulations and operational instructions as established in the completion of its mission.

Based on the COSO definition, the implementation of the internal control system is considered by the UNJSPF as an on-going process involving all organizational units. It encompasses all controls, operational as well as financial, which are undertaken by managers and staff alike. The control objectives outlined above have been identified as the criteria for the assessment of the Fund's performance in terms of internal control.

3. Internal Control as a Component of UNJSPF Enterprise-Wide Risk Management Framework

Internal controls are an integral part of UNJSPF Enterprise-wide Risk Management (EWRM) framework. UNJSPF'S EWRM framework expands on internal control and provides a more

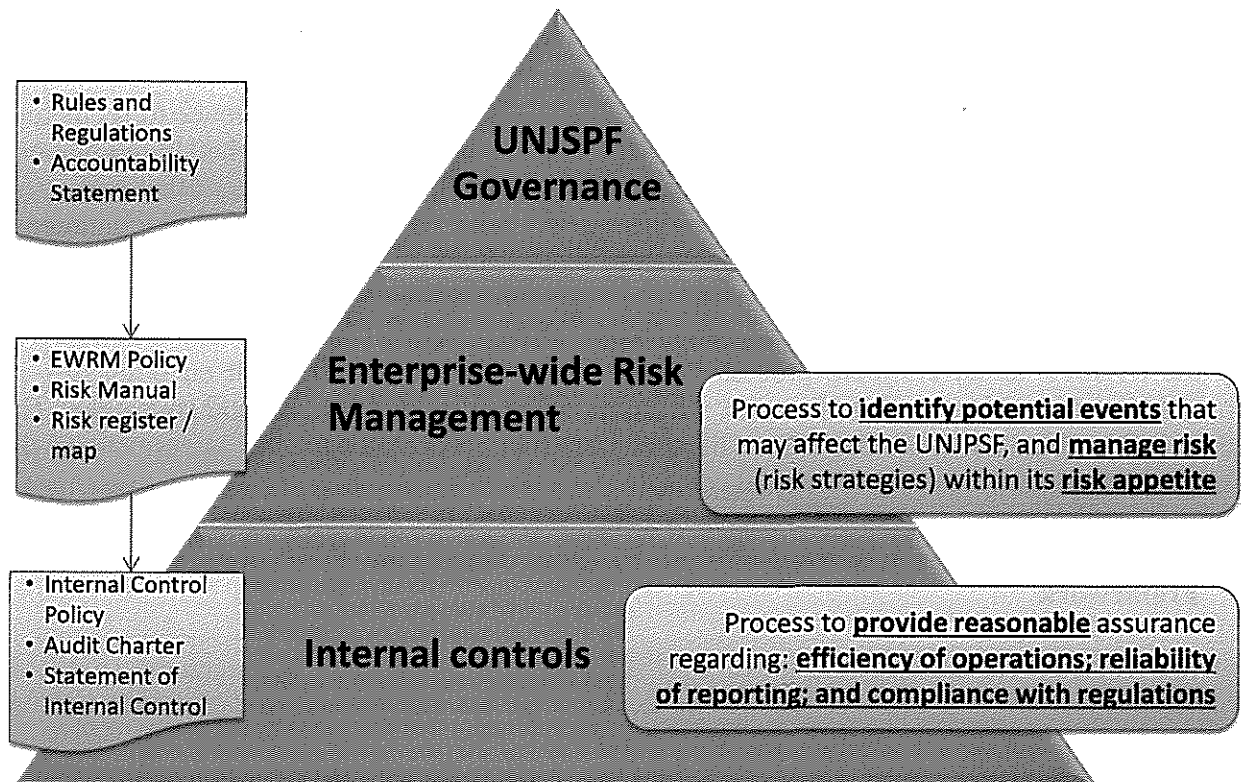
¹ Internal Control-Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission.

robust and extensive focus on the broader subject of enterprise risk management. The EWRM framework is designed to identify potential events that may affect the Pension Fund, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Fund’s objectives.

While the internal control system is centered on the achievement of objectives related to the effectiveness and efficiency of operations, reliability of reporting and compliance with applicable rules and regulations, the EWRM framework is broader and seeks to identify and manage internal and external factors that could adversely impact the achievement of the UNJSPF’s strategic objectives which operate at a higher level. Enterprise-wide risk management also introduces the concepts of risk appetite and risk tolerance, by assessing internal and external risks to determine which are controllable and those which are not, and decide based on the Pension Fund’s risk tolerance if risks should be accepted or mitigated.

Risks are mitigated through the implementation of risk management strategies. UNJSPF management, through the Enterprise-wide Risk Management Working Group, periodically evaluates the risks affecting the achievement of the Pension Fund’s objectives and the implementation of risk management strategies. As part of the risk management strategies, internal controls might need to be implemented or revised to appropriately address any new or uncontrolled risks.

The relationship between risk management and internal control is depicted in the following chart:



4. Components of UNJSPF Internal Control System

The UNJSPF achieves its control objectives through the operation of the following components of internal control, which are interrelated and inherent in the Pension Fund's operations:

4.1 Control environment

The Pension Fund's Rules and Regulations, processes and organizational structure provide the basis for executing internal control. The Pension Board is ultimately responsible for establishing and maintaining a strong internal control culture within the Pension Fund. Senior management reinforces the expected standards of conduct at various levels through the arrangements for delegating authority and responsibility and the segregation of duties as defined in the Accountability Statement.

UNJSPF management and staff maintain a commitment to integrity and ethical values, as required in the United Nations Code of Conduct and in appropriate controls to promote the independence and impartiality of decisions. The UNJSPF control environment comprises the integrity and ethical values of the organization; the Pension Board's authority and independence to carry out its governance responsibilities; the organizational structure and assignment of authority and responsibility; the UNJSPF process for recruiting, developing and retaining competent individuals; and the performance management system that promotes accountability for organizational and individual performance.

4.2 Risk assessment

Management oversight and control culture are an integral part of the UNJSPF's Enterprise-wide Risk Management framework as defined in the Risk Management Policy approved by the Pension Board and in the Pension Fund's Risk Management Manuals, which define the specific risk management procedures, roles and responsibilities.

As part of the risk management process, the Office of Internal Oversight Services (OIOS), the Fund's internal auditors, retains the services of independent consulting firms to conduct periodic risk assessments for identifying internal and external risks to the achievement of the objectives, these external studies are supplemented by detailed risk assessments conducted by the Fund's management on specific risk areas. The Fund's management defines and implements risk management strategies (risk treatment and response plans) to mitigate the high level risks identified. The risk profile of the Fund, represented in a risk map, and the implementation of the risk mitigation strategies are monitored on an on-going basis by the Enterprise-wide Risk Management (EWRM) Working Group and by the Audit Committee. The EWRM Working Group also identifies and assesses changes in the Fund's risk profile that could require the implementation or changes to existing internal controls.

4.3 Control activities

Control mechanisms are embedded in the daily operations of the Pension Fund. Internal controls are explicitly stated in the Fund's Rules and Regulations and other policies that determine what

should be done or implied in management's decisions or procedures that implement a policy and effect control. Internal control mechanisms operate at every organizational level and are an integral part of the Fund's daily activities, including governing bodies, senior management, as well as personnel within each department. Internal controls may be preventive or detective in nature and may encompass manual or automated activities such as authorizations and approvals, verifications, reconciliations, and performance reviews.

4.4 Controls over Financial Reporting

UNJSPF's management is responsible to ensure that accounting procedures are precisely described and followed by competent staff well aware of accounting standards. Internal control over financial reporting represents a first level of control executed by the UNJSPF management to ensure that the financial statements fairly present the Fund's financial condition and results in all material aspects. Internal control in this area is complemented by regular internal audit examinations and supplemented by external audits performed by the Board of Auditors in charge of auditing the Fund's operations, investments and the UNJSPF financial statements.

4.5 Information, Reporting and Communication:

Maintaining quality information is necessary to an effective internal control system. The ability to generate quality information begins with the quality of data gathered since inaccurate or incomplete data, and the information derived from such data, could result in potentially erroneous estimates, or other management decisions.

UNJSPF management generates, obtains and uses internal information to execute its processes in support of the achievement of the objectives. The Fund also obtains external information from participants and member organizations and provides different types of information to its external stakeholders. UNJSPF information systems allow the flow of information among internal and external parties, and for the treatment of that information.

To ensure the accuracy and integrity of internal data and information the Fund maintains procedures in place to protect data from loss or reduction in quality/reliability and to protect data for confidentiality reasons, and implements controls over the data collection process to ensure accuracy and completeness. The Fund also maintains controls to ensure that data and information is available and readily accessible when required for operational purposes and has business continuity and disaster recovery procedures in place in case of emergencies, crisis or disasters.

4.6 Monitoring activities

UNJSPF internal control monitoring involves daily control activities but also includes separate periodic evaluations of the effectiveness of the overall internal control process, with the frequency of monitoring different activities determined by the risks involved and the frequency and nature of changes occurring in the operating environment. Ongoing monitoring activities conducted by management on a day to day basis allow quickly detecting and correcting internal control deficiencies, while separate periodic evaluations conducted by the Fund's internal and

external auditors provide a comprehensive view of the effectiveness of the internal control system.

All reviews are adequately documented and reported on a timely basis to the appropriate level of management or governing bodies. UNJSPF management and internal and external auditors evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Audit Committee, as appropriate. Once reported, management takes action to correct any deficiencies on a timely basis. UNJSPF management and internal and external auditors conduct follow-up reviews, and inform senior management or the Audit Committee of any uncorrected deficiencies.

5. Internal Control Limitations

The internal control process is not infallible and will not eliminate possible errors or potential fraud. At any stage in a process where judgment is involved, the possibility of error remains. Similarly, the failure to understand how or why a particular control is operating, or more seriously, collusion to circumvent a control, will always be a risk that the Fund cannot eradicate entirely.

6. UNJSPF Internal Control Mechanisms

The UNJSPF has in place a well-defined and articulated control system which includes different functions with clearly delineated responsibilities and powers, that interact to provide reasonable assurance that specified objectives are achieved and internal control is effected, tested and assessed:

- **Management and other personnel:** Provide the first line of defense being responsible for defining, implementing and maintaining specific internal control mechanisms applicable day to day for activities and processes under their responsibility.
- **Business enabling functions:** Functions such as risk, legal and compliance provide the second line of defense as they clarify internal control requirements and evaluate adherence to defined standards within the scope of their specific responsibilities (risk analysis and legal and regulatory advisory and compliance).
- **Internal auditors:** Internal auditors provide a third line of defense as they assess and report on the effectiveness of internal controls and recommend corrective actions or enhancements for management consideration and implementation. The UNJSPF internal audit function is independent from the business areas they review.

In addition to internal control mechanisms, external parties also contribute to the effectiveness of the UNJSPF internal control system:

- **External auditors:** Although external auditors are completely independent of the UNJSPF and therefore, are not part of its internal control system, they have an important impact on the effectiveness of internal controls through their annual review of the effectiveness of internal control over financial reporting and the audit of the financial statements. For purposes of this

policy, external auditors are therefore considered a fourth layer of defense of the UNJSPF internal control system.

6.1 Roles and Responsibilities

- **United Nations Joint Staff Pension Board:** As the Fund's main oversight, policy-making and decision-making body, the Pension Board is responsible for establishing and maintaining an effective internal control system and for setting the UNJSPF expectations on integrity and ethical values. The UNJSPF Pension Board has an open and unrestricted communications channel with the Fund's management, and with the Fund's internal and external auditors. The Pension Board also carries out its oversight and internal control responsibilities with the assistance of the Audit Committee of the Pension Board.
- **Audit Committee:** The Audit Committee acts as an advisory committee of the Pension Board to provide assistance to the Board in fulfilling its oversight responsibility relating to the performance and independence of the internal audit function, the accounting and financial audit reporting process of the UNJSPF, and the adherence to the Internal Audit Charter of the Fund and the UNJSPF Regulations and Administrative Rules relating to audits. The Audit Committee oversees UNJSPF management internal and external reporting responsibilities and verifies that timely corrective actions are implemented, as required.
- **Enterprise-wide Risk Management Working Group:** The Enterprise Risk Management Working Group has an active role in promoting the adoption of an integrated approach to risk management in the Fund. The Working Group monitors the effectiveness of the enterprise risk management framework, reviews the results of the risk assessments, monitors the implementation of the risk mitigation strategies, and recommends any changes that may be required. The Working Group is also responsible for ensuring that an adequate internal control, audit and governance processes are established and operating effectively.
- **Chief Executive Officer (CEO) / Secretary of the Pension Board:** The CEO of the Fund is responsible for the administration of the Pension Fund, which includes the effectiveness of the internal control system. The CEO provides leadership and direction for the different components of internal control. The CEO delegates to management at different levels the methods of designing, implementing, and assessing internal control. 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.
- **Representative of the Secretary-General for the investment of the assets of the Fund (RSG):** The Representative of the Secretary-General has been appointed by the Secretary-General of the United Nations to act on in all matters related to the investment of the assets of the Pension Fund and is therefore responsible for the effectiveness of the internal control system for the investments of the Fund. The RSG has delegated the management of the investments and the methods of designing, implementing, and assessing internal control for investments to the Investment Management Division of the Pension Fund (IMD) at different levels. 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.
- **Chief Financial Officer (CFO):** The Chief Financial Officer supports the CEO and the RSG in its internal control responsibilities. The CFO is responsible for formulating financial

policy for the Fund, for reviewing budgetary, financial and accounting operations of the Pension Fund and 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, timely feedback on the achievement of operational and strategic goals and compliance with the Fund's Regulations and Rules. The CFO shall annually certify to the Pension Board the integrity and reliability of the financial statements. The CFO shall also issue an assertion letter on the effectiveness of internal controls for financial reporting risks.

- **UNJSPF Senior Managers:** Senior managers are responsible for defining, implementing, and maintaining internal control procedures that address the objectives of their areas of responsibility. Senior managers are also responsible for providing direction on the organizational structure, personnel hiring and training, budgeting and information systems that promote control over the activities of their respective sections. Senior managers might delegate responsibility for establishing more particular internal control procedures to personnel responsible for specific functions. Senior managers shall annually issue assertion letters on the effectiveness of key internal controls for financial reporting risks, which will support the Fund's Statement of Internal Control.
- **Risk Management and Compliance Sections of IMD and the Fund Secretariat:** The risk management and compliance sections of IMD and of the Fund Secretariat provide guidance and assessment of internal control from a risk management and regulatory perspective. The main function of the risk and compliance sections is to assess risks and advise in the design and implementation of risk management strategies. Risk and compliance personnel are not responsible for executing internal controls, but support the overall internal control system.
- **UNJSPF Staff:** Internal control is the responsibility of all UNJSPF personnel. Operating units constitute the first line of defense in the performance of internal control. All staff members shall carry out their responsibilities effectively and communicate to the appropriate level of management any problems in operations and instances of noncompliance with applicable rules and regulations that are identified. Officers responsible for preparing information that feed the Fund's financial statements shall annually issue assertion letters on the effectiveness of key internal controls for financial reporting risks, which will support the Fund's Statement of Internal Control.
- **Internal Audit:** Internal auditors audit, examine and evaluate the adequacy and effectiveness of internal controls to ensure that operating efficiency is promoted, risk is properly managed, safeguards for the protection of the UNJSPF's assets are strengthened, and compliance is maintained with the rules and regulations applicable to the Fund. The authority and responsibilities of the internal audit function of the Pension Fund are specified in the UNJSPF Internal Audit Charter.
- **External Auditors:** The United Nations Board of Auditors (BoA) annually audits the financial statements of the UNJSPF, focused in particular on financial and compliance auditing. The BoA may also make observations with respect to the efficiency of the financial procedures, the accounting system, and the internal financial controls and, in general, the administration and management of the organization. The BoA also interacts regularly with the internal auditors of the Fund to avoid duplication of efforts. The Board provides a report and an audit opinion on the financial statements of the UNJSPF, which includes material weaknesses identified in internal controls. This report is submitted to the General Assembly through the Pension Board.

