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BOARD OF AUDITORS

NEW YORK

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**Opening Statement to the Fifth Committee
on the Report of the Board of Auditors on United Nations Joint Staff Pension Fund
for the year ended 31 December 2015 (A/71/5/Add.16)**

23 November 2016

Mr Chairman,
Distinguished Delegates,

On behalf of the Chairman, Mr. Mussa Juma Assad, (United Republic of Tanzania) and other Members of the Board, Mr. Shashi Kant Sharma (India) and Sir Amyas Morse, (UK), I have the honour to introduce the report of the Board of Auditors on United Nations Joint Staff Pension Fund for the year ended 31 December 2015. India being lead auditor carried out audit of the United Nations Joint Staff Pension Fund (UNJSPF).

Background

UNJSPF was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to the membership of the Fund. It is a multi-employer defined benefit plan.

Audit opinion

UNJSPF obtained a clear (unqualified) audit opinion, which confirms that the financial statements present fairly, in all material respects, the financial position of the United Nations Joint Staff Pension Fund (UNJSPF) as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting standards.

Financial Position

Our analysis of UNJSPF's financial position at 31 December 2015 confirms that the UNJSPF is in position to meet its short term and long term obligations. However, its decreasing returns in the last two years are an area of concern. This has adversely affected the performance of the Fund over the short term and may have a negative impact on the long-term objective of ensuring that the Fund is fully funded.

As at 31 December 2015, the net assets available for benefits at the Fund were \$52 billion. The total income of the Fund during 2015 was \$1.81 billion and the total expenses were \$2.42 billion. Thus there was a decrease of \$617 million in 2015 net assets as compared to an increase of \$1.41 billion in 2014.

Key findings

Investment Division

Vacancies in Key positions: Key posts within the UNJSPF, such as Director of IMD, Deputy Director of Investment, Deputy Director of Risk and Compliance and the Chief Operating Officer were vacant during 2015. Long pending vacancies at the senior level adversely impact the organisation's performance and its investment strategy, leading to centralisation of responsibility, over-burdening of existing professionals, and may compromise the segregation of duties and thus result in inefficiencies. This is significant when considering the role of the positions in question with regard to decision-making. To effectively manage the Fund's investment assets, it would be prudent to have a well-defined succession plan to ensure vacancies are filled promptly.

Return on investment: The Fund's long term performance objective is to achieve a 3.5 per cent annualized real rate of return, as adjusted by the US Consumer Price Index. The Fund has inflation adjusted negative real return of 1.7 percent during 2015 as compared to positive real return 2.4 per cent during 2014. The Fund has therefore underperformed in both the years against the 3.5 per cent benchmark. The investment income fell by \$5.26 billion in 2014 over 2013, and by a further \$2.12 billion in 2015 over 2014.

Management of Foreign Exchange Losses: The foreign exchange losses have been a matter of concern of the Board of Auditors. An open exposure to foreign exchange volatility brings with it the risk of reduced returns or even capital erosion. This is evident from the investment returns of 2014 and 2015. The Foreign Currency losses of the Fund were \$1.49 billion during 2015 and \$1.96 billion during 2014. Very large Forex losses were one of the major factors contributing to the net investment loss of \$458.26 million during 2015. The Board has recommended that the Fund should address the foreign exchange exposure issue and employ suitable procedures and tools to mitigate foreign currency losses.

Management of External Fund Managers: In 2011, the UNJSPF decided to treat the selection of external managers as an investment decision rather than a procurement exercise. This needed preparation of separate guidelines for selecting and evaluating Managers of External Funds. However, even after more than four years, the guidelines have not been finalised. In the absence of approved guidelines, the Fund might have to renew the contracts with the existing Fund Managers and thereby miss the opportunity to hire better external managers and to negotiate more favourable terms and condition.

Pension Processing

Integrated Pension Administration System (IPAS): The IPAS is a new integrated system solution implemented by the Fund. The Board observed that the Fund could not achieve complete migration to IPAS due to issues in migration of data from the legacy system. The fund has yet to frame Key Performance Indicators (KPIs) to assess the accuracy and timeliness at various stages of processing in the IPAS.

Client Service: There were several deficiencies in the UNJSPF's client query/complaint redressal mechanism. Although most of the queries received were processed in 2014 and 2015, UNJSPF did not have any data as to how many of these were resolved. Furthermore, there was no segregation of general inquiries from complaints received by the Fund. To ensure complete client satisfaction, it is important that the UNJSPF develop and put in place a robust Client query/compliant redressal system.

Delay in Processing Benefits: The Board did a sample check of time taken for processing the benefits after receipt all the documents by the UNJSPF. The Board noticed that out of a sample of 98 death-in-service cases, only 14 per cent of the cases could be processed within the target benchmark of 15 days and 85 per cent of cases were processed with delays ranging from 16 days to more than 1 year. Out of a sample of 4413 cases of retirement or withdrawal only 8 per cent of these cases could be processed within the benchmark of 15 days whereas 91 per cent of cases were processed with delays ranging from 16 days to more than 1 year.

Delay in Sending Documents by Member Organizations: From the sample of cases examined by the Board, significant delays were observed in receipt of the separation documents. The Board recommended that the Fund should work in collaboration with the participating organizations to develop a seamless system to ensure that the cases and related documents are received in time.

Response to Previous Recommendations

Of the 12 outstanding recommendations as on 31 December 2014, only three (25 per cent) recommendations were fully implemented, seven (58.33 per cent) were under implementation while the remaining two (16.67 per cent) were not implemented.

Overall Conclusion

In the Board's view, the UNJSPF has not taken any proactive steps to mitigate its foreign exchange losses, which amounted to \$1.49 billion during the current year (\$1.96 billion in 2014). The mechanism of decision making in the investment management division needs to be strengthened by filling up the vacancies in decision making positions, and taking steps to improve performance and reduce losses. There is scope for improvement in the benefit processing and client services particularly in redressing the complaints of the beneficiaries. The Fund should take proactive steps in collaboration with member organisations to expedite the receipt of documents required for calculating and awarding pension benefits.

The Board has made 17 recommendations in its current report. The Fund has accepted all the recommendations.

Mr. Chairman and Distinguished Delegates, this concludes my statement. My Colleagues and I will be available to respond to the Committee questions during the informal sessions of the Committee.

Thank you,



Salhina M. Mkumba
Director of External Audit (Tanzania)
Chairman of the Audit Operations Committee