

Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

### **REPORT 2014/016**

---

#### **Audit of asset-liability management in the United Nations Joint Staff Pension Fund**

**Overall results relating to an audit of pension fund asset-liability management in the United Nations Joint Staff Pension Fund were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**28 March 2014**

**Assignment No. AS2013/801/01**

# CONTENTS

|   | <i>Page</i> |
|---|-------------|
| I. BACKGROUND                                     | 1-2         |
| II. OBJECTIVE AND SCOPE                           | 2           |
| III. AUDIT RESULTS                                | 2-4         |
| Risk management and strategic planning mechanisms | 3-4         |
| IV. ACKNOWLEDGEMENT                               | 4           |
| <br>  |             |
| ANNEX I      Status of audit recommendations      |             |
| APPENDIX I   Management response                  |             |

# AUDIT REPORT

## Audit of asset-liability management in the United Nations Joint Staff Pension Fund

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of asset-liability management in the United Nations Joint Staff Pension Fund.

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 United Nations Joint Staff Pension Fund (UNJSPF) was established by the General Assembly of the United Nations to provide retirement, death, disability and related benefits for the staff of the United Nations and other international intergovernmental organizations admitted to membership in the UNJSPF. The UNJSPF is an internally managed fund, with approximately \$51.3 billion in investment assets as of 31 December 2013. The UNJSPF's assets were invested in approximately 23 currencies and in 38 countries, in regional institutions and international institutions, and in institutional investment trusts.

4. The UNJSPF is a defined benefit pension plan, meaning that it promises pension benefits to participants following a specific formula or schedule. The UNJSPF benefits (liabilities) are funded through ongoing contributions and investment of the contributions (assets). Investments (assets) are variable and volatile, while liabilities are mostly fixed and can vary over time depending on the actual demographics of the UNJSPF's beneficiaries compared to the assumptions used to determine the liabilities. This results in a risk of mismatches between assets and liabilities, also called risk of sustainability of the pension fund.

5. The asset-liability management (ALM) framework of the UNJSPF included, *inter-alia*, ALM studies conducted every four years, biennial actuarial valuations, investment policy and procedures, strategic and tactical asset allocations, a set of benchmarks designed to obtain the desired rate of return, ongoing analysis of the impact by the age of retirement, constant monitoring of the two-track system for cost of living adjustment, deficit and funded ratio monitoring, and operational expenses monitoring.

6. The UNJSPF is administered by the United Nations Joint Staff Pension Board (UNJSPB), a staff pension committee for each member organization, and a Secretariat to the Board and to each such committee. The Chief Executive Officer is responsible for the administration of the Pension Fund and for ensuring the observance of the Regulations and Rules. Fiduciary responsibility for the investment of the assets of the UNJSPF rests with the Secretary-General of the United Nations, in consultation with the Investments Committee, taking into account observations of the Pension Board and the General Assembly on broad policy matters. The Secretary-General has delegated his fiduciary and trustee responsibilities to a senior United Nations official referred to as the Representative of the Secretary-General (RSG) for the investments of the assets of the UNJSPF. The RSG is assisted by the Investment Management Division (IMD) for the management and administration of the assets of the UNJSPF.

7. At its July 2013 session, the UNJSPB approved the creation of the first Assets and Liability Monitoring Committee of the UNJSPB. The new Committee's advisory role related to monitoring the

solvency of the UNJSPF and providing advice and recommendations to the Board with regard to risk management, funding policy, asset-liability management and investment policy.

8. Comments provided jointly by the UNJSPF Secretariat and the Investment Management Division are incorporated in *italics*.

## II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of UNJSPF governance, risk management and control processes in providing reasonable assurance regarding effective **asset-liability management in the UNJSPF**.

10. This audit was included in the 2013 OIOS risk-based work plan due to the risks related to the sustainability or solvency of the pension fund.

11. The key control tested for the audit was risk management and strategic planning mechanisms. For the purpose of this audit, OIOS defined this key control as a group of controls that provides reasonable assurance that risks relating to pension fund sustainability or solvency are identified and assessed, and that action is taken to mitigate or anticipate risks.

12. The key control was assessed for the control objectives shown in Table 1. Two control objectives shown in Table 1 as “Not assessed” were not relevant to the scope defined for this audit.

13. OIOS conducted the audit from April to July 2013. The audit covered the period from 2007 to June 2013, starting with the first ALM study of the UNJSPF. The scope of the audit included a review of the ALM framework and methodology to effectively manage the UNJSPF’s assets and liabilities for a sustainable equilibrium.

14. The audit team conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

## III. AUDIT RESULTS

15. In OIOS’ opinion, UNJSPF governance, risk management and control processes examined were partially satisfactory in providing reasonable assurance regarding effective **asset-liability management in the UNJSPF**. OIOS made two recommendations to address issues identified in this audit. The Investment Management Division needed to finalize its Standard Operating Investment Policy and Procedures, and establish requirements for the documentation and authorization of key modifications to investment policies. The UNJSPF Secretariat and the Investment Management Division needed to complete the definition of risk tolerance for solvency risks and have it endorsed by the Pension Board.

16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

**Table 1: Assessment of key controls**

| Business objective                                  | Key control                                       | Control objectives                 |  |                        |   |
|---|---|------------------------------------|--|------------------------|---|
|   |   | Efficient and effective operations | Accurate financial and operational reporting | Safeguarding of assets | Compliance with mandates, regulations and rules |
| <b>Effective asset-liability management</b>         | Risk management and strategic planning mechanisms | Partially satisfactory             | Not assessed                                 | Not assessed           | Partially satisfactory                          |
| <b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b> |   |                                    |  |                        |   |

### **Risk management and strategic planning mechanisms**

The Standard Operating Investment Policy and Procedures of the Investment Management Division should be finalized and approved

17. The Standard Operating Investment Policy and Procedures of the Investment Management Division, dated June 2007, were formally approved in writing by the RSG and presented to the Pension Board in 2008. The minutes of the Pension Board show that the Board took note of the policy and procedures and requested that they be updated on a regular basis and submitted to the Board for information each time material revisions were made. Based on a review of minutes of subsequent Pension Board meetings, no references were noted regarding submission of the standard operating investment policy and procedures to the Board. OIOS noted, however, that changes to the investment policy since 2007 were presented to the Investments Committee. At the time of the audit, the Standard Operating Investment Policy and Procedures document was dated July 2010. Although it was not signed by the RSG, the document was considered to be the authoritative policy and procedures by the RSG and IMD. Revised investment policy and a procedures and risk management manual were presented by the RSG to the Investments Committee for discussions and endorsement in July 2013. The documents were still under discussion at the date of this report.

18. OIOS also noted that there were no established requirements on how key modifications to investment policies should be documented and authorized. An example of such a modification was in a memorandum dated 2 April 2013 recommending the downgrade of credit quality for accepting fixed income investments from grade A to BBB-. The memorandum was signed by an Investment Officer and approved by the IMD Director. It was not supported with a documented risk-return analysis and was not approved by the RSG.

**(1) The Investment Management Division should finalize its Standard Operating Investment Policy and Procedures, and establish requirements for the documentation and authorization of key modifications to investment policies.**

*The Investment Management Division accepted recommendation no.1 and stated that the Standard Operating Investment Policy and Procedures document has been updated in its contents and divided in three different documents: i) Investment Policy; ii) Investment Procedures Manual; and iii) Risk Management Manual. The RSG has signed the Investment Policy in March 2014 and it will be*

*formally presented at the Pension Board Session in July 2014. Modifications to the Investment Policy have to be approved by the RSG based on the advice received from the Investments Committee and in light of observations and suggestions made by the Pension Board and other Committees. Recommendation 1 remains open pending the receipt of the approved Investment Policy, Investment Procedures Manual and Risk Management Manual.*

Definition of risk tolerance for solvency risks needed to be completed and endorsed by the Pension Board

19. In May 2013, IMD partially defined the overall risk tolerance of the investments portfolio as a maximum of 298 basis points, referred to as “tracking error”. This definition, however, did not include information such as (a) the rationale for the limit; (b) the technical analysis supporting the quantitative measure; (c) the number of periods the UNJSPF would tolerate deviation from the limit; and (d) factors that could potentially trigger risk responses from the UNJSPF. Such information would serve to support the UNJSPF management in using the established risk tolerance.

20. In the absence of a clear articulation of rationale for the risk tolerance that was established, there was a risk that the resulting decisions could be misaligned with the objectives of the UNJSPF.

**(2) The UNJSPF Secretariat and the Investment Management Division should complete the definition of risk tolerance for solvency risks and have it endorsed by the Pension Board.**

*The UNJSPF Secretariat and the Investment Management Division accepted recommendation no. 2 and stated that at its first meeting in February 2014, the Assets and Liability Monitoring Committee took note of the risk appetite statement for the Fund as well as risk tolerance measurements for solvency and investment risks. The ALM Committee will present to the Pension Board for approval the risk appetite statement and the risk tolerances. The report of the Assets and Liabilities Monitoring Committee, including its recommendations, will be considered by the Pension Board at its 61th session in July 2014. The risk tolerance for investments follows the UNJSPF risk appetite and is presented within the Investment Policy -March 2014- that will also be introduced to the pension Board in July 2014. Recommendation 2 remains open pending receipt of the documentation defining risk tolerance and its endorsement by the Pension Board.*

#### **IV. ACKNOWLEDGEMENT**

21. OIOS wishes to express its appreciation to the Management and staff of United Nations Joint Staff Pension Fund for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja  
Assistant Secretary-General for Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of asset-liability management  
in the United Nations Joint Staff Pension Fund**

| Recom.<br>no. | Recommendation  | Critical <sup>1</sup> /<br>Important <sup>2</sup> | C/<br>O <sup>3</sup> | Actions needed to close recommendation  | Implementation<br>date <sup>4</sup> |
|---------------|---|---|----------------------|---|-------------------------------------|
| 1             | The Investment Management Division should finalize its Standard Operating Investment Policy and Procedures, and establish requirements for the documentation and authorization of key modifications to investment policies. | Important   | O                    | Receipt of the approved Investment Policy, Investment Procedures Manual and Risk Management Manual. | March 2014                          |
| 2             | The UNJSPF Secretariat and the Investment Management Division should complete the definition of risk tolerance for solvency risks and have it endorsed by the Pension Board.  | Important   | O                    | Receipt of the documentation defining risk tolerance and its endorsement by the Pension Board.      | July 2014                           |

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by the UNJSPF in response to recommendations.

# **APPENDIX I**

## **Management Response**



UNITED NATIONS



NATIONS UNIES

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

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

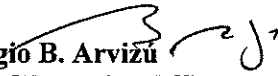
OFFICE AT GENEVA  
c/o PALAIS DES NATIONS  
CH -1211, Geneva 10  
Tel: +41 (0) 22 928 8800; Fax: +41 (0) 22 928 9099  
E-mail: [UNJSPF.GVA@UNJSPF.ORG](mailto:UNJSPF.GVA@UNJSPF.ORG)  
Web: <http://www.unjspf.org>

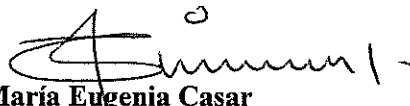
MEMORANDUM

Ref: IAD-14-00165

New York, 21 March 2014

To / A: Ms. Carmen Vierula  
Chief of New York Audit Service  
Internal Audit Division, OIOS

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

  
María Eugenia Casar  
Representative of the Secretary-  
General for the investment of the  
assets of the Fund

Subject / Objet: **Response to draft report of audit of implementation of asset-liability management in the United Nations Joint Staff Pension Fund (Assignment No. AS2013/801/01)**

1. Reference is made to your memorandum dated 6 March 2014, in which you submitted for the Fund's comments, the draft report on the audit of asset-liability management in the United Nations Joint Staff Pension Fund.
2. The Fund wishes to thank OIOS for completing the analysis of this important topic and identifying recommendations on key aspects to ensure adequate governance and monitoring of the Fund's long-term solvency.
3. The Fund's consolidated comments to the text of the report and response to audit recommendations are included in the annexes I and II.

cc.: Mr. F. Salon, UNJPSF Audit Section, OIOS  
Mr. P. Dooley  
Ms. S. Bishopric  
Mr. T. Shindo  
Mr. A. Singh  
Mr. D. Willey  
Ms. K. Manosalvas  
Ms. K. Toomel

ANNEX I

**DETAILED COMMENTS TO THE TEXT OF THE REPORT**

**Assignment No. AS2013/801/01 - Audit of asset-liability management  
in the United Nations Joint Staff Pension Fund**



Please consider the following detailed comments to the text of the report:

1. Paragraph 3: Please kindly update the information on the investment assets of the Fund with the latest information available as of December 2013.
2. Paragraph 18, 20 and 22: Please note that in its response dated 18 November 2013, the UNJSPF did not accept OIOS recommendations included in paragraphs 42 and 48 of the detailed audit results and proposed changes.

**Management Response**  
**Assignment No. AS2013/801/01 - Audit of asset-liability management in the United Nations Joint Staff Pension Fund**

| Rec. no. | Recommendation  | Critical <sup>1</sup> /<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual  | Implementation date | Client comments  |
|----------|---|---|-----------------------|--|---------------------|--|
| 1        | The Investment Management Division should finalize its Standard Operating Investment Policy and Procedures, and establish requirements for the documentation and authorization of key modifications to investment policies. | Important   | Yes                   | Representative of the Secretary General for the investment of the assets of the Fund (RSG) | March 2014          | <p>The Standard Operating Investment Policy and Procedures document has been updated in its contents and divided in three different documents: i) Investment Policy; ii) Investment Procedures Manual; and, iii) Risk Management Manual. The RSG has signed the Investment Policy in March 2014 and it will be formally presented at the Pension Board Session in July 2014.</p> <p>Modifications to the Investment Policy have to be approved by the RSG based on the advice received from the Investments Committee and in light of observations and suggestions made by the Pension Board and other Committees.</p> |
| 2        | The UNJSPF Secretariat and the Investment Management Division should complete the definition of risk tolerance for solvency risks and have it endorsed by the Pension Board.  | Important   | Yes                   | Chief Executive Officer / RSG  | July 2014           | <p>At its first meeting in February 2014, the Assets and Liabilities Monitoring Committee took note of the risk appetite statement for the Fund as well as risk tolerance measurements for solvency and investment risks.</p> <p>The ALM Committee will present to the Pension Board for approval the risk appetite statement and the risk tolerances.</p>   |

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
|  |  |  |  |  |  | <p>The report of the Assets and Liabilities Monitoring Committee, including its recommendations, will be considered by the Pension Board at its 61th session in July 2014.</p> <p>The risk tolerance for investments follows the UNJSPF Risk Appetite and is presented within the Investment Policy –March 2014- that will also be introduced to the Pension Board in July 2014.</p> |
|--|--|--|--|--|--|--|