



INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

**Audit of the UNJSPF Governance
Mechanism**

**14 January 2008
Assignment No. AS2006/800/2**

United Nations Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. Bernard Cochemé,
A: Chief Executive Officer and Secretary to the Board
United Nations Joint Staff Pension Fund

DATE: 14 January 2008

Mr. Warren Sach,
Representative of the Secretary-General
for the Investments of the UNJSPF

REFERENCE: IAD-08- 00871

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: OIOS Assignment No. AS2006/800/02: Audit of the UNJSPF
OBJET: Governance Mechanism

1. I am pleased to present the report on the above-mentioned audit, which was conducted from February to May 2006.

2. Based on the comments received from the Fund's management, the United Nations Joint Staff Pension Board, and the Audit Committee of the Board, we are pleased to inform you that we have closed recommendations 1-5, 10-11 and 16-18 in the OIOS recommendations database as indicated in Annex I. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex I.

3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 5, 6, 8, 9, 12, 13, and 19) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Valeria Gonzalez-Posse, Chair, United Nations Joint Staff Pension Board
Ms. Suzanne Bishopric, Director, Investment Management Service
Ms. Jaana Sareva, Secretary to the UNJSPF Audit Committee
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INTERNAL AUDIT DIVISION

FUNCTION

"The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization" (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the UNJSPF Governance Mechanism

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Joint Staff Pension Fund (UNJSPF) governance mechanism from February to May 2006. The overall objective of the audit was to obtain assurance that the Fund's operations and programmes are managed and overseen in accordance with fiduciary standards consistent with leading industry practices. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The General Assembly approved a resolution (A/RES/59/264) requesting the Secretary-General and the Executive Heads of United Nations funds and programmes to examine their governance principles and to report thereon to the General Assembly through their respective governing bodies. In the spirit of this resolution, OIOS is presenting this report on the UNJSPF governance mechanism for the Chief Executive Officer (CEO/Secretary) of the Fund to report to the United Nations Joint Staff Pension Board (the Pension Board or the Board) on the Fund's governance and accountability framework.

Although there is no single model of corporate governance, in the view of OIOS, the UNJSPF adheres to most good corporate governance practices. OIOS observed that the Pension Board proactively reviews the governance mechanism. The results of one such review of the Working group on the size and composition of the Board and its Standing Committee was presented to the Board at its 53rd session in July 2006. The Pension Board has also made efforts to regularly revise the Fund's Regulations and Rules in order to reflect changes in the operating environment of the Fund as well as to ensure that the Regulations are not subjected to different interpretation. OIOS is of the opinion that the Board, together with the General Assembly, exercises adequate oversight over the Pension Fund's operations and activities.

Notwithstanding the above, the bifurcated organizational structure of the Fund, wherein the Investment Management Service reports to the Secretary-General through the designated Representative of the Secretary-General (RSG) and the UNJSPF Secretariat reports, through the CEO, to the Board, is perceived by some parties as limiting the effectiveness of the Pension Board's governance role for the investments of the Fund. Although it is difficult to establish from the legislative history of the General Assembly's resolutions, the Assembly's intent for placing the ultimate responsibility for the investments of the Fund with the Secretary-General, OIOS would infer that the General Assembly had separated the organizational structure for the administration of the Fund's liabilities from that for the investment of the Fund's assets, as a means of establishing checks and balances, and in order to ensure that the fiduciary responsibility and accountability for the Fund's assets was placed at the highest executive level of the Organization (United Nations).

OIOS noted that, on at least two occasions, the General Assembly's resolutions have reaffirmed the Secretary-General's fiduciary responsibility for the Fund's assets. OIOS is also of the view that the bifurcated organizational

structure has served as a check and balance in the decision making authority within the Fund's administrative structure between the RSG and the CEO of the Fund. Notwithstanding this, the separation of the asset and liability management functions call for a high degree of coordination to achieve optimum results.

OIOS acknowledges the Fund's efforts to establish an Audit Committee and is of the opinion that this is a major step towards enhancing good governance and oversight of the Fund's systems of internal control. However, in the view of OIOS, there is a need to review the Fund's Internal Audit Charter, including the issue of audit independence, to bring it into alignment with International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA). In this regard, the provision in the Internal Audit Charter that requires the UNJSPF management's agreement on the scope, timing and specific terms of reference for each internal audit mission calls into question the ability of OIOS to perform the audit function objectively and independently, as provided for in its mandate and the International Standards for the Professional Practice of Internal Auditing.

Performance reviews of all the governing bodies as well as external service providers need to be done on a regular basis. Communications with the Fund's stakeholders could also be improved by incorporating links in the UNJSPF Website for discussion of governance issues of interest to the participants and other stakeholders. OIOS points to the results of the recently concluded risk assessment exercise, and is of the opinion that the Board should proactively ensure that the Fund's management, on a periodic basis, formally evaluates and reports on the risks to the Fund.

The Fund's management has made efforts towards raising awareness of and providing training on the UN Code of Conduct, and should continue to provide ethics training, including offering it as part of the orientation process for new staff members. The Fund should also designate focal points in the Secretariat and the Investment Management Service to ensure compliance with applicable financial and conflict of interest disclosures.

The UNJSPF Knowledge Management System (KMS), a repository database of the Fund's information developed by the UNJSPF secretariat, once fully implemented, could serve as a powerful knowledge base that should greatly enhance data retrieval by authorized UNJSPF stakeholders.

As a United Nations entity, the Fund is exempted from tax under the United States' laws. The Fund applied for and received a Determination Letter from the United States Internal Revenue Service (IRS) as a qualified pension plan in 1977, but UNJSPF management needs to assess whether the Determination Letter needs to be updated in order to comply with the rules applicable to qualified plans. The Investment Management Service has developed proxy voting guidelines for its Investment Manual and these guidelines should be presented to the Pension Board for its review and approval.

OIOS made 20 recommendations, which were commented on by management of the Fund, the Pension Board and its Audit Committee. Their comments have been taken into consideration and are incorporated in this report.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund) governance mechanism from February to May 2006. The overall objective of the audit was to obtain assurance that the Fund's operations and programmes are managed in accordance with fiduciary standards and consistent with best industry practices for the governance of comparator pension funds. Governance comprises the structures and processes by which the Fund is directed and managed. It influences how the objectives of the Fund are set and achieved, and how performance is optimized; and ensures that the Fund is administered in compliance with relevant rules and regulations, and will be financially capable of discharging its responsibilities to the participants and beneficiaries.

2. The audit was undertaken as part of the responsibilities of OIOS under the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. OIOS is mandated by the Standards to contribute to the Pension Fund's governance by evaluating and improving the processes for establishing values and goals of the organization, monitoring the accomplishment of goals and ensuring accountability. In addition, it is the role of OIOS to obtain assurance that the Fund is committed to preserving the United Nations' core values.

3. In connection with its review of the financial statements and reports of the Board of Auditors, the Fifth Committee of the General Assembly approved a resolution (A/RES/59/264) requesting the Secretary-General and the Executive Heads of United Nations funds and programmes to examine their governance principles and to report thereon to the General Assembly through their respective governing bodies. In the spirit of this resolution, OIOS is presenting this revised draft report on the UNJSPF governance mechanism and accountability framework, through the Chief Executive Officer (CEO/Secretary) of the Fund, to the United Nations Joint Staff Pension Board (UNJSPB or the Board).

4. Comments made by the management of UNJSPF Secretariat, IMS, the Board and the Audit Committee are shown in *italics*. The status of audit recommendations and actions needed for OIOS to close them are shown in Annex I.

II. AUDIT OBJECTIVES

5. The major objectives of the audit were to:

- (a) Obtain reasonable assurance that appropriate and effective governance structures, processes and practices are in place to monitor and evaluate management's performance towards achieving the Fund's goals and objectives;
- (b) Ascertain whether the Fund's governance structures, processes and practices are in line with the good practices of

corporate governance in similar organizations, and identify any areas of governance that could be improved; and

- (c) Determine whether the UNJSPF regulations, rules and accountability requirements are being adhered to.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit included a review of the adequacy and effectiveness of UNJSPF corporate governance processes and structures of the Fund in meeting the objectives of the Fund and an assessment of the relationships between governing and advisory bodies including reviews of reports from these groups. The audit also included research of “best practices” in corporate governance in general and the practices of pension fund management, which is built on a compilation of the research, by OIOS, on governance that was provided in a previous draft report on the Fund’s governance practices issued to UNJSPF management in June 2004. The Organization for Economic Co-operation and Development (OECD) was used as a source for comparative good practices, since it has long been recognized as a proponent of good corporate governance as promulgated in its Principles of Corporate Governance document.¹

7. The audit also obtained the views of different governing bodies’ members through in-person and telephonic interviews. OIOS interviewed four Board and Committee members, the Chairman and Executive Secretary of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Representative of the Secretary-General for the investments of the UNJSPF, and the Pension Fund Board’s Secretary and Chief Executive Officer on a range of issues, including: the conduct of meetings (content and time allocation); adequacy, timeliness and quality of information; balance of experience and skills; training and development needs; and the contributions of the governance bodies to the Pension Fund’s strategy and performance. Responses were constructive in nature and predominantly positive; some areas for possible improvements were also identified.

8. For purposes of further benchmarking the UNJSPF governance practices, OIOS identified the World Bank and the International Monetary Fund (IMF) as close comparator organizations. OIOS visited these organizations in Washington DC and held discussions with key Staff Retirement Plan officers on their Plans’ governance mechanisms. OIOS also conducted research on the governance practices of public and private pension funds. An analysis of the Fund’s governance mechanisms as compared to good pension fund practices is shown in Annex II.

9. This report takes into consideration UNJSPF management’s comments and decisions taken at the 53rd and 54th Board sessions held in July 2006 and 2007, respectively, as well as comments from the Audit Committee.

¹ OECD website: Building Partnerships for Progress; Corporate Governance.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Governance Structure

10. The United Nations General Assembly established the UNJSPF in 1949 to provide retirement death, disability and related benefits for the staff of the United Nations and other member organizations. As of 31 December 2005, the Fund was serving 21 member organizations, with 93,683 active participants and 55,140 beneficiaries. On 31 December 2005, the value of the assets of the UNJSPF stood at \$31.5 billion.

11. A revised organization chart of the UNJSPF governance structure, as provided by the Fund's management to OIOS in response to the draft report, is shown in Annex III. As can be seen in this annex, the United Nations General Assembly is the highest level of the Fund's governance mechanism.

Governing Bodies

(a) The United Nations General Assembly

12. Comprised of 192 Member States, the General Assembly exercises general oversight and approval of decisions affecting the UNJSPF including:

- (i) Admission and termination of membership in the Fund and transfer agreements with non-member organizations;
- (ii) Approval of the Fund's administrative budget, the financial reports by the Board of Auditors, and amendments to the Fund's Regulations and Rules, and Pension Adjustment System;
- (iii) Confirmation of appointments of membership in the governing and advisory bodies;
- (iv) Review of reports such as the Board's biennial session report and the Secretary-General's report on the Fund's investments; and
- (v) Election of the General Assembly's representatives to the UN Staff Pension Committee, which also includes representation on the Pension Board and its Standing Committee.

13. The General Assembly's decisions on pension-related matters are taken following consideration of recommendations of the United Nations Joint Staff Pension Board (UNJSPB), and decisions on investment-related matters are taken on recommendations of the Secretary-General, after consultation with the Board. The General Assembly decides upon changes in the Regulations governing the Pension Fund and in the pension adjustment system. The UNJSPB reports regularly to the General Assembly on the operations of the Fund and on the

investment of its assets. It recommends when necessary amendments to the Regulations which govern, *inter alia*, the rates of contribution by the participants and by the member organizations; eligibility for participation; and the benefits to which participants and their dependants may become entitled. The General Assembly only considers changes to the UNJSPF Regulations in even-numbered years; whereas the UNJSPF administrative budget and other pension-related matters are considered in odd-numbered years.

(b) The Committees of the General Assembly

14. The United Nations General Assembly has two Committees with specific functional responsibilities for the management oversight of United Nations activities and entities. The Fifth Committee is the main committee entrusted with responsibilities for administrative and budgetary issues. The Advisory Committee on Administrative and Budgetary Questions (ACABQ), composed of 16 recognized experts from around the world, examines reports and provides advice on administrative and budgetary issues to the General Assembly through the Fifth Committee.

15. The roles of these two General Assembly Committees in the UNJSPF governance mechanism is to frame and approve each operational budget, provide strategic input in the development and activities of the Fund, approve policy changes for the Fund and establish organizational strategies and priorities in line with the Fund's mission. They are also vested with the responsibility of ensuring that the Fund has systems, processes and procedures in place which are appropriate for managing, reviewing and controlling all elements of Pension Fund administration, investments and benefits payments.

16. The Fund presents for the consideration of the General Assembly annual reports of the Board on the activities of the UNJSPF. Issues presented for the deliberation of the General Assembly include benefits payments, contributions rates and human resources management issues such as the funding of posts, nominations of candidates to fill vacancies in subsidiary organs such as the Committee of Actuaries and the Investments Committee, investment decisions and applications for admission of new member organizations to the Fund membership. Every biennium, in the odd-numbered years, the Fund presents, for the consideration of the Fifth Committee a report on the administrative expense budget of the United Nations Joint Staff Pension Fund.

17. OIOS is of the view that the reviews and deliberations of the ACABQ and the Fifth Committee of the UNJSPF matters are comprehensive and adequately fulfill their governance roles. For instance, the two committees held deliberations on the 2005 report of the Standing Committee of the United Nations Joint Staff Pension Board (A/60/183), containing the revised budget for the Fund for the biennium 2004-2005 and the budget estimates for the biennium 2006-2007.

18. During the consideration by the ACABQ of the same report (A/60/183), the Committee proposed that the budget document be presented in a format that introduces some elements of results based budgeting. The Committee was also of

the view that competitive bidding should be conducted for the study of the asset and liability management, and proposed to have a post of Deputy Director in Investment Management Service. In its report A/C.5/60/SR.23, the ACABQ advised that the Pension Fund should continue to seek ways of diversifying the investment portfolios, including the identification of investments opportunities in developing countries.

19. The Fifth Committee's deliberations on the budget report included discussion of issues such as the reclassification of staff in the Investment Management Service and the proposed establishment of an Audit Committee. The Fifth Committee also reviewed the report's commentary on investment performance and noted that the Fund's value had increased substantially and that the actuarial valuation had shown surpluses since 1997. The discussions included a debate on whether there was a better way to fund the small capitalization portfolio's management fees which had increased substantially.

(c) United Nations Joint Staff Pension Board

Mandate of the Board

20. Article 4 (a) of the Fund's Regulations and Rules states: "The Fund shall be administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization and a secretariat to the Board and to each such committee." The Pension Board, comprised of 33 members, has a tripartite representation structure, i.e., 11 members are elected by the governing bodies, 11 members are appointed by the chief administrative officers of the member organizations, and 11 members are elected by participants in service. In addition, there are four representatives of the Federation of Associations of Former International Civil Servants (FAFICS) on the Pension Board. The Board's meetings and reporting of its activities are done on biennial basis.

21. The Pension Board presents to the General Assembly a biennial report, including a balance sheet, on the operations of the Fund in accordance with Article 14(a) of the Regulations of the United Nations Joint Staff Pension Fund. Subsequently, the Board informs each member organization of any action taken by the General Assembly upon the report. At the meeting, the Board considers the results of the latest actuarial valuation of the Fund, as well as a number of items that are required under the Fund's Regulations and Rules or in accordance with established practice of the Board. Other items include the report of the Representative of the Secretary-General on the management of the Fund's investments; financial statements and audit reports; administrative expenses and the date and place of the meetings of the Standing Committee and the Board in the following year. Other emerging and topical issues may be considered, such as the reports of established Working Groups and any proposals of the Standing Committee.

Frequency of Board meetings; and size and composition of the Board and its Standing Committee

22. Prior to 1991, the Board met and reported annually to the General Assembly. The General Assembly resolution 46/220 of 1991 changed the frequency of the review of pension issues from annually to biennially. This resolution was followed by a decision of the Pension Board in 1994 to hold its sessions every two years. The Board has since met every other year, while its 15 member Standing Committee meets in the intervening years. A detailed report of the proceedings of the Board/Standing Committee session is prepared at the close of each session.

23. OIOS' research indicated that the governing bodies of similar organizations meet more frequently. For instance, the highest governing bodies of both the World Bank and the International Monetary Fund staff retirement plans generally meet three to four times per year, and possibly more times as needed. UNJSPF management noted that UNJSPF was a multi-employer organization unlike the World Bank and IMF, which both had one single payroll from which pension contributions were deducted. It further stated that extensive planning is needed for each Board meeting and recognized the fact that increasing the frequency of meetings would involve significant additional costs and administrative requirements for the Board and its Standing Committee. The Board may also hold special sessions as provided in the Rules of Procedure of the Fund. OIOS notes in this regard the recommendation of the Fifth Committee to the General Assembly in its Fifty-ninth session for the Pension Board to "explore the possibility of meeting annually for a shorter duration..."

24. In 2003, the Standing Committee established a Working Group to undertake a review of the size and composition of the Board and its Standing Committee. The Working Group was expected to review inter-alia the representation of Fund's member organizations in the Board's membership, including the representation of retirees, and to determine the optimum size of the Board. The Working Group's conclusions and recommendations were presented during the July 2006 Board session and included for the Board's consideration options for (a) reducing the Board's size to 21 members, or (b) retaining its 33 member size. Both options called for the Board to meet annually for from five to seven days. The Board's session report indicated that the Board decided to retain its existing size (33 members) and for the Board to meet annually for five days. The Board also decided to retain the existing composition, seat allocations and rotation schedules. OIOS is of the opinion that the Board's decision to meet annually is an important step towards complying with good governance practices. The Board may also wish to consider convening special interim meetings of the Standing Committee in the event that significant pension fund matters develop that warrant the Board's immediate attention.

Efficiency improvements

25. The Board also decided to adopt all of the Working Group's recommendations for improving efficiencies in the work of the Board. The Working Group has recommended for the Board to consider making greater use

of available technology to allow special presenters to attend the Board sessions “virtually” by using video-conferencing facilities. The use of video-conferencing facilities by the Board of Auditors, OIOS and others to present their reports at recent Board sessions could be a cost-effective alternative to physically attending the Board meetings. In OIOS’ opinion, the Board should review the possibility of using teleconferencing facilities to hold “virtual” meetings of working groups and certain sub-committees of the Board.

26. OIOS also acknowledges the Working Group’s recommendations for pre-meeting preparations and group meetings after the Board’s opening session to study the agenda and documents in order to develop strategies for addressing the items in a more efficient manner. OIOS observed that the number of documents to be introduced and considered in the agenda by the Pension Board in its meetings has been steadily increasing. As a result of the increase in the number of Fund member organizations, the Board has had to consider a growing number of documents presented in connection with pension matters taken up at its meetings. For instance, in July 2006 the Board session considered approximately sixty documents as compared to the forty-seven documents taken up at the 2004 Board meeting, or a 28 per cent increase in the number of documents. The Board members interviewed indicated that some of the items were very technical and there may be merit in having these documents discussed and deliberated by the working groups of Board with relevant expertise concerning these issues. OIOS commends the Working Group on the thoroughness of its study and is of the view that the Board’s implementation of Working Group’s recommendations will improve the efficiency of its work.

Recommendations 1 and 2

The United Nations Joint Staff Pension Board (the Board) should:

- (1) Further review ways of facilitating the growing number of agenda items and documents requiring action at the Board’s sessions, such as holding special interim meetings of the Board’s Standing Committee to consider matters requiring immediate attention, and establishing special working groups of the Board composed of members with requisite expertise to review highly technical issues during the Board’s sessions; and
- (2) Make wider use of teleconferencing and videoconferencing facilities for conducting “virtual” meetings of working groups and sub-committees of the Board, where considered appropriate.

27. *UNJSPF management indicated that recommendation 1 has been implemented. The Pension Board has taken action on this recommendation, when during its 53rd session in 2006 it decided to hold annual sessions and approved the establishment of the Audit Committee. Furthermore, following the review*

and recommendations of the Working Group undertaking a review of the size and composition of the Pension Board and Standing Committee, the Board adopted several proposals for improved efficiencies in its working methods. It should be noted that matters that require immediate action are often in the realm of the management of the Fund. The Chief Executive Officer (CEO), who acts under the authority of Board, is entrusted with the administration of the Fund, whereas the Board deals with larger policy issues and has the overall supervisory responsibility. The Board has regularly established inter-sessional working groups to deal with specific issues, such as plan design and size and composition of the Board. Based on OIOS' review of the action taken by the Fund, as well as the comments of the Board on this issue in the Report on the 53rd Session, recommendation 1 has been closed.

28. *UNJSPF management also indicated that recommendation 2 has been implemented. The UNJSPF management and the Board committees hold videoconference meetings on a regular basis: most recently these facilities were used with the FAFICS Council and the Pension Board session. In addition, all United Nations Joint Staff Pension Committee meetings are videoconference meetings between various duty stations. Based on the review by OIOS of the action taken by the Fund, as well as the comments of the Board on this issue in the Report on the 53rd Session, recommendation 2 has been closed.*

(d) Standing Committee of the Pension Board

29. The Standing Committee is appointed by the Pension Board and acts on its behalf when the Board is not in session. The Committee is composed of 15 members; 5 represent the governing bodies of the member organizations, 5 are members appointed by the chief administrative officers of the member organizations, and 5 members are elected by the Fund's active participants. In addition, there are two representatives of FAFICS on the Standing Committee.

30. The Standing Committee has been responsible for the review and adoption of the administrative budget of the Fund, as well as pursuing other substantive matters such as projection of future benefits and the performance of investments on behalf of the Pension Board. Meetings are convened by the Secretary upon the instructions of the Chairman after consultation with the Committee's members. A report is submitted to the Pension Board at each regular session on the actions taken. At its July 2006 Session, the Board decided that the Committee's size, composition and allocation of member seats would be retained, and that the Committee would continue to meet annually primarily to consider appeal cases.

(e) Staff Pension Committees of member organizations

31. The Staff Pension Committees of the 21 member organizations, like the Pension Board, have tripartite representation and are supposed to meet at least once per year. The committees are responsible for reviewing proposed disability benefit awards for their organizations and reviewing other pension-related matters for possible referral to the Pension Board or the Standing Committee for formal consideration.

32. In accordance with Article 8b of the UNJSPF Regulations and Rules, the Secretaries to the Staff Pension Committees are appointed by the Chief Administrative Officer of each member organization. The secretaries are crucial to the operations of the Fund and provide an important channel for communications between participants and the Chief Executive Officer/Secretary of the UNJSPF. The Secretariat of the Board also serves as the secretariat of the United Nations Staff Pension Committee which comprises 12 regular members and 8 alternates. The terms of reference for the Staff Pension Committees were formally published by the Chief Executive Officer in 2004 and are based on the UNJSPF Regulations and Rules.

2. Advisory Bodies to the Pension Board

(a) Investments Committee

33. The Investments Committee is an independent advisory body comprising of nine members appointed by the Secretary-General, after consultation with the Pension Board and ACABQ and subject to confirmation by the General Assembly. Effective 1 January 2005, the members' service is limited to five 3-year terms. In addition to the nine regular members, the Secretary-General may, from time to time, appoint additional *ad hoc* members to serve on the Investments Committee, to ensure expertise in specific sectors and markets, and wider geographical representation. These members are also subject to the Board's approval.

34. The Investments Committee's principal role is to advise the Secretary-General on the Fund's investment policy, risk control, asset allocation and strategy, diversification of the Fund in terms of investment vehicles and markets, best practices, and additions to or deletions from the approved list of companies whose equity or real estate-related securities may be purchased or sold by the Fund. The Committee meets formally four times a year, together with the Representative of the Secretary-General, the CEO, the Director of the Investment Management Service and the investment advisory firms engaged by the Fund, and submits a report on the Investments of the Fund to the Secretary-General which details the appropriateness of investment activities as reported by IMS and an assessment on global investment environment. In its advisory role, the Investments Committee reviews reports of consultants contracted by the Fund to look at various aspects of the Fund's investment structure and processes. As well, the Committee meets from time to time with the Committee of Actuaries. According to the Representative of the Secretary-General for the Investments of the UNJSPF, it is generally acknowledged that the Investments Committee members bring the necessary expertise to the Fund in their role of advising on the management of the UNJSPF investments. OIOS is of the view that the Investments Committee has adequately fulfilled its role in the UNJSPF governance mechanism.

(b) Committee of Actuaries

35. The Committee of Actuaries comprised five independent actuaries representing different geographical regions. The Secretary-General appoints the actuaries for renewable 3-year terms upon the recommendation of the Pension Board. The Committee advises the UNJSPF secretariat and the Pension Board on actuarial questions arising from time to time concerning the operations of the Fund. The Pension Board approved the Committee's terms of reference at its 2004 session. The Board recently revised its Rules of Procedure to provide for the appointment of *ad hoc* members as from 1 January 2007.

36. The Secretary of the Board/CEO of the Fund had made a proposal for the establishment of an Asset Liability Management (ALM) Committee. While the Standing Committee agreed at its July 2005 meeting to carry out an asset-liability management study, it also decided that the ALM functions should be accomplished through closer cooperation between the Investments Committee and the Committee of Actuaries. The Committee of Actuaries, whose role is to advise the Board on actuarial questions arising out of the operation of the Fund's Regulations and the Investments Committee whose mandate is to advise the Secretary-General on the investment of the Fund's asset, have been holding combined sessions with a view to jointly monitoring the Fund's investments performance against the long term liabilities of the Fund, however, the responsibilities for conducting combined review are not formally documented. In its July 2006 meeting, the Board approved the conduct of an ALM study, which is anticipated to be concluded by mid-2007. The results of this study are expected to address this issue and the structure required for effective asset-liability management.

Recommendation 3

(3) OIOS recommends that the Pension Board formalize the asset liability management (ALM) responsibilities of the Committee of Actuaries and the Investments Committee.

37. *In the view of the UNJSPF management, there is no need to change the Fund's Regulations and Rules to make a provision for the joint sessions of the Investments Committee and the Committee of Actuaries, which have a clear mandate from the Board. However, the Fund's management had recommended to the Standing Committee in 2005 to establish a dedicated Asset Liability Management Committee (ALM) to deal with ALM activity, which is a core function of the Fund. The idea is that both the Investments Committee and the Committee of Actuaries would participate in the work of the ALM Committee. After an extensive discussion, the Standing Committee decided that it was not necessary to create a formal committee at that stage; however, it did approve the resources needed to undertake a comprehensive ALM study of the Fund.*

38. *The Audit Committee reported at the Pension Board's 54th Session that it considered that the assets and liabilities of the Fund had to be managed as parts of an integral whole, and concluded that continuing close collaboration between*

the Fund's Secretariat and the IMS was essential to monitor the assets/liabilities relationship.

39. *Following the outcome of the ALM study that was completed in 2007, the Board concluded that it is appropriate for the Fund's management to incorporate the ALM framework as part of the ALM Steering Committee's regular review of the Fund's estimated future financial situation and to provide the relevant information to be considered by the Investment Committee and the Committee of Actuaries.* Based on the UNJSPF management's comments and the Board's deliberations on the Asset Liability Management process and conclusion that management should incorporate the ALM framework as part of the ALM Steering Committee's regular review of the Fund's financial situation, recommendation 3 has been closed. However, given the importance of the Committee of Actuaries and the Investments Committee's joint reviews of ALM, the Board may wish to continue to monitor the effectiveness of this arrangement.

(c) Audit Committee

40. The Secretary/CEO proposed to the Pension Board at its July 2004 session that an Audit Committee should be established. The Standing Committee at its 2005 meeting agreed in principle with the possible terms of reference for the Audit Committee, and the Board at its July 2006 meeting decided to establish an Audit Committee, which comprised seven Board members and two outside experts, and approved the Committee's terms of reference and initial expense budget. OIOS considers this to be a major step in the Board's efforts towards achieving good governance practices.

Recommendation 4

(4) OIOS recommends that the Pension Board formalize the responsibilities of the Audit Committee in the Fund's Regulations and Rules.

41. *UNJSPF management indicated that recommendation 4 has been implemented. The Board established the Audit Committee at its July 2006 session and approved its terms of reference, which will be included by reference in the Fund's Rules of Procedure.* Based on the Board's comments as expressed in the Report of the Board on the 53rd Session, the receipt by OIOS of the terms of reference of the Audit Committee, and management's commitment to include reference to the Committee's terms of reference in the Fund's Rules of Procedure, recommendation 4 has been closed.

3. Management Structure of the United Nations Joint Staff Pension Fund

(a) UNJSPF Secretariat

42. The UNJSPF Secretariat is headed by the Chief Executive Officer of the Fund who also serves as the Secretary to the Pension Board. The CEO, appointed by the Secretary-General for a 5-year term upon the recommendation of the Pension Board, manages the UNJSPF under the authority of the UNJSPB. The

Deputy Chief Executive Officer is similarly appointed by the Secretary-General based on the Board's recommendation. The Secretariat is primarily responsible for the operational activities of the Fund, including the monitoring of actuarial valuations and contributions from member organizations and participants, ensuring the eligibility to and calculating benefit entitlements and making payments to retirees and beneficiaries. The Secretariat serves active participants and retirees/beneficiaries of the 21 member organizations. The Secretariat also assists the Secretary of the Pension Board involving communications with the Pension Board, the Standing Committee and the Committee of Actuaries, and servicing meetings thereof.

(b) Investment Management Service

43. Article 19 (a) of the Fund's Regulations state that the investments of the assets of the Fund shall be decided upon by the Secretary-General (SG) after consultations with an Investments Committee and in light of observations and suggestions on the investments policy made from time-to time by the Board on the investment policy. Article 9(b) stipulates further that the SG shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to the examination by the Board. The Secretary-General has delegated the responsibility for investing the assets of the Fund to the Representative of the Secretary-General for the investments of the UNJSPF, who currently is the UN Under-Secretary-General for Department of Management. The Director of the Investment Management Service (IMS) assists the Representative of the Secretary-General with the day-to-day investments of the Fund's assets.

44. The bifurcated organizational structure of the Fund, wherein the Investment Management Service reports to the Secretary-General through the designated Representative of the Secretary-General and the UNJSPF Secretariat reports to the Board through the CEO, is perceived by some parties as limiting the effectiveness of the Pension Board's governance role for the investments of the Fund, since the Board is responsible for overseeing the assets and liabilities of the Fund, whereas the Secretary-General is ultimately responsible for investment of the Fund's assets (see Annex III).

45. It is difficult to establish from the legislative history of the General Assembly's resolutions the Assembly's intent for placing the ultimate responsibility for the investments of the Fund with the Secretary-General. Lacking this, OIOS would infer that the General Assembly had separated the organizational responsibility for the administration of the Fund's liabilities from that for the investment of the Fund's assets, in order to ensure that the fiduciary responsibility for the investment of the Fund's assets was placed at the highest executive level of the Organization. Moreover, the General Assembly's resolutions have reaffirmed the Secretary-General's fiduciary responsibility for the Fund's assets. For example, the preamble to General Assembly resolution 35/216B reaffirms that the Secretary-General has a fiduciary responsibility for the interests of the participants and beneficiaries of the Fund, and the preamble to resolution 57/286 states that the Secretary-General has fiduciary responsibility for decisions on the investments of the Fund's assets. OIOS is of the view that

although the bifurcated organizational structure has served as a check and balance in the decision making authority within the Fund's administrative structure between the Representative of the Secretary General and the CEO of the Fund, the separation of the asset and liability management functions calls for a high degree of coordination to achieve optimum results. Therefore, there may be a need to periodically review the overall effectiveness of this structure.

46. Good practice requires that the assets and liabilities of the Fund be managed in a coordinated manner. OIOS acknowledges the decision of the governing bodies to approve the funding of a comprehensive Asset-Liability Management study to assist the Secretary-General in developing optimal long-term asset allocation and currency strategies for the investments of the Fund while ensuring the prudent management of the Fund's balance sheet in order to meet the liabilities and obligations stipulated in the Fund's Regulations. Procurement for these services was on going at the time of the audit. In OIOS' view, this study, which was completed in April 2007, is a positive step in managing the future risks facing the Fund. Officials of the World Bank and the International Monetary Fund advised OIOS that they have asset-liability management processes in place. It was also noted that in the World Bank and IMF retirement plans there is a separation of the reporting structures for the administration of benefits and the investment of the funds' assets, with each reporting directly to their respective governance bodies.

Recommendation 5

(5) OIOS recommends that the Pension Board and the Secretary-General periodically reassess the effectiveness of the governance structure for managing the investments of the Pension Fund, to ensure that the organizational checks and balances that have been established by the General Assembly at the time the Fund was created are properly functioning, and report on this matter to the General Assembly for its consideration.

47. *The management of the Fund's Secretariat stated that it is true that the present size and standing of the Fund (e.g., having 21 member organizations, which total nearly 150,000 UNJSPF participants, retirees and other beneficiaries, and 34 billion USD in assets) warrants a review of the existing governance structure for managing the investments in the most effective and efficient way. As the Fund grows and matures and its operations become increasingly complex, it becomes increasingly important to base policy decisions on an integral view of the Fund's operations, resources, and short and long-term commitments. The review should take into account the existing circumstances of the Fund to bring about the needed efficiency and it should not be conducted out of context but rather bearing in mind the overall governance mechanism of the Fund.*

48. *IMS management did not agree with the proposal that the Board (UNJSPB) review the governance arrangements for investments which have been put in place by the General Assembly and are reflected in the UNJSPF*

Regulations and Rules as well as in relevant General Assembly resolutions. As pointed out in paragraph 51 of the draft report, OIOS indicated that the General Assembly “separated the organizational responsibility for the administration of the Fund’s liabilities from that for the investment of the Fund’s assets, in order to ensure that the fiduciary responsibility for the investment of the Fund’s assets was placed at the highest executive level of the Organization.” In light of this, and the upcoming ALM study, the RSG does not believe the time is ripe for such a governance review. The matter may, if necessary, be reverted to after the Board has had the opportunity to review the ALM study in the light of such recommendation, as the Investment Committee and the Committee of Actuaries may jointly make to the Board in 2007. IMS management also presented the view that the present delegation arrangement which has been in place unchanged for many years has consistently yielded investment returns in excess of the Fund’s long-term objective of 3.5% annual real rate of return.

49. *At the 54th session in 2007, the Pension Board took note that at its 53rd session in 2006, it had requested a review of the Memorandum of Understanding (MOU) between the Pension Fund secretariat and the Investment Management Service, with a view to strengthening the coordination and consultative process for matters of strategic importance, in particular with regard to the financial management and investment policy of the Fund. The Board’s request was supported by the ACABQ and by the General Assembly, which in its resolution on the United Nations pension system (A/61/240), stressed the need for a study of the Fund’s governance, with special regard to the relationship between the Fund secretariat and the Investment Management Service. The Assembly requested that the results thereof be provided to the Board for its consideration.*

50. *The Board also determined that the Fund’s current governance set-up provides adequate checks and balances and ensures that the fiduciary responsibility and accountability of the Fund’s assets is placed at the highest executive level. Furthermore, the Board determined that no changes to the Fund’s Regulations and Rules is required and that the adoption of an asset-liability management (ALM) framework within the existing institutional arrangement allows effective and efficient means to periodically assess the strategic asset allocation and potential changes to the plan design. The Board also invited the RSG and the Secretary/CEO to identify and establish mechanisms that would improve coordination and opportunities for synergies, and also urged the Secretary/CEO and IMS to further consolidate services to the extent possible.*

51. *The Board concluded that full coordination and consultation should be pursued in the spirit of cooperation and joint search of further economies of scale. The Board requested that a revised Memorandum of Understanding be prepared jointly by the RSG and the CEO focusing on the issues that would need to be addressed to ensure a coordinated and more unified approach in the management of the activities relating to both the IMS and the Fund Secretariat.*

52. Based upon a review of the comments by the UNJSPF Secretariat and Investment Management Service and considering the Board’s views on the present governance structure, OIOS has closed recommendation 5. However,

given the importance of the coordination and consultation mechanisms, OIOS will continue to follow-up on this issue.

4. Other Governance Mechanisms

(a) Consulting Actuary

53. An independent actuarial consultant advises the Pension Board on applicable services, mortality and other assumptions, and the rates of interest to be used in the actuarial projections. The Committee of Actuaries has the statutory role of supervising and providing actuarial opinions on the projections provided by the Consulting Actuary. The Consulting Actuary also provides financial and other advice on the management of the Fund's liabilities. The Consulting Actuary is required to provide the Pension Board with an actuarial valuation report at least every 3 years, but the practice has been to provide them every 2 years.

(b) United Nations Board of Auditors

54. The United Nations Board of Auditors (BOA) serves as the external auditors for the Fund. In accordance with Article 14 of the Fund's Regulations, the United Nations Board of Auditors annually audits the operations of the Fund and submits a report every two years to the General Assembly and member organizations on its audits of the Fund's financial statements. The UNJSPF secretariat reports on the Fund's financial results annually, showing unaudited financial data for the intervening year of each biennium. However, in view of the magnitude of the assets of the Fund (\$31.5 billion as of 31 December 2005), the Board and General Assembly may wish to review Article 14 of the Fund's Regulations and Rules and require the Board of Auditors to report annually on its audits of the Fund's financial statements.

Recommendation 6

(6) OIOS recommends that the Pension Board consider amending Article 14 of the Fund's Regulations and Rules to require the Board of Auditors to report annually to the Board and the General Assembly on the Fund's financial statements.

55. *UNJSPF management did not support recommendation 6. As is the case in the United Nations, the Fund's financial statements, which are based on a biennial budget process, are formally audited at least once every two years. However, in accordance with Article 14, the operations of the Fund are reviewed on an annual basis and this includes a review of the accounts for the year-end, i.e. mid biennium. Normally that review in mid biennium would generate some audit observations which would be taken into account, to the extent that they can be implemented during the time frame and that Board approval would not be required, for the financial statements to be issued the following year. Thus, the unaudited mid biennium financial statements are reviewed by the Board although the formal audit comments are not put forward until the following year, at which*

time many of the observations made would have been implemented or would be in the process of being implemented.

56. *UNJSPF management added that the representative of the Board of Auditors assured the Board during its 53rd session in 2006 that while the Board did not receive a formal report annually, the intermediate, annual financial statements were audited and observations on areas of concern reported to the management of the Fund. As the UNJSPF was audited twice each year any issue found in the annual review that was not dealt with in the interim was reported to the Board in the biennial report. In view of the above, the Fund does not see the necessity of changing Article 14.*

57. As good industry practice prescribes that external auditors issue formal interim reports during non-budget years, OIOS is of the view that the Board of Auditors should formalize its interim reporting process and submit a report on the interim financial statements to the Board, or a committee thereof, annually. The United Nations Financial Rules and Regulations (Rule 106.10 and Regulation 6.5) requires the Board of Auditors to submit interim financial statements covering the first year of the biennium to the General Assembly, which is in keeping with generally accepted standards. OIOS is of the view that this principle should also be applied to the Fund, since it seeks to comply with the UN Financial Regulations and Rules. This is especially relevant in view of the rapid growth in the Fund's investment assets, contributions and expenditures, and due to the fact that the Board will now meet annually, and has established an Audit Committee.

58. *The Audit Committee noted, and the Board endorsed, that the eventual implementation of IPSAS was likely to bring about fundamental changes and recommended that the Fund should already start issuing full interim financial statements annually, in a standard format, which should be signed by the CEO, RSG and CFO. Pending the IPSAS implementation and resultant changes in accounting standards, including the formalization of annual auditing, the financial statements should be reviewed by the Audit Committee. The Audit Committee commented that the Fund should embark on the change in the context of the implementation of IPSAS.*

59. Based on the comments of the Audit Committee and the Board's endorsement, OIOS considers recommendation 6 to be in the process of implementation. Recommendation 6 remains open pending notification that UNJSPF management has implemented the Audit Committee's recommendation to start issuing full interim financial reports annually.

(c) UNJSPF Internal Auditors

60. The internal audit function provides for the systematic and independent review of all operations of the UNJSPF for the purpose of advising management on the efficiency and effectiveness of internal controls and management practices. As approved by the General Assembly, OIOS has served as the UNJSPF's internal auditors since September 1996. At the request of the Secretary/CEO, an Internal Audit Charter was approved by the Pension Board in

2004. According to the Fund's Charter, the mission of internal audit is defined as follows: "The internal audit function and the role of the internal auditors are driven by the desire of management to have an organizational element serving as a management tool that assists the CEO and the Representative of the Secretary-General, in relation to investments, and focuses its attention on the processes and internal working methods to ensure accuracy of information on, and efficiency and effectiveness of, operations. Within the clear and comprehensive framework of the Charter, the Internal Auditors will perform their function freely, objectively and professionally." However, the internal audit function is not referenced in the Fund's Regulations and Rules. Given that the internal audit function is an integral part of the Fund's internal control mechanism, OIOS is of the view that it should be incorporated in the governing regulation.

Recommendation 7

(7) OIOS recommends that the Pension Board amend Article 14 of the Fund's Regulations and Rules to incorporate reference to the internal audit function.

61. *The Fund did not agree with recommendation 8, and stated that this function is normally internal to any organization. The fact that at the present time OIOS of the UN has been mandated by the Board to carry out internal audit activities for the Fund does not change the nature of the functions. Internal auditing is to serve as an internal management tool and the Internal Auditors are supposed to offer services that assist management to reach its operational objectives. Therefore, their functions are included in an organizational chart, management charters and operational procedures, not at the level of Regulations.*

62. *The Board recommended that reference to the internal audit function be included in the Financial Rules and Regulations of the Fund when developed.*

63. OIOS maintains the view that whether or not the internal audit function is carried out internally or outsourced, the function should be included by reference in the Fund's Financial Regulations and Rules. For example, the United Nations Financial Regulations 5.8 and 5.15 reference the internal audit function, and state that it shall conduct independent internal audits in conformance with generally accepted auditing standards as a means of assisting the Secretary General in maintaining financial internal control.

64. Based on the Board's comments, recommendation 7 remains open pending the inclusion of the internal audit function, by reference, in the Fund's Financial Regulations and Rules, once they are developed.

Independence of the internal audit function

65. One of the key tenets of the International Auditing Standards, as promulgated by the Institute of Internal Auditors (IIA) is the organizational independence of the audit function and the need for the internal audit activity to be free from interference in determining the audit scope, performing the work,

and communicating results (IIA Standard 1110). The establishment of an Internal Audit charter testifies to the importance the Fund has placed on the internal audit function. Notwithstanding the prior consultation with OIOS on the initial draft of the Internal Audit Charter, there were a number of revisions made to the final version, which was approved by the Board at its 2004 session. The approved version included Section 11(c) and (e), which require “agreement between the UNJSPF and the internal auditors on the scope and timing of the audit programme” and on the “specific terms of reference for each audit assignment”. Furthermore, the United Nations Joint Staff Pension Fund governance structure as depicted in the organization chart (Annex III), shows the internal audit function, but does not reflect any direct reporting to the Board and/or Audit Committee.

66. OIOS is of the view that the provision of the Internal Audit Charter that management’s agreement must be obtained on the scope and specific terms of reference of the audit represents a limitation on OIOS’ audit independence in respect of its internal audits of the Fund. In fact, the Charter also calls for by the International Standards for the Professional Practice of Internal Auditing, the chief audit executive (CAE) should periodically assess whether the authority and responsibility as defined in the charter continue to be adequate to enable the internal audit activity to accomplish its objectives.

67. For example, OIOS experienced a situation during its recent audit of the Lawson Accounting System (AS2005/800/01) that calls into question OIOS’ ability to conduct the audit function freely and objectively. Due to a provision in the Internal Audit Charter that requires the UNJSPF management’s agreement on the scope, timing and specific terms of reference for each audit mission, OIOS was required to request the CEO’s agreement in order to amend the scope of this audit to include the procurement aspects of the system and ancillary consulting services in order to provide management with information concerning the Fund’s compliance with United Nations procurement rules and the exercise of authority for undertaking direct procurement by the Fund.

68. OIOS also noted in the Report of the Board on the 53rd Session, held in July 2006, the Board has decided that the newly established Audit Committee should review the competence of the internal auditors and monitor the internal audit arrangements for UNJSPF as a matter of priority. OIOS welcomes this decision by the Board, which will give OIOS the opportunity to discuss, with the Audit Committee, ways and means to strengthen the Fund’s internal audit function.

Recommendation 8

(8) OIOS recommends that the Pension Board review the provision of the Internal Audit Charter that requires management’s agreement on the scope and specific terms of reference for each audit mission in order to ensure that internal audit services can be performed freely and independently without constraints on the scope of internal auditing.

69. *The Fund's management did not support recommendation 8, stating that it is not in line with the industry standards. Part of the Performance Standards of the International Standards for the Professional Practice of Internal Auditing includes the Standard 2020-Communication and Approval that states that the chief audit executive (CAE) should communicate the internal audit activity's plans requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive should also communicate the impact of resource limitations. The Practice Advisory 2020-1 provides that engagement work schedules, staffing plans, and financial budgets should inform senior management and the board of the scope of internal auditing work and of any limitations placed on that scope. The approved engagement work schedule, staffing plan, and financial budget, along with all significant interim changes, should contain sufficient information to enable the board to ascertain whether the internal audit activity's objectives and plans support those of the organization and the board.*

70. *The Fund management indicated that Paragraphs 11 c) and e) (Mandate of the Internal Auditors of the UNJSPF) of the UNJSPF Internal Audit Charter, which is based on the above-mentioned International Standards, state that the following two principles, among others, are key components of the internal audit function:*

"c) Agreement between the UNJSPF and the Internal Auditors on the scope and timing of the audit programme"

"e) Agreement on the specific terms of reference for each audit mission"

71. *Furthermore, paragraph 19 c) (Responsibilities of the Internal Auditors) reads: "Submit to the CEO and, regarding investments, the RSG, as well as the Audit Committee, once established, for consultation and agreement the entire audit programme and annual audit plans which include audit goals and objectives, the risk assessment process used to identify the audit goals and objectives, and an audit work schedule."*

72. *Consequently, the recommendation is neither in line with the Standards nor with the Internal Audit Charter and therefore cannot be accepted. This recommendation appears to highlight the notion that there might be a confusion of the role of the internal auditors, which in the future could lead to significant governance problems. It reflects the internal auditing function more as oversight function rather auditing and consulting. It would further blur the distinction between internal and external oversight. The same concerns were expressed by some Pension Board members during its 53rd session that the Fund seems to have two sets of external auditors.*

73. *The Charter establishes a clear and comprehensive framework for the internal auditing of the Fund, including:*

- a) *a comprehensive risk assessment prior to the commencement of the three-year audit cycle,*

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- b) an annual work plan,
 - c) consultation on the terms of reference as well as scope and timing of each audit,
 - d) requirement to conduct the audits in accordance with the commonly accepted industry norms and standards,
 - e) Procedures for follow-up actions on audit recommendations and agreement on resources for the internal audit programme in each biennium.

74. *The United Nations General Assembly in its resolution 59/269 noted “with satisfaction of the approval of the UNJSPB of an internal audit charter, which recognize and incorporates policy changes for the OIOS.”*

75. *The Audit Committee opined that the main purpose of internal auditing was to facilitate and strengthen a manager in his/her duties to build appropriate internal control mechanisms of an organization. It deferred its recommendations on the issue over the interpretation on the International Auditing Standards, as promulgated by the Institute of Internal Auditors (IIA), until it received input from the Board of Auditors and the expert members of the Audit Committee.*

76. *The Pension Board commented that, with respect to the independence of internal auditing, the Board considered that the internal audit function assists the Fund’s CEO and that its mandate is to monitor and enhance the internal control environment and the effectiveness of the organization. Nevertheless, internal auditors should maintain professional independence while executing their duties and exercise professional judgment when, in their opinion, a situation warrants immediate and direct reporting to the Audit Committee and to the CEO.*

77. *The Board also took note that the Participants’ Representatives are of the opinion that in view of the comments made by the Audit Committee and response to the OIOS recommendation as presented by the IMS and Fund Secretariat, it would appear to be more appropriate to discontinue using the service of OIOS and, subsequently, to reallocate the relevant budget for the establishment of an audit unit that would be attached to the Fund Secretariat.*

78. OIOS maintains that, whereas auditing standards support consultation and communication between internal audit and management on the audit plan, the requirements of Standard 2020 on “communication and approval” requires the Chief Audit Executive (CAE), “to communicate the internal audit activity’s plans and resources requirements, including significant interim changes, to senior management and the Board for review and approval”. The Practice Advisory interpreted this to mean that “the CAE should submit annually to the Board for approval, and to senior management as appropriate, a summary of the internal audit activity’s work schedule, staffing plan and financial budget”.

79. In the view of OIOS, the requirements of the Internal Audit Charter in Section 11 (c) and (e) - Mandate of the Internal Auditors of the UNJSPF for the Internal Auditors and UNJSPF management to agree on “the scope and timing of the audit programme” and on “the specific terms of reference for each audit mission” are not in accordance with the auditing standards and good practice, and

could impair the independence and objectivity of the audit process. Specifically, the standards refer to the annual audit plan and not to the individual audit assignments. There are possible risks if management were to have undue influence in determining the terms of reference, scope and timing of the audits, and this could also reduce the level of assurance given to the Board on achievement of the objectives.

80. Further, whether OIOS continues to provide internal audit services to the Fund or it is decided to establish an audit unit attached to the Fund Secretariat, the role of internal audit function in the United Nations is clearly promulgated in the United Nations Financial Regulations and Rules, Article V, Regulation 5.15 which stipulates that the audit function (OIOS):

“...shall conduct independent internal audits in accordance with regulation 5.8(d) and in conformity with generally accepted auditing standards. Internal auditors shall review, evaluate and report on the use of financial resources and on the effectiveness, adequacy and application of internal financial control systems, procedures and other relevant internal controls. Internal audits shall also include the following elements: (a) compliance of financial transactions with General Assembly resolutions, approved programmes and other legislative mandates; (b) economy, efficiency and effectiveness of financial, physical and human resources management and utilization and of delivery, including by examining the structure of the Organization and its responsiveness of the requirements of programmes and legislative mandates and by conducting management audits.”

81. OIOS noted that the Pension Board has delegated the responsibility to the Audit Committee to periodically review the internal audit charter. Although, as UNJSPF management pointed out, the General Assembly in resolution 59/269 noted “with satisfaction the approval of the UNJSPB of an internal audit charter”, it does not preclude further review and enhancement. Therefore, in the context of recommendation 8, OIOS maintains that the Internal Audit Charter should be reviewed by the Audit Committee and the appropriate action taken by the Board.

82. Recommendation 8 remains open pending the receipt of documentation on the conclusions reached by the Board and/or Audit Committee with regard to the independence of the internal auditors of the Fund, and appropriate modification of the Audit Charter.

(d) Investment Advisors

83. IMS is comprised of the staff that assists the Representative of the Secretary-General for the investments of the UNJSPF in managing the Fund's day-to-day investment activities. In addition, IMS makes use of both discretionary and non-discretionary advisers in managing the investments. According to the UN Office of Legal Affairs memorandum dated 2 July 2002 to the IMS director, this delegation of authority to the investment advisors is acceptable where “...the volume of transactions was too high and value of such

investments was too low to warrant having such investments managed by the IMS.”

84. The discretionary advisers currently manage the Fund’s small capitalization portfolios. The advisors were selected based on a competitive bidding exercise and are paid investment portfolio management fees computed as a percentage of the investment portfolio under management. The fees are approved by the Pension Board as a part of the Fund’s administrative expense budget. As the funds under management have grown through additional investments and income and capital gains, the amount of management fees paid on these investments has also increased. As the portfolio of small capitalization investments grows in value, this creates the need for the IMS to request an increase in the administrative expense budget. In OIOS view, there is merit in funding the discretionary fund managers’ fees from investment income as is a common industry practice. Nonetheless, there would still be a need for full disclosure of the management fees paid as part of the financial reporting process.

Recommendation 9

(9) OIOS recommends that the Pension Board seek General Assembly’s approval to change the method for funding the portfolio management fees for discretionary investment advisors to allow for these fees to be funded from the investment income rather than being funded through the administrative budget process.

85. *The management of the UNJSPF Secretariat indicated that Recommendation 9 has been implemented, stating that a proposal to this effect was submitted to the Board during its 53rd session in 2006. However, the Board deferred any decision on the matter to a later session of the Board, following the results of the asset liability management study and further consultations with the Board and the Investments Committee on the investment policy. It should be noted that in order to maintain transparency and proper oversight, the fees should be disclosed and approved by the Board.*

86. *IMS management supported recommendation 9, indicating that it is fully consistent with proposals made to the Board in 2006. The UNJSPF current practice is unusual in investment practice of large supranational and public funds. Since the fees are established by contract, which is subject to thorough due diligence during the RFP and contracting process, the variation in payment to an external manager is solely the function of the manager’s investment performance. Since the returns in the investment market for each of these mandates cannot be calculated or reliably estimated in advance, the figures submitted in the budget are unlikely to match the actual expense. Currently, variations from budgeted amounts can cause a budgeting surplus or deficit, which is not under the control of IMS but can have an adverse impact on the Director’s ability to complete other important tasks and projects which are under IMS’ control. The consulting company that reviewed this issue has determined that more than 2,300 pension funds across more than 40 countries in which pre-funded pension funds exist pay investment management fees as they are incurred,*

rather than seeking to budget in advance for a given fixed amount and then adjusting other budgeted expenditures to offset any variance that may arise. Against this global dataset, only a handful of public funds in Australia have been identified as the only instances, besides UNJSPF, in which budgeting for investment management fees must be forecast and variances approved, similar to the UNJSPF. In other words, UNJSPF is an outlier in terms of how it budgets for investment management fees. IMS therefore perceived no benefits to the current UNJSPF budgeting and approval process.

87. OIOS noted that the Board, in its 53rd session, had deferred any decision on this issue to a later session, and awaited the outcome of the ALM Study. Based on the Board's comments, OIOS will keep recommendation 9 open pending the Board's decision on whether to change the method for funding the portfolio management fees for discretionary investment advisors.

(e) **Other bodies**

United Nations Administrative Tribunal

88. The United Nations Administrative Tribunal deals with applications alleging non-observance of the UNJSPF Regulations and Rules arising out of decisions of the Pension Board. All disputes concerning pension matters--allegations of non-observance of the UNJSPF Regulations and Rules are solved in accordance with Section K of the UNJSPF Administrative Rules (Review and Appeal) and article 48 of the Regulations (Jurisdiction of the United Nations Administrative Tribunal). All UNJSPF member organizations agree to the United Nations Administrative Tribunal's jurisdiction at the time they join the Fund.

89. In the event of a request for review of any decision taken by the staff pension committee, or by its secretary, the staff pension committee will first review its decision in accordance with section K of the UNJSPF Administrative Rules. The case can then be appealed to the Standing Committee of the Pension Board. The Standing Committee will also review requests for review of any decision taken by the Secretary of the Board, as well as cases where the staff pension committee has not been able to reach a unanimous decision in the determination of incapacity for the purpose of disability benefits under article 33 of the UNJSPF Regulations. The request for review of the decision by the Secretary of the Board will be submitted together with supporting documentation for the Standing Committee's review and decision. Section K provides the statutory time limits and full procedure for reviews and appeals.

90. The decision of the Standing Committee, acting on behalf of the Board, can be appealed to the United Nations Administrative Tribunal in accordance with the Statute and Rules of the Tribunal.

B. Terms of Reference, Selection and Orientation of Board and Committee members

Terms of Reference and Selection

91. Article 4 of the UNJSPF Regulations and Rules states that the Fund shall be administered by the United Nations Joint Staff Pension Board, a staff committee for each member organization and a secretariat to the Board and to each staff committee. The Board has established the Investments Committee and the Committee of Actuaries to provide expertise in their areas of responsibility. To ensure operational effectiveness and efficiency, each of these bodies should have clear terms of reference defining their roles and responsibilities, outlining performance metrics and establishing reporting structures.

92. The Fund has developed terms of reference for the governing and advisory bodies such as the Staff Pension Committee, Committee of Actuaries and the Investments Committee. However, the Fund has not developed specific terms of reference for the Board members. While some of their responsibilities are spelled out in the UNJSPF Regulations and Rules, they are not sufficiently detailed out as they do not cover some basic requirements that OIOS believes should be included in the terms of reference, such as the basis and criteria for appointment, orientation procedures and evaluation of performance as well as desirable competencies for Board members. The CEO/Secretary of the Board sends an introductory letter to all new members appointed to the various governing bodies, which provides guidance on the sources of information available regarding their functions. The Board's Secretary/CEO sends a letter to new Board members detailing their role and functions and advising the members about available orientation training. While acknowledging the need to allow the Board flexibility in carrying out its governance duties, OIOS is of the view that in accordance with good governance practices, the terms of reference for Board members should be formally documented and approved by the Pension Board.

93. Discussions between OIOS and the World Bank and the IMF indicated that members of the various governing bodies are normally appointed or elected based on their expertise in their areas of responsibility. This was also found to be true for the Pension Fund, where the election process for participants' representatives included a presentation of the candidates' biographical data. The selection of members of the Committee of Actuaries and the Investments Committee is approved by the Board and reviewed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) in the case of Investments Committee members.

94. The current Regulations and Rules of the Fund and the terms of reference for the various governing bodies do not provide for any required minimum qualifications for members, who have different competencies and are appointed based on those competencies in their areas of responsibility. OIOS is of the view that member organizations should be encouraged to ensure that their representatives have the appropriate qualifications to serve in their appointed capacities.

Terms of Office

95. The current regulations and rules do not limit the terms of office of members of the various governing bodies. In the view of OIOS, this does not expose the Fund to any significant risk, since all Board members are either elected or appointed by their constituent bodies, and would not be re-elected or re-appointed if they were not perceived to be doing a good job. Indeed, the Fund may benefit from the institutional knowledge of long serving members in the Board and Committees. In addition, Board members interviewed noted that as decision-making can sometimes require a lengthy period of time, to ensure continuity it would be advisable to have members serving over a longer period. However, to further enhance the Board's effectiveness, the Board should review the process of performance evaluation for the members as proposed in the draft report.

Orientation Training

96. OIOS found that new Board members did not receive any formal training on their responsibilities and rather relied on the previous and current members for briefings on their duties. OIOS was advised that this system is working effectively for some organizations such as the WHO, which has a formal succession plan for the Executive Head representative to the Board. On the other hand, some members were left to either learn from available documentation or from others informally.

97. In the view of OIOS, new members of the Board and its subcommittees should be provided with information and initial orientation training on their new roles and responsibilities upon appointment or election to the Board or Committee and subsequently in accordance with their individual needs.

Recommendations 10 and 11

OIOS recommends that the Pension Board:

(10) Establish, as part of its internal control framework, specific terms of reference for members of the Board and the Standing Committee to the Board, clearly outlining, inter alia, desirable competencies, qualifications and criteria for appointment.

(11) Request the UNJSPF Secretariat to introduce a formal orientation programme for new Board and Committee members where they can receive training on their duties and responsibilities.

98. *The management of the UNJSPF Secretariat commented that the Pension Board would need to be consulted on this recommendation. The Fund's Regulations and Rules do not stipulate the requirements or skills set of the Board or its Standing Committee members. In the UNJSPF management's opinion this is in line with the best practices and conforms to the basic rules of governance,*

as these bodies represent the different constituents of the member organizations. Should the Board members feel that they do not possess the requisite qualifications or skills set in a certain area, they can establish specific groups and committees, which would include Board members with the necessary proficiency. These smaller groups can invite outside experts to assist them in their deliberations, as considered necessary; a good example of this practice is the newly established Audit Committee. Such an approach ensures professional method of considering specific issues as well as offers opportunity for informed decision-making.

99. *Furthermore, it should be mentioned that in addition to providing adequate material and offer supplementary information, the UNJSPF management has now developed a training module and has in August 2006 initiated the first more systematic induction training for new Board members. Obviously, it is for the Board/Committee members to develop their skills and knowledge on a continuous basis, both individually and collectively. Given that the pension domain is constantly changing, the Fund will aim at improving continuous training, e.g. on Asset Liability Management. This is of course subject to available resources. Finally, it should be noted that the terms of reference for the Audit Committee, the Committee of Actuaries and the Investments Committee determine the minimum qualifications of the Committee members.*

100. *As regards the qualifications and competencies of the Board/Standing Committee members, UNJSPF management indicated that the matter would be brought to the attention of the Board, which may then decide if such membership criteria of the different constituencies are better established by individual member organizations, and their governing bodies, or if this is for the Board to decide centrally.*

101. *The Audit Committee was in favour of the Orientation Program, which it felt could be organized at the beginning of each Board session, by group. The Committee underlined the importance of the provision of better information and training, which would raise awareness and thus better judgement in decision making, and agreed that the responsibility for briefing the members on the issues before it began first with each of the respective member organizations. The Board also requested the Secretary/CEO to prepare, for its session in 2008, a glossary of terms with detailed explanations that would facilitate a fuller understanding of the investment related issues at stake. The Board would continue its consideration of provision for better information and training, within the existing resources of the secretariat, in 2008.*

102. *The Board confirmed in regard to recommendation 10 concerning terms of reference and competencies of the members of the Board, that provisions in the existing rules and regulations suffice. Based on the comments of the Board and the Audit Committee, OIOS has closed recommendations 10 and 11.*

C. Performance Review

103. One of the most critical governance processes is ensuring the adequacy of organizational goals and objectives, and monitoring their accomplishment.

Governance best practice also requires that the performance of management and the governing bodies be assessed on a regular basis to determine if these objectives have been met. For example, the Investments Committee reviews investment performance reports during its quarterly meetings and makes a presentation on the Fund's performance at the Board meetings. The Committee of Actuaries also formally evaluates the performance of the Consulting Actuary.

104. One of the roles of the Board is to assess the overall performance of the management. The UNJSPF has put in place a Management Charter, which sets out the strategic goals of the Fund for the ensuing two year period.² The initial Management Charter, presented in 2001, aimed at strengthening the Fund's relationship with all its constituents and at maximizing the Fund's administrative and operational efficiency. At the 2004 Board meeting, the CEO made a presentation of the Fund's achievements indicating that the objectives of the Management Charter had been met. Although the second Management Charter was approved in 2005, UNJSPF management's performance towards meeting the specified objectives was not reviewed at the 2006 board meeting. While some of the Board members interviewed supported the use of the Management Charter for management performance evaluation, others noted that there is no requirement for reviewing the achievements of the Fund's management against the Charter.

105. As the Management Charter provides for reporting by the CEO on the Fund's performance, OIOS is of the view that the Charter could be used as the criteria against which the performance of the Fund's management could be evaluated. Accordingly, the Board should consider using the resources at its disposal to assess the achievements of the Fund's management in meeting the objectives set forth in the Management Charter.

106. As well, there are currently no mechanisms in place for the formal review of the Pension Board's overall performance. Several methods of performance evaluation exist in the industry including (i) self-evaluation and (ii) evaluation by a designated committee such as a governance committee. OIOS supports self-evaluation where, for instance, each Board member would complete a questionnaire after a Board session. Board members would then offer suggestions about how the Board could get higher ratings for any or all of the issues listed. Thereafter, an independent party could review the completed forms, collate the results and prepare a report including recommendations for improvement.

Recommendation 12

(12) OIOS recommends that the Pension Board introduce an internal mechanism for evaluating the performance of the Board, its Committees, the Fund's management and service providers.

² The Second UNJSPF Management Charter was approved by the Board's Standing Committee at its 2005 meeting.

107. UNJSPF management indicated that recommendation 12 has been implemented as far as the Audit Committee is concerned. The terms of reference (5.13) specifically state that the Committee will conduct a self-assessment of its performance and effectiveness from time to time. As regards the performance of management, it is regularly evaluated by the Board through the CEO's reports on the accomplishment of the goals set forth in the Management Charter. Regarding service providers, an evaluation mechanism is in place in respect of the Consulting Actuary (evaluated by the Committee of Actuaries), Investment Advisors (by the Investment Management Service (IMS), and the Investment Managers (the IMS and the Investments Committee). The recommendation has to be presented for the Board's consideration for it to examine possible ways in which it could conduct self-evaluation.

108. The Audit Committee stated that an adhoc working group from within the Board could be formed to evaluate annually the CEO's performance. The Audit Committee has agreed to undertake self-evaluation. However, the Board's report of the fifty-fourth session did not comment on this recommendation. OIOS considers recommendation 12 to be in progress and will hold the recommendation open pending receipt of information showing that a performance evaluation mechanism has been established and is operational.

D. Review of the Fund's Regulations and Rules

109. The Regulations and Rules of the UNJSPF are approved by the UN General Assembly. Amendments to the Regulations are recommended by the Pension Board from time to time and are approved by the General Assembly after consultation with the Board. These Regulations and Rules provide a legal framework for the administration of the Fund and operational guidelines for the governing bodies. The Regulations and Rules have been regularly amended as approved by the General Assembly based on consultation and recommendations by the Board. The most recent publication of the Regulations and Rules is set out in JSPB/G.4/Rev.16 of 1 January 2002. In addition, a soft copy of the UNJSPF Regulations and Rules is available on the UNJSPF website.

110. As shown in Annex II, OIOS noted that the UNJSPF's policies and practices generally conformed to "better principles and practices guidelines" such as those: (i) published by the Organization for Economic Co-operation and Development (OECD), which have been recognized as a proponent of good corporate governance, and (ii) practices used by comparator organizations including the World Bank and the International Monetary Fund.

111. However, both the hard and soft copies are not always up to date. For instance, at the time of the review, the current electronic copy (in the Fund's website) did not contain an updated list of all member organizations, even if the information can be found elsewhere from the website. In addition, the document on the Website is a portable document format (PDF) scanned copy of the hard copy, which does not allow easy updating. Today's technology allows for much more flexibility and there would be merit in changing the presentation format of the Regulations and Rules documents in the website to facilitate (i) centralized

editing and updating by authorized individuals and (ii) links to other sections of the document or with other documents in the website.

112. The UNJSPF Secretariat has also developed the Knowledge Management System (KMS), which is a central repository database of the Fund's information and documents. KMS is intended to meet the Fund's challenges to its institutional memory as the Fund is faced with increasing information retrieval needs and periodic changes to its Regulations and Rules.

113. OIOS acknowledges the efforts of the governing bodies to continuously review the UNJSPF Regulations and Rules, especially in view of the changing demographics and dynamic environment of the Fund. In OIOS' view, such reviews are important as they ensure that the regulations and rules are not subjected to different interpretations. OIOS also notes that the Board at its 2006 meeting requested the CEO to propose a new Administrative Rule endorsing the established practice to use the UN Financial Regulations and Rules to the fullest extent possible, and to be guided by the financial rules set forth in an annex to the Administrative Rules where the UN Financial Regulations and Rules are not appropriate for the Fund's administration of contributions and benefit payments and other matters specified by the Board.

114. OIOS opines that since this provision would provide the Board with the authority to establish the Fund's own financial regulations and rules, there is a need for the Board to consult with the UN Controller and the Fund's internal and external auditors on whether such prospective regulations and rules are in accordance with the internal control standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), and with the International Public Sector Accounting Standards (IPSAS).

Recommendation 13

(13) OIOS recommends that the UNJSPF Secretariat consult with the UN Controller and the Fund's internal and external auditors when promulgating the Fund's own financial regulations and rules, to obtain assurance that they are in accordance with established internal control standards and the International Public Sector Accounting Standards.

115. *UNJSPF management accepted recommendation 13. The Fund's management will, as requested by the Board, be presenting a new Administrative Rule for the Fund endorsing the established practice, as adopted by the Board and approved by the General Assembly, to use the United Nations Financial Regulations and Rules in the administration of the Fund's financial management and operations, to the fullest extent possible, and where the UNJSPF deviates to be guided by the financial rules which will be set forth in an annex to the Administrative Rules. In so doing, the Fund will work with the UN Controller and the auditors. As regards the usage of IPSAS, the Fund's Chief of Financial Services is a member of the UN's Focus Group on the issue and will be fully involved in the adoption of IPSAS by the UN for the preparation of its Financial Statements in 2010. Any changes required in the document being presented to*

the Board in 2007 on the Fund's Financial Regulations and Rules will be amended subsequently for submission to the Board as and when required, taking into account appropriate IPSAS recommendations.

116. *The Board commented on the Fund secretariat's proposed new Administrative Rule A.2 to be added to Section A which would be renamed "UNJSPF Administrative Manual and Financial Rules". The Board noted that although the United Nations intended to adopt IPSAS after 2010, other organizations intended to move to IPSAS before that time. The Board further noted that under the IPSAS approach, if no appropriate standard exists within IPSAS, then an entity should default to the relevant part of the International Financial Reporting Standards(IFRS), and therefore, the Fund might find itself reporting under IFRS as derived through IPSAS. The Board affirmed the substance of the proposed Administrative Rule, but decided to defer its approval to a later stage.*

117. Recommendation 13 remains open pending the development and implementation of the Fund's Financial Rules.

Chronology of changes to the Fund's Regulations and Rules

118. The Fund informed OIOS that the changes made in the UNJSPF Regulations and Rules as approved by the General Assembly are generally included as an annex in the CEO's annual letter. Recommendations to the General Assembly for amendments to the Regulations and Rules of the Fund and a description of amendments to the Fund's Rules of Procedure are included as annexes in the session reports of the Pension Board.

119. To ensure that the rules are maintained efficiently, OIOS is of the view that there is a need for the UNJSPF to establish a chronology of official changes to its Regulations and Rules in a single document indicating the effective date of the change, the author, GA Resolution number, previous text, revised text, marking any deletion or addition to provide a comprehensive record of the history of the changes made for easy reference. Also, amended and replaced Regulations or Rules should be linked to previous rules in order to provide a legislative history of the changes.

Recommendations 14 and 15

OIOS recommends that UNJSPF management:

(14) Format Regulations and Rules documents in the UNJSPF Website in a manner that would facilitate centralized updating by an authorized individual, and provide links to other sections and documents contained in the Website; and

(15) Establish a chronology of amendments to the UNJSPF Regulations and Rules in one master document, in

the Knowledge Management System for example, for ready reference and to provide a legislative history of the changes.

120. *UNJSPF management indicated that it is not clear how these recommendations relate to governance. However, recommendation 14 has been partially implemented. The Fund has a General Procedure which is strictly followed whenever information in the website is changed or updated. Only authorized personnel can update any information regarding the Regulations and Rules and within Information Management and Support Service (IMSS) the functions are centralized. Whether to provide a word version or a more secure PDF version in the website does not affect the internal procedure nor facilitate the process of changing data. The Fund's management accepts the part of the recommendation which concerns possible links to other sections and documents and will address the issue in light of available resources and other priorities.*

121. *UNJSPF management accepted recommendation 15 but did not indicate an implementation date. The Fund's Knowledge Management System contains all historical data regarding the Regulations and Rules. However, to build one master document, which would provide the legislative history of changes to the Rules, will require additional, dedicated resources for that purpose. In the current circumstances, with limited resources and much more compelling operational requirements, it is clearly not the UNJSPF management's highest priority.*

122. OIOS reiterates that the Fund's Regulations and Rules, which represent the underlying basis of governance, should provide a legislative trail and accurately reflect the current provisions for purposes of decision making and institutional memory. Recommendations 14 and 15 will remain open pending receipt and review of documentation showing that they have been implemented.

E. Risk Management

123. The UNJSPF faces a variety of risks, the most critical of these being the long-term ageing of both retirees and their beneficiaries. This and other risks faced by the Fund are often outside the control of UNJSPF management. However these risks have to be addressed and managed.

124. Since 2002, the UNJSPF has produced a series of documents that establish the guiding principles and management objectives that govern the Fund's operations. Periodic actuarial reviews, which assess the Fund's ability to meet its long-term financial obligations, also help to address these risks. In addition, OIOS engaged Pricewaterhouse Coopers to undertake a comprehensive risk assessment of the Fund. Among other things, the risk assessment was designed to assist the internal audit activity in prioritizing risk areas and conducting audits aimed at improving the Fund's internal control mechanisms in high risk areas.

125. UNJSPF management as part of its efforts to strengthen corporate governance has established an Enterprise-wide Risk Management Policy, which the Pension Board reviewed during its July 2006 meeting. Also, OIOS welcomes

the initiative to create a Risk and Compliance Section within IMS, as this will enhance the Fund's objective of monitoring and improving the security, safety and compliance with investment policies in managing the Fund's assets.

126. In OIOS' view, in addition to the steps discussed above, a more proactive risk management approach should be adopted by UNJSPF management. Such an approach could involve a system of control self-assessment whereby each business unit within the Fund addresses, on a comprehensive basis, its own approach to controlling business risks and associated controls. Ultimately, the Pension Board should regularly review the key risks identified by senior management and consider the extent to which the risk mitigation controls in place and introduced by UNJSPF management address those risks. These functions could be periodically reviewed by the newly established Audit Committee.

Recommendation 16

(16) OIOS recommends that, as part of its internal control framework, the Pension Board adopt a more proactive risk management approach by assigning to the Audit Committee the responsibility to periodically review the key risks identified by senior management and consider the extent to which they have been addressed. The Board may also wish to include risk management as one of the agenda items for deliberation by the Board.

127. *UNJSPF management supported recommendation 16, indicating that it has been implemented. The terms of reference of the Audit Committee include risk management for all Fund activities, including investment management (Section 4.1- Authority). Furthermore, the Pension Board, during its 53rd session, considered the UNJSPF Enterprise-wide Risk Management (EWRM) Policy document and endorsed the policy. The Board has become increasingly keen and sensitive on enhanced governance mechanisms and risk management and it is likely that the item remains on the Board's agenda in the future.*

128. OIOS has noted that the Report of the Board on the 53rd Session and the terms of reference of the Audit Committee indicate that the Committee is responsible for overseeing risk management for all activities of the Fund, and that it will report to the Board on such activities. OIOS has closed recommendation 16.

F. Code of Ethics and Financial Disclosures

129. The maintenance of a code of ethics is a standard practice among public pension funds. OIOS research indicated that over 70 per cent of public pension funds use a code of ethics. The code of ethics should set out specific conduct requirements and provide information on issues of judgment within the workplace and when staff deal with external parties. The code should cover issues such as conflicts of interest, official misconduct and neglect of duty, improper use of information and care, skill and diligence obligations.

130. The UNJSPF does not maintain its own code of ethics but rather adheres to the United Nations Code of Conduct. In addition, the procedures of the Investment Management Service call for adherence to ethical standards established by the Association for Investment Management and Research, now called the Chartered Financial Analysts (CFA) Institute, which covers many of the issues that would normally be covered by a Pension Fund-specific Code of Ethics such as relationships with third party service providers for example brokers and investment disclosures. Moreover, ST/SGB/2006/6 requires certain UNJSPF staff including all staff members in the Investment management Service to file an annual financial disclosure statement or declaration of interest statement.

131. The UNJSPF management has made efforts to raise awareness of the UN Code of Conduct among its staff and recently held a town hall meeting on the Code of Conduct. It has also provided training to staff on appropriate ethical standards. In OIOS' view, the Fund should continue to be proactive in providing training on the Code of Conduct and the CFA standards and should include this training in its orientation processes for new staff members.

G. Tax Exempt Status of the Fund

132. As a United Nations entity, the Fund is considered to be a tax exempt organization. Nevertheless, it decided to register with the United States Internal Revenue Service (IRS) and received a Determination Letter as a qualified plan in 1977. Since that time, the Fund has not filed any documents or reports with the IRS. The recent risk assessment conducted by Price Waterhouse Coopers indicated that other international organizations domiciled in the United States have complied with certain IRS rules applicable to qualified plans, but judged the overall risk of noncompliance to be low (remote likelihood and low impact). OIOS acknowledges the fact that there is no federal or state tax withholding requirement for U.S. beneficiaries and that no participant year end reporting is made to the IRS. The main risk the Fund faces in the event of its loss of status as a qualified plan under U.S. law would be that contributions made to the plan by United Nations organizations would be taxable income to staff members who are U.S. nationals and resident aliens. However, under the current arrangements with the United Nations Tax Equalization Fund, these taxes would be reimbursed to the staff members.

Recommendation 17

(17) OIOS recommends that the UNJSPF management in consultation with the United Nations Office of Legal Affairs, assess whether there is need to update the United States IRS Determination Letter and voluntarily comply with the rules applicable to qualified pension plan.

133. *UNJSPF management is of the view that recommendation 17 is not about governance and seems to be misplaced. The Fund's views were extensively debated during the risk assessment study and - as then indicated - the fact that*

the most recent IRS Determination Letter was issued in 1977 has not been a problem. If the issue did arise, the US State Department would be contacted. As the UNJSPF is a subsidiary organ of the United Nations, it enjoys exactly the same privileges and immunities from national jurisdiction as the United Nations Organization. The Fund understands that there is no tax reporting in any jurisdiction. Generally, the UNJSPF comes under the umbrella of the United Nations as regards tax exemption status.

134. In the view of OIOS, although the risk is low, this is a compliance issue which OIOS is obligated to bring to the Board's attention. Implicit in the Fund's action of 1977 to register with the IRS was a commitment to voluntarily comply with the requirements, as a qualified plan policy. Therefore, unless a policy decision is taken otherwise, the Fund would be expected to meet the requirements of the IRS. OIOS research, carried out as part of the audit, confirmed, as stated in the 2005 comprehensive risk assessment, that other international organizations domiciled in the United States have registered as qualified plans and voluntarily comply with the related IRS requirements.

135. *In relation to the recommendation of assessing the need to update the United States IRS Determination Letter, the Board recognized that the current arrangement provides certain tax exemptions for US nationals and resident aliens and concluded that no action is required at this time.* Based on the policy position taken by the Board, recommendation 17 has been closed.

H. Holding of Pension Fund Assets in Trust

136. The Trust is the legal document that establishes a pension fund as a legal entity and governs the fund's internal operations and activities. OIOS' discussions with officials of the World Bank indicated that it has established a Retirement Trust (Trust) whereby the Bank serves as Trustee of the Staff Retirement Plan. All contributions and all other assets, property, funds and income of the Plan are transferred to the Trust and held, administered and maintained by the Trustee, in trust, separately from the Trustee's other property and assets, solely to provide the benefits and pay the expenses of the Plan. The formal Trust document spells out the Trustee's management powers, the responsibilities of persons dealing with the Trust Fund, the accounts to be maintained and procedures for reimbursing administrative expenses incurred.

137. The assets of the Fund are held in the name of the United Nations, but are separated from other UN assets, on behalf of the participants and beneficiaries of the UNJSPF, in accordance with Article 18 of the UNJSPF Regulations and Rules which states that; "the assets shall be the property of the Fund and shall be acquired, deposited and held in the name of the United Nations, separately from the assets of the United Nations on behalf of the participants and beneficiaries of the Fund." However, there is no formal Trust document between the United Nations and the UNJSPF in this regard.

Recommendation 18

(18) OIOS recommends that the UNJSPF management, in consultation with the United Nations Office of Legal Affairs, determine whether there is a need to establish a formal Trust between the United Nations and the Pension Fund to protect the interests of the participants, retirees and their beneficiaries.

138. *The management of both the Fund's Secretariat and Investment Management Service did not support this recommendation, stating that the recommendation is superfluous and is not accepted by the Fund's management. Firstly, the United Nations General Assembly has by its resolution established the United Nations Joint Staff Pension Fund, as a legal entity and a subsidiary organ of the Organization. Furthermore, the GA adopted the UNJSPF Regulations by resolution 248 (III), effective 23 January 1949. These Regulations and Rules govern the Fund's internal operations and activities and the 21 member organizations (who report and collect pension contributions to the Fund) accept the Regulations, including Fund's governance structure, and the UNAT jurisdiction at the time they join the Fund. This has proven to be a sufficient legal framework for the Fund.*

139. *Article 18, among others, define the roles, responsibilities and duties of the Secretary-General, the Pension Board and the Secretary/CEO of the Board with respect to the investment of the assets and the administration of the Fund. The Regulations have remained essentially unchanged over 50 years with regard to the specification of such duties and responsibilities. It is the view of the UNJSPF management that article 18 provides adequately for the clear separation of assets and therefore serves the purpose as a formal "Trust" document.*

140. *The Secretary-General's fiduciary responsibility to the Fund's participants and beneficiaries has been reiterated several times by the Board and the UN General Assembly. In addition, the Office of Legal Affairs has issued several opinions regarding the Secretary-General's (as a fiduciary to the interests of participants and beneficiaries) possibility to delegate to sub-agents his duties and responsibilities. There has never been any problem with regard to following the principles of "asset protection" given the legal framework of the UNJSPF Regulations and the GA resolutions, in which the Secretary-General operates. Furthermore, current custody arrangements provide adequate safekeeping of the assets of the Fund.*

141. *Therefore, OIOS has not presented enough grounds to propose consideration of such an instrument, unknown to the operations between two UN entities which both, ultimately, report to the same legislative body.*

142. *The Board noted that the audit report recommended assessing the convenience of establishing a formal Trust between the United Nations and the Pension Fund to protect the interest of participants, retirees and their beneficiaries. In this respect, the Board recalled that the United Nations Joint*

Staff Pension Fund was established as a subsidiary organ of the UN General Assembly whose assets are held separately from those of the UN or any other member organization and on behalf of the participants and beneficiaries. Furthermore, the Board considered that the current arrangement provides adequate legal, financial and operational security for the Fund's assets and that it would not be practical or necessary to establish a second level of Trust arrangements.

143. Based on the decision of the Board, and its determination that the current arrangements provide for adequate security of the Fund's assets, recommendation 18 has been closed.

I. Proxy Voting Guidelines

144. It is considered a best practice for pension funds to propagate good corporate governance in the companies in which they have an equity holding, through the exercise of proxy voting rights. Pension funds may also actively coordinate with other large investors on issues which are subject to shareholder votes. In 1988, the United States Department of Labor placed pension plan trustees on notice that proxy voting rights must be diligently exercised as an aspect of their fiduciary duties. In this regard many pension plans have developed clear proxy voting guidelines.

145. The Investment Management Service is responsible for exercising proxy votes for those companies in which they have significant equity holdings. In August 2005, IMS included in guidelines on proxy voting the revised IMS Investment Manual. While these guidelines appear to be appropriate, OIOS notes that they were not presented to the Pension Board for its review and approval.

Recommendation 19

(19) OIOS recommends that the Investment Management Service present the proxy voting guidelines to the Pension Board for its review and approval.

146. *UNJSPF management partially accepted recommendation 19. The UNJSPF management believes that rather than limiting itself to an isolated issue of proxy voting guidelines, a comprehensive Investment Policy should be developed and presented to the Secretary-General, the Board and the General Assembly.*

147. *IMS management did not indicate its acceptance or non-acceptance of this recommendation, but disagreed with UNJSPF management that a comprehensive investment policy should be developed, stating that this requirement would conflict with the provisions of the Regulations, Rules and Pension Adjustment System of the UNJSPF, Article 19 (a) that the Investment of the assets of the Fund shall be decided upon by the Secretary General after consultation with an Investment Committee and in the light of observations and suggestions made from time to time by the Board on the investment policy. It should also be noted that under present arrangements, IMS already presents*

proxy voting guidelines to the RSG so he may fulfill his duties under Article 19(a).

148. *The Board noted with satisfaction that the recommendation relative to the approval of proxy voting guidelines will be implemented with the presentation by the RSG to the Board during its 2008 session of the comprehensive investment policy, which will consider these guidelines among other key elements.*

149. OIOS acknowledges the current practice of providing proxy voting guidelines to the RSG but reiterates the need for the Board to approve such guidelines. OIOS clarifies that the requirement for a comprehensive investment policy, as proposed by the Fund Secretariat, was not a part of this recommendation, but is welcomed. Recommendation 19 remains open pending receipt of information showing that the proxy voting guidelines have been approved by the Board and implemented.

J. Information and Communication

150. Participants and beneficiaries have an expectation of easy retrieval and availability of information pertaining to the Fund. The Fund makes use of modern technology to make this information available. The UNJSPF, for example, utilizes the World Wide Web (www.unjspf.org) to facilitate more timely distribution of information. The CEO's Annual Letter, which includes pertinent Fund operations information and financial disclosures, is posted in the website as soon as it is published.

151. In addition, the website contains several publications and documents which provide useful information to the Fund's stakeholders. The "most frequently asked questions" posted in the Fund's website also address some of the more pressing issues affecting the Fund. In OIOS' view, the KMS database referred to in paragraph 61 of this report, once fully developed, will greatly enhance data retrieval for authorized users. OIOS further acknowledges the Fund's effort to provide information to participants using simplified brochures.

152. The Fund's communications with the stakeholders could be further improved through the issuance of a summary of the governance principles and mechanisms in the UNJSPF Website. Best practices call for the provision of public information on an organization's governance processes in a dedicated corporate governance information section of the official website. The Fund's annual report could also include a section on corporate governance issues. The research of OIOS indicated that, increasingly, boards are requiring senior management to provide a governance report along with regular activity reports.

Recommendation 20

(20) OIOS recommends that the Pension Board consider:
(i) adopting a statement on governance principles for publication in conjunction with a summary of the governance mechanisms in the UNJSPF Website; and (ii)

requiring UNJSPF management to report on governance issues along with the Fund's regular activity reports.

153. *UNJSPF management indicated that recommendation 20 had to be referred to the Board for comments. It is the view of the Fund's management that the internal auditors should review the organization's governance structure, and related issues, from time to time.*

154. OIOS acknowledges UNJSPF management's comments, but reiterates its view that the Fund's management, as part of its internal control framework, should regularly report to the Board on governance issues. OIOS has not received any comments from the Audit Committee or the Pension Board on this recommendation. Recommendation 20 remains open pending receipt and evaluation of the Pension Board and Audit Committee's comments concerning this recommendation.

V. ACKNOWLEDGEMENT

155. OIOS wishes to express its appreciation to the United Nations Joint Staff Pension Board and Committee Members who participated in interviews, the Audit Committee as well as the Fund's Secretariat and Investment Management Service for the assistance and cooperation extended to the auditors during this assignment.

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/ O¹	Actions needed to close recommendation	Implementation date²
01	C	Closed.	July 2006
02	C	Closed.	July 2006
03	C	Closed.	July 2007
04	C	Closed.	July 2006
05	C	Closed.	July 2007
06	O	Receipt of documentation showing that UNJSPF management has implemented the Committee's recommendation, to start using full interim financial reports annually.	Not provided
07	O	Receipt of documentation showing that the internal audit function has been included by reference in the Fund's Financial Regulations and Rules when developed.	Not provided
08	O	Receipt of documentation on the conclusion reached by the Board and/or Audit Committee with regard to the independence of the internal auditors of the Fund and the appropriate modification of the Audit Charter.	Not provided
09	O	Receipt of notification of the Board's decision on whether to change the method for funding the portfolio management fees for discretionary investment advisors.	Not provided
10	C	Closed.	July 2007
11	C	Closed.	July 2007
12	O	Receipt of documentation showing that a performance evaluation mechanism has been established.	Not provided
13	O	Pending the development and implementation of the Fund's Financial Rules.	Not provided
14	O	Receipt of documentation showing that the recommendation has been implemented.	Not provided
15	O	Receipt of documentation showing that the recommendation has been implemented.	Not provided
16	C	Closed.	July 2006
17	C	Closed.	July 2007
18	C	Closed.	July 2007
19	O	Receipt of information showing that the proxy voting guidelines have been approved by the Board and implemented.	Not provided
20	O	Receipt and evaluation of the Pension Board and Audit Committee's comments concerning the recommendation.	Not provided

1. C = closed, O = open

2. Date provided by [client] in response to recommendations. [Insert "Not provided" where date is not provided; "Implemented" where recommendation is closed; (date) given by the client.]

ANNEX II

Comparison of UNJSPF governance mechanisms to good pension fund governance practices

Audit Area	Good Practice	UNJSPF
Identification of responsibilities	<ul style="list-style-type: none"> ▪ Clear assignment of operational and oversight responsibilities. ▪ Plan sponsor normally chooses the governing body or appoints at least some of the members. ▪ The objectives of the fund should be clearly stated in the fund's regulations. ▪ Delegation of Authority and Terms of Reference of the governing bodies, Committees and Working Groups should be documented. 	<ul style="list-style-type: none"> ✓ Operational responsibilities of the CEO and Representative of the Secretary-General as well as the oversight responsibilities of the Board and the General Assembly are clearly established. ✓ General Assembly and governing bodies of other member organizations elect members to the board. ✓ Objectives of the Fund are stated in the Regulations under "Scope and Purpose of the Fund". ✓ Authority Delegated including that to the Representative of the Secretary-General well documented. ✓ Terms of Reference of the governing bodies are generally well documented. ✗ Terms of Reference of the working group for review of budget issues should be documented.
Governing bodies	<ul style="list-style-type: none"> ▪ Pension fund has an administrator with power to administer the pension fund and who is ultimately responsible for ensuring adherence to regulations in the best interest of plan members and beneficiaries ▪ Main responsibilities include: <ul style="list-style-type: none"> ○ monitoring administration of the fund, ○ selecting and replacing staff with operational responsibilities ▪ The Board should be served by experts and other committees that will enable it perform its functions adequately. ▪ Structure the Board to add value by having an effective composition and size. An effective board is one that facilitates the efficient discharge of the duties and adds value in the context of the particular firm's circumstances 	<ul style="list-style-type: none"> ✗ Although the fund has a governing body (the Board), there is no overall fiduciary responsible for overseeing the Fund. This role is split between the Board and the Secretary-General. ✗ Administration is monitored by the Board, but investment monitoring is the responsibility of the Secretary-General ✓ Board recommends the CEO and Deputy CEO; Secretary-General appoints the Representative for the Investments of the Fund. ✓ Board served by Committee of Actuaries, Investments Committee, and the newly established Audit Committee. ✓ Audit Committee in the process of being established. ✓ Working Group Constituted to review the size and composition of the Board; final report presented and deliberated at the 2006 Board meeting
Expert advice	<ul style="list-style-type: none"> ▪ The governing body should seek expert advice where it 	<ul style="list-style-type: none"> ✓ Expert advice is obtained from the Committee of Actuaries, the Investments Committee,

Comparison of UNJSPF governance mechanisms to good pension fund governance practices

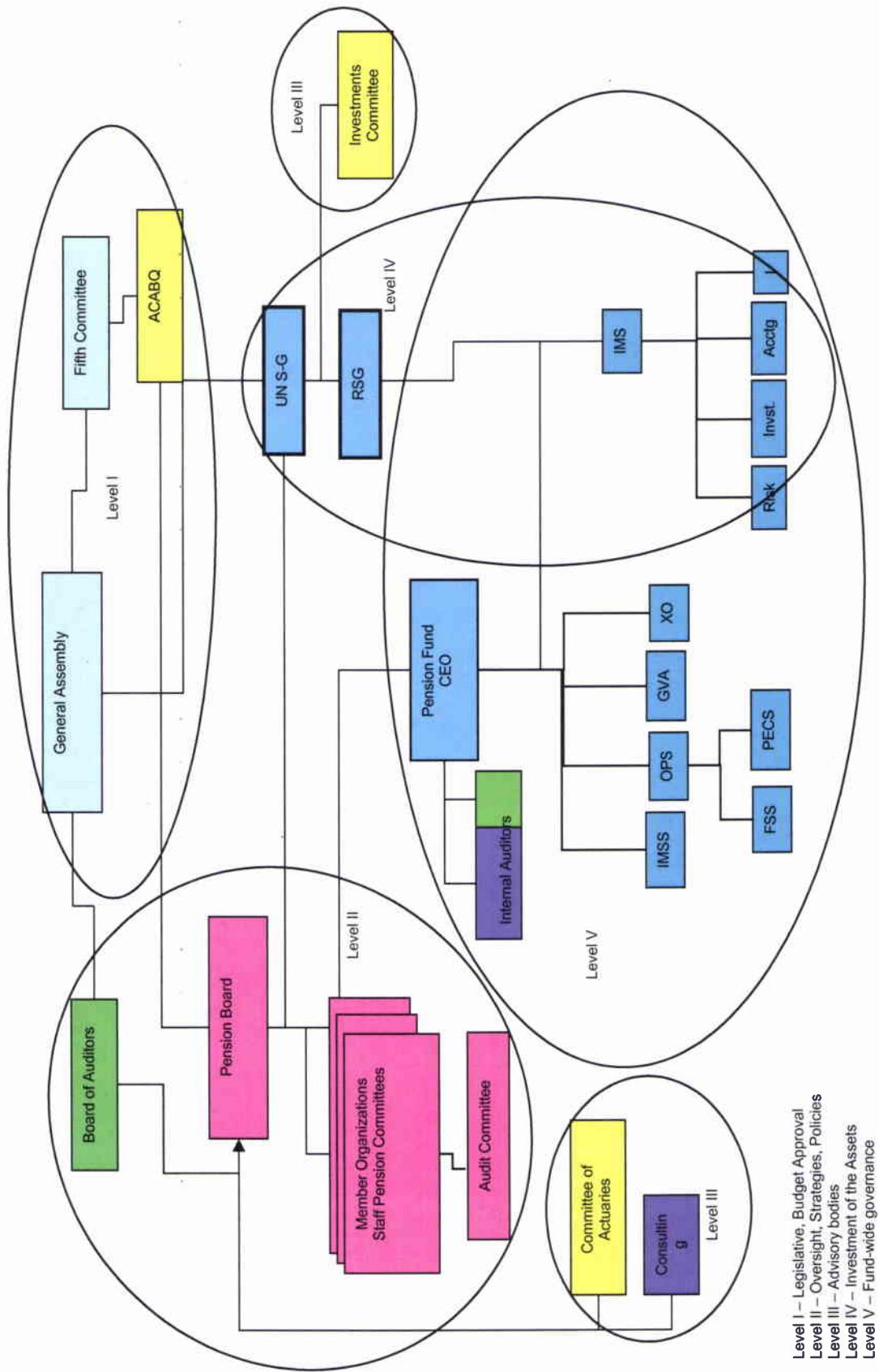
Audit Area	Good Practice	UNJSPF
	lacks sufficient expertise	Medical Consultant and external Working Groups and third party providers.
Auditor	<ul style="list-style-type: none"> ▪ An auditor, independent of the pension entity, governing body and plan sponsor to ensure impartiality should carry out periodic audits 	<ul style="list-style-type: none"> ✓ Audit Committee established by the Board in 2006. ✓ The Board of Auditors, which conducts annual external financial audits, is appointed by the General Assembly, which is also the plan sponsor. ✗ OIOS provides oversight services to the Investment Management Service and internal audit services to the Fund Secretariat. OIOS' independence is hampered by the terms of reference of the Internal Audit Charter of the Fund.
Actuary	<ul style="list-style-type: none"> ▪ The governing body should appoint an actuary to provide an evaluation of the fund's present and future liabilities 	<ul style="list-style-type: none"> ✓ The Fund's consulting actuary performs an actuarial evaluation every two years, the latest as of 31 December 2005, and the Board is advised by a Committee of Actuaries.
Custodian	<ul style="list-style-type: none"> ▪ An independent custodian safeguards the legal and physical integrity of the pension fund assets. 	<ul style="list-style-type: none"> ✗ The Fund recently consolidated its asset holdings with one independent custodian and master record keeper. OIOS plans to audit the new arrangements in 2007.
Accountability	<ul style="list-style-type: none"> ▪ The governing body should be accountable to the pension plan members, beneficiaries and competent authorities. To guarantee accountability, the governing body should be liable for its actions. ▪ Accountability includes <ul style="list-style-type: none"> ○ Regular meetings of the governing bodies ○ Decision making on a majority basis ○ Appropriate disclosure of the decisions reached in meetings to plan members and beneficiaries ○ Transparent selection mechanisms for the members of the governing bodies ○ Succession planning for board members 	<ul style="list-style-type: none"> ✓ Board members are accountable to their constituent groups and to the Staff Pension Committee. ✓ Meetings are held regularly by the Board and the Standing Committee. The Board decided in 2006 to hold annual, rather than biennial meetings. ✓ Board decisions are normally reached by consensus, but in 2006, a decision was put to a vote on investment matters. ✓ Board decisions communicated to participants by participant representatives; major decisions and amendments to the Fund's Regulations and Rules communicated to participants and beneficiaries in the CEO's annual letter. ✓ Well established mechanisms for the appointment/ election on Board and Committee members ✓ Succession planning subject to re-appointment/re-election by the constituent groups
Suitability	<ul style="list-style-type: none"> ▪ It is desirable for members of the Pension Fund's governing body to have sufficient knowledge and experience to be able to understand the decisions of the 	<ul style="list-style-type: none"> ✗ The Fund's Regulations and Rules do not provide criteria as to the required expertise or experience of members of the Pension Board and its subcommittees.

Comparison of UNJSPF governance mechanisms to good pension fund governance practices

Audit Area	Good Practice	UNJSPF
Internal Controls and Risk Management	<ul style="list-style-type: none"> ▪ There should be appropriate internal controls to ensure that all persons with operational and oversight responsibilities act in accordance with pension fund regulations. These internal controls will include: <ul style="list-style-type: none"> ○ Regular performance assessment of persons involved in the operation and oversight of the fund. ○ Identification, monitoring and correction of conflicts of interest ○ Implementation of an adequate risk measurement and management system including effective system of internal controls. 	<ul style="list-style-type: none"> ✗ The Board does not assess its own performance or that of its members. ✓ United Nations Code of Conduct applies to all UNJSPF staff and staff has received training in this area. ✓ Specialized Code of Ethics applies to staff of the Investment Management Service and financial disclosures required by all IMS staff.
Reporting	<ul style="list-style-type: none"> ▪ Reporting channels between all the person and entities involved in the administration of the pension fund should be established in order to ensure effective and timely transmission of relevant and accurate information 	<ul style="list-style-type: none"> ✗ Consultation and coordination between the CEO and the Representative of the Secretary-General for the investments of the UNJSPF could be improved.
Disclosure	<ul style="list-style-type: none"> ▪ Members of the governing body should receive appropriate, timely, accurate and complete information to that they can discharge their responsibilities effectively. ▪ The governing body should disclose relevant information to all parties involved in a clear, accurate and timely fashion. 	<ul style="list-style-type: none"> ✗ Until 2006, Board meetings only took place every two years with a Standing Committee meeting in the intervening years. In 2006, the Board decided to meet annually and to initially hold abbreviated meetings. ✓ The Secretariat to the Board has established a Communication Policy? ✓ The Board reports annually to the General Assembly.
Redress	<ul style="list-style-type: none"> ▪ Material changes in plan details should be reported to pension plan members in a timely manner. ▪ Pension plan members and beneficiaries should be granted access to statutory redress mechanisms that assure prompt redress 	<ul style="list-style-type: none"> ✓ The Administrative Tribunal of the United Nations provides members and beneficiaries with a redress mechanism.

UNJSPF Governance Structure

ANNEX III



Level I – Legislative, Budget Approval
 Level II – Oversight, Strategies, Policies
 Level III – Advisory bodies
 Level IV – Investment of the Assets
 Level V – Fund-wide governance