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Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board,[1] including the report of the Board of Auditors on the accounts of the Fund for the biennium ended 31 December 2005. The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and steps and efforts undertaken to increase the diversification of the Fund (A/C.5/61/2) and a note by the Secretary-General on the membership of the Investment Committee. During its consideration of those matters, the Committee met with the Chairman of the Pension Board, the Representative of the Secretary-General and the Chief Executive Officer of the Pension Fund.

2. Recommendations and decisions of the Board at its fifty-third session that required action by the General Assembly are listed in paragraph 11 of the report of the Pension Board.[1] Paragraph 12 of the report contains information provided to the General Assembly on other action taken by the Board. **The Committee welcomes the fact that, in response to its previous recommendation (see A/59/447, para. 2), the report of the Pension Board has become more concise, straightforward and easier to read. At the same time, the Committee is of the view that there is room for further improvements in the format. Efforts should be made to not scatter information on the same subject matter in various parts of the report,[2] but rather should reflect it, as appropriate, under a particular part of the report**.

[1] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 9* (A/61/9).

[2] Ibid., paras. 69, 83, 246-249, for example, on the asset-liability management study.

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II. Actuarial matters

3. The Pension Board deals in paragraphs 16 to 59 of its report[1] with actuarial matters, including the results of the twenty-eighth actuarial valuation of the Fund, as at 31 December 2005. The previous valuation had been prepared as at 31 December 2003, and its results were reported to the General Assembly at its fifty-ninth session in 2004. The actuarial valuation determines whether the present and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

4. As indicated in the report, in projecting future developments, three sets of economic and participant growth assumptions were used, in various combinations. No changes were made in the assumptions for the real rate of return on investments, inflation or real salary increase. The participant growth assumptions were changed from those used in the previous three valuations to provide for modest growth.

5. The results of the twenty-eighth valuation showed an actuarial surplus of 1.29 per cent of pensionable remuneration, or $2,760.1 million in dollar terms, showing the fifth consecutive positive actuarial result over the past decade.[3] The Committee was provided with a table showing the results of the actuarial valuations of the Fund since 1978 both in absolute terms and as a percentage of projected liabilities (see annex I below). Based on the results of the regular valuation, the Pension Board agreed with the view of the Committee of Actuaries that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan.[4] **The Advisory Committee reiterates its previous view and agrees with the Committee of Actuaries that the present contribution rate of 23.7 per cent should be retained. In this connection, the Advisory Committee again recalls the provisions of General Assembly resolution 53/210 of 18 December 1998 that the Pension Board should continue to monitor closely the evolution of the actuarial valuation of the Pension Fund and that no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a consistent pattern of surpluses emerges in future valuations**.

6. Monitoring of costs of modifications of the two-track feature of the Pension Adjustment System is discussed in paragraphs 49 to 59 of the report.[1] The Committee notes that the Board agreed that no changes would be needed at this time but the relevant actuarial implications would continue to be monitored in conjunction with the actuarial valuations.

III. Investments of the United Nations Joint Staff Pension Fund

7. For the reporting period, the market value of the Fund's assets increased to $33,118 million on 31 March 2006 from $26,589 million on 31 March 2004, an increase of $6,529 million, or 24.6 per cent. The Committee was informed that the market value of the assets was estimated at approximately $34 billion as at 30 September 2006. As indicated in the report, during the biennium, the Fund achieved its target of 3.5 per cent of real rate of return with 11.8 per cent nominal return.

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[3] Ibid., para. 29, table 4, and para. 30, table 5.
[4] Ibid., para 38.

8. The Committee observes that, on the basis of the recommendation of the Investments Committee, the Representative of the Secretary-General had decided, without prior consultation with the Board or the General Assembly, to adopt a new long-term strategic asset allocation in May 2005.[5] The new strategic asset allocation and the subsequent change in the Fund's performance benchmark were adopted. The new long-term strategic asset allocation was 60 per cent equities, 31 per cent bonds, 6 per cent real estate and 3 per cent cash and short-term investments. It was also decided that the short-term asset allocation could deviate within a range of +/-3 per cent from the long-term strategic asset allocation. The new benchmark was composed of 60 per cent Morgan Stanley Capital International All Country World Index (MSCIAC), 31 per cent Lehman Brothers Global Aggregate Index (LBGAI), 6 per cent NCREIF Property Index, and 3 per cent 91-Day USA Treasury Bill.

9. The Committee also observes that the benchmarks for individual asset classes were also modified from MSCI World, which does not include emerging markets, to MSCI All Country, in which emerging markets are represented to reflect the Fund's long-term commitment to these markets; the Fund's fixed income benchmark was also modified to reflect the Fund's long-term strategic exposure to other fixed income securities, such as corporate bonds in addition to government bonds.[6]

10. The Committee notes the finding by the Board of Auditors that the Fund needs to adopt a more systematic approach to asset-liability modelling as a foundation for its strategic asset allocation.[7] The Committee recalls that it had supported, in the context of its consideration of the Fund's budget proposal, funding for a comprehensive asset-liability management study, and the General Assembly, in its resolution 60/248, subsequently approved the funding.

11. The Committee observes that the asset-liability management study, which is aimed to assist in determining the Fund's strategic asset allocation among various asset classes, was expected to be started before the end of 2006 and completed in early 2007; the analysis of the study will be extensively discussed by the Investment Committee and the Committee of Actuaries, and any changes to investment policy will be decided by the Secretary-General after considering recommendations of the Investment Committee and the observations and suggestions of the Pension Board.[8] The Committee also notes that the Board of Auditors recommended that the Fund expedite the finalization of the asset-liability study.[9]

12. As indicated in paragraph 71 of the report of the Pension Board,[1] during the joint meeting with the Investments Committee, members of the Board raised a wide range of concerns and questions related, inter alia, to: the Fund's investments in some volatile markets and in emerging markets in general; investments in companies that produced goods or operated in countries that did not meet recommendations of the International Labour Organization or some other agencies; socially responsible investing; investments in companies that were providing services to the Investment Management Service; changes in the Fund's performance benchmarks; the Fund's new global custodian arrangement; peer group comparisons; reduction of the Fund's exposure to real estate; rationale behind adjusting the Fund's

[5] Ibid., para. 64.
[6] Ibid., para. 66.
[7] Ibid., annex XI, para. 53.
[8] Ibid., paras. 69, 246-249.
[9] Ibid., annex XI, para. 55.

nominal returns with the United States consumer price index when a large portion of the Fund's liabilities and almost half of its assets were outside the United States; whether the Fund's tax exemption status was taken into account in the performance numbers; the relation between the Fund's performance benchmark and the actuarial real rate of return requirement; and information to be gained from the forthcoming asset liability management study. Paragraphs 73 to 83 of the report[1] contain information on the questions and comments posed by the Board members.

13. The Committee observes that the Board took note of the Fund's new performance benchmark and requested that the Representative of the Secretary-General report back to the Board on any changes in the Fund's benchmarks that might result from the asset liability management study. **The Committee is concerned that the new benchmarks were not submitted to the Pension Board and the General Assembly for approval, as required by the Investment Manual (sect. III.A.1), which provides that the investment policies to be pursued by the Secretary-General with respect to the investments of the Fund are established by the General Assembly of the United Nations. The Committee agrees with the recommendation of the Board of Auditors that the Fund should submit the new investment benchmark to the Pension Board and the General Assembly for approval**.[10]

14. As indicated in paragraph 89 of the report,[1] in order to better control the Fund's risk relating to the Investment Management Service investment mandate and operations, the Representative of the Secretary-General recommended: (a) to increase the number of posts in the Investment Management Service by five; and (b) to index the North American equity portfolio whose universe corresponds to the MSCI US and MSCI Canada indices, rather than actively selecting stocks in order to seek to outperform the market. The Investments Committee endorsed the two recommendations by the Representative of the Secretary-General.

15. Paragraphs 92 to 95 of the report[1] outline the discussions in the Pension Board on changing the approach to managing the portfolio invested in North American equities from "active" to "passive" management whereby a portfolio is set up to track a specific benchmark index rather than trying to outperform it. As stated in paragraph 92, the reasoning behind the proposed indexing was the fact that the North American equity markets were extremely difficult to outperform and that it would reduce risks that relate to the attempt to outperform the market. The Committee notes from paragraph 94 of the report that the cost associated with indexing of the North American large capitalization equities would comprise a one-time transition cost of $1,250,000 and an annual indexation management fee of $695,000; there would also be cost reductions associated with indexation in the payment to the current investment adviser ($1.43 million) and commissions to brokers ($750,000). According to the Director of the Investment Management Service, the total net savings in adviser fees and reduced commission fees, partially offset by costs associated with indexing, would be $235,000 in the first year and $1,485,000 in subsequent years.

16. As reflected in paragraphs 96 and 97 of the report,[1] the Board was unable to reach a decision on the matter by consensus. The approval in respect to the passive management of the North American equities portfolio, as well as the ensuing

[10] Ibid., para. 48.

budgetary implications, was reached on the basis of a roll call vote, without the consent of the Participants' representatives.

17. **The Committee notes once again the good performance of the financial management of the Fund. While the Committee agrees, in principle, to the decision of the Board on the passive management of the North American equities portfolio, it recommends that this activity be undertaken by the Investment Management Service itself. The financial impact of this recommendation on resource requirements and cost reductions associated with the indexing of the North American equities portfolio referred to in paragraph 15 above should be provided to the General Assembly. Any decision to eventually outsource this activity should be taken only after a comprehensive review, with a clear presentation of the objectives, steps involved and a timetable for orderly implementation. The Committee is of the view that before further significant changes in investment policy are contemplated, the following measures should be taken**:

(a) **clear and convincing information should be presented to the Pension Board on interaction between the indexation of the Fund's North American stock portfolio, financial risks and asset allocation**;

(b) **a number of serious internal Investment Management Service management issues, as identified by the Board of Auditors, should be addressed, including determination of the level of tolerance of risk and improvement in internal review of performance and the trade order management system (see also paragraphs 28 and 29 below)**;

(c) **the comprehensive asset-liability management study, which has yet to commence, and a study of the Fund's governance, with special regard to the relationship between the Fund secretariat and the Investment Management Service, should be completed and the results thereof provided to the Board for consideration**;

(d) **all vacant Professional posts in the Investment Management Service should be expeditiously filled (see also para. 30 below)**.

18. **The Committee recommends that the consideration of any further significant change in the investment policy be deferred, pending action on the measures indicated in the paragraph above**.

19. Paragraphs 119 to 121 of the report[1] contain information on internal audit arrangements. Serious concern was expressed regarding the apparent confusion on the reporting lines for internal audit matters. The Pension Board reiterated that the established reporting lines for the Office of Internal Oversight Services vis-à-vis the Pension Fund were as follows: audits concerning operational activities of the Fund are first transmitted to the Chief Executive Officer, who reports thereon via the Pension Board to the General Assembly. Reports of the Office of Internal Oversight Services concerning the Fund's investments activities are submitted to the Secretary-General, through the Representative of the Secretary-General for the Investments of the Fund, and to the Chief Executive Officer of the Fund.

20. These reporting lines were incorporated into the Internal Audit Charter, where it is stated that if agreement is reached on the establishment of an Audit Committee, as recommended by the Board of Auditors, the reporting lines of the internal audit

function would then be adapted and the Internal Auditors would report to the Chief Executive Officer, the Representative of the Secretary-General for the Investments of the Fund and as appropriate, to the Audit Committee. The General Assembly, in its resolution 59/269, took note “with satisfaction of the approval of the United Nations Joint Staff Pension Board of an internal audit charter, which recognizes and incorporates policy changes for the Office of Internal Oversight Services of the Secretariat”.

21. The Advisory Committee notes from paragraph 96 (d) of the report[1] that the Board decided to recommend the establishment of an audit committee of the Board to provide an enhanced communications channel between the internal auditors, the external auditors and the Pension Board. **The Advisory Committee concurs with the Board on the reporting lines for internal audit matters and also draws attention to its previous observation that an audit committee should be composed of members with relevant experience in internal audit (see A/59/447, para. 16). It is critical that the audit committee be composed of members with relevant expertise in accounting, financial management, including risk management and audit. The Advisory Committee trusts that the full membership of the audit committee will be selected as soon as possible.** The terms of reference of the audit committee is contained in annex II to the present report. The Advisory Committee deals with the proposed resource requirements for the audit committee in paragraph 34 below.

IV. Membership of the Investments Committee

22. Article 20 of the regulations of the Fund provides that members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee, subject to confirmation by the General Assembly. The Secretary-General informed the Pension Board and the Advisory Committee that one long-serving member had informed him that he would no longer be available to serve on the Committee. The Secretary-General also conveyed to the Board and the Advisory Committee the names of two members of the Investments Committee whom he intended to propose to the Assembly for reappointment for an additional three-year term and the name of one new regular member proposed for appointment for three-year terms beginning on 1 January 2007. The Advisory Committee has communicated its concurrence to the Secretary-General.

23. The Advisory Committee observes that the Board approved an amendment to the Fund’s Rules of Procedure that provides for the appointment of ad hoc members to the Investments Committee and to the Committee of Actuaries; the Board also invited the Secretary-General, in cooperation with the United Nations Ethics Office, to establish procedures to ensure that there were no conflicts of interest in the appointments of the members of the Investments Committee.

V. Financial statements of the United Nations Joint Staff Pension Fund and report of the Board of Auditors

24. The Pension Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December

2005 and considered the report of the Board of Auditors on the accounts and operations of the Fund; the Board also considered a report on the internal audit of the Fund.[11] The examination of the report of the Board of Auditors by the Pension Board is reported on in paragraphs 122 to 128 of the report of the Pension Board.[1] The Committee notes that the Board of Auditors issued an unqualified audit opinion on the Fund's financial statements for the biennium ended 31 December 2005.

25. The report of the Board of Auditors covers matters that in its opinion should be brought to the attention of the Pension Board and the General Assembly.[12] The Advisory Committee observes that of a total of 23 recommendations for the biennium ended 31 December 2003, 12 recommendations were implemented, 7 were under implementation and 4 were not implemented; of the 4 not implemented, 2 were not accepted by the Board and 2 could not be implemented by the Fund.[13]. The Committee infers from paragraph 123 of the report[1] that the two recommendations that remain unimplemented relate to: (a) the reconciliation of the contributions receivable from member organizations; and (b) what were referred to globally as the "back office" functions within Investment Management Service.

26. The Committee recalls, in this connection, its previous recommendation that the reasons for not implementing a recommendation of the Board of Auditors be clearly stated both in the report of the Pension Board and in the communication from the administrations concerned (see A/57/490, para. 17). Although paragraph 124 of the report[1] contains information on the issue of reconciliation of contributions from member organizations and the back office functions, the Committee points out that it reflects comments and observations by the Board of Auditors rather than views of the administration of the Fund or those of the Pension Board. **The Committee reiterates its recommendation on the need to provide the reasons for not implementing the recommendation of the Board of Auditors. The Committee also points out that the issue of reconciliation of accounts with member organizations has been on the agenda of the Board of Auditors for too long and should be resolved without further delay. The Committee trusts that efforts of the administration of the Fund to develop consolidated information technology services will contribute to finding a successful solution to this issue. The Committee supports the Board's recommendation that the Fund, in coordination with United Nations agencies, reconcile on a periodic basis the contributions to the Fund and prepare monthly bank reconciliations in a timely manner and make the necessary adjustments to the accounts**.

27. In response to the request by the Committee (see A/60/387, para. 12), the Board evaluated the ageing of its previous recommendations and reported that of the 7 recommendations under implementation, 4 related to the 2002-2003 biennium and 3 to the 2000-2001 biennium.[1] **The Committee requests the Board to continue the evaluation**.

28. **The Committee notes with concern the observation of the Board of Auditors on lax performance monitoring by the Investment Management Service. As indicated in paragraph 52 of annex XI to the report of the Pension Board,[1] the Investment Management Service will need to improve its internal review of performance by: (a) monitoring performance at levels below asset**

[11] Ibid., para. 5.

[12] Ibid., annex XI, para. 5.

[13] Ibid., annex XI, paras. 7, 9, 31-37.

classes; (b) performing systematic retrospective reviews of the advice it receives; and (c) subjecting the performance of investment managers to regular, independent reviews.

29. The findings, recommendations and observations of the Board of Auditors with regard to compliance, risk management and back office functions of the administration of the investments of the Fund are contained in paragraphs 59 to 65 of annex XI to the report.[1] **The Committee is concerned about the observations and findings of the Board of Auditors on the trade order management system of the Investment Management Service and on the current organization of the Fund's back office and compliance function**. With regard to the latter, the Board observed that it presented serious risks for the Fund, as illustrated by two instances of error or non-compliance that were not identified in time, which resulted in a loss of $8.7 million. The Committee notes that no disciplinary action was taken against the individual involved. **The Committee notes with concern that the investment infrastructure of the Investment Management Service is still at the stage at which trade orders are placed by facsimile and there is no compliance monitoring system. The Committee trusts that urgent measures will be taken to bring the investment infrastructure of the Investment Management Service up to the industry standards**.

30. **The Committee further notes with concern that the Risk and Compliance Section of the Investment Management Service did not have any staff**. The Board was informed that the recruitment of a chief of risk management and compliance, as well as a compliance officer, would be carried out in 2006. **The Committee encourages the administration of the Investment Management Service to expeditiously implement the recommendation of the Board of Auditors with regard to the recruitment to the risk management and compliance officer positions**.

VI. Benefit provisions of the United Nations Joint Staff Pension Fund

31. Paragraphs 186 to 231 of the report of the Pension Board[1] contain information on benefit provisions of the Fund. The Committee notes that the Pension Board decided to: (a) recommend that as from 1 April 2007, the current reduction in the first consumer price index adjustment due under the Pension Adjustment System of the United Nations Joint Staff Pension Fund to benefits in award be reduced from 1.0 per cent to 0.5 per cent; and that a 0.5 per cent increase be applied on the occasion of the next adjustment to the benefits in payment to existing retirees and beneficiaries who have already had the 1.0 per cent reduction applied to their benefits; and (b) recommend implementation as from 1 April 2007 of its already approved 2002 recommendation to eliminate the limitation on the right to restoration for existing and future contributing participants, based on length of prior service. **The Committee recommends that the General Assembly approve the decisions of the Board**.

32. The Committee notes from paragraphs 195 to 197 of the report[1] that the Board considered a number of proposals for enhancements to the Pension Adjustment System of the Fund and requested the Chief Executive Officer to review the current arrangements regarding the periodicity of cost-of-living adjustments under the

Pension Adjustment System of the Fund and to carry out a review of the current provisions for special adjustments for small pensions, including the existing tables setting out the levels for special adjustments.

VII. Revised budget estimates for the biennium 2006-2007

33. The Committee observes that during its discussions of the recommendations aimed at reversing some of the economy measures taken in the 1980s and following its review of the administrative implications of implementing two of those earlier recommendations, the Board decided to recommend additional resources for general temporary assistance, as follows: (a) $125,300 for implementation of the recommendation to reduce the current reduction factor by 0.5 per cent in the first pension adjustments due for existing and future beneficiaries, with effect from 1 April 2007; and (b) $72,500 for implementation of the recommendation to eliminate the limitation on the right to restoration based on years of service, with effect from 1 April 2007. **The Committee recommends approval of the Board's decision.**

34. Moreover, the Board recommended an additional provision of $50,000 to cover the anticipated travel costs in respect to seven members and two experts of the newly established Audit Committee. **The Committee recommends approval of the Board's recommendation.**

35. The Pension Board also recommended approval of additional resources for external audit costs amounting to $85,900 to cover the increase in the total number of auditor weeks from 53 to 65 and an additional general temporary assistance provision of $132,400 (an equivalent of one new post at the P-3 level) in order to increase the Fund's internal audit capabilities. **The Committee supports the recommendation of the Board.**

36. The Pension Board also recommended the reclassification of two P-4 posts in the information technology services of the Fund secretariat to the P-5 level, for which an additional $27,700 would be required. **The Committee recommends approval of the proposal.**

37. The Committee notes that, on the basis of its discussions on the investment management arrangements, the Board decided to recommend for the Investment Management Service: (a) the establishment of five new posts (i.e., 1 D-1, 2 P-5, 1 P-4 and 1 P-3) for which additional resources of $464,200 would be required; (b) the allocation of additional resources amounting to $500,000 for consulting advice to be provided from specialists in the custodian business; and (c) the allocation of additional resources amounting to $1,945,000 for indexation fees and one-time transition costs. **Taking into account its views on the investment management arrangements reflected in paragraphs 17 and 18 above, the Committee recommends that consideration of the additional budgetary requirements for indexation fees and one-time transition costs ($1,945,000) should be deferred pending action on the measures indicated in paragraph 17 above. However, the Committee recognizes that the record-keeping responsibilities are becoming more complex and that further development of the monitoring system and the operation manual are essential to keep close vigilance of the portfolio management and it recommends approval of the request for consulting advice on custodian matters ($500,000). As concerns the**

proposed additional staffing resources, the Committee recognizes the needs of the Investment Management Service for additional resources regardless of the results of the measures referred to in paragraph 17 above. Accordingly, the Committee recommends approval of the five posts requested for the Investment Management Service. The Committee trusts that all existing vacant posts in the Investment Management Service as well as the additional five posts will be expeditiously filled.

VIII. Other matters

38. Among the other matters considered and recommended in the report of the Pension Board[1] for approval by the General Assembly are the following:

(a) Approval of the revised United Nations Joint Staff Pension Fund-World Bank Group Transfer Agreement, which would take effect 1 January 2007 (paras. 11 (c) and 233-235);

(b) Approval of the proposed separate new Transfer Agreements between the Pension Fund and each of the six Coordinated Organizations, with effect from 1 January 2007 (paras. 11 (d) and 236-239);

(c) Approval of the recommendation that the International Organization for Migration (IOM) be admitted to membership of the Pension Fund, effective 1 January 2007, subject to the Fund's Secretary/Chief Executive Officer confirming to the General Assembly that the IOM fully satisfied all conditions for Pension Fund membership (paras. 11 (e) and 240-242).

The Committee recommends approval of the Board's proposals.

39. The Committee notes that having considered a report by the Working Group established to review the size and composition of the Board and its Standing Committee, the Board decided to maintain its size at 33 members, as well as its current composition and allocation of seats; the Board will also consider a policy paper in 2007, which will provide clarification in respect to membership and attendance at the meetings of the Board and its Standing Committee.[14] **The Committee trusts that the policy paper will address the guidelines provided by the General Assembly on this matter.**

[14] Ibid., para. 12 (m).

Annex I

Evolution of the actuarial deficit (surplus) of the Fund since 1978 expressed as a percentage of pensionable remuneration, in United States dollars, and as a percentage of projected liabilities

				Deficit (surplus)		
Valuation date	*Regular valuation economic assumptions*[a]	*Real rate of return*	*Required rate of contribution*	*As a percentage of pensionable remuneration*	*In dollar terms (millions)*	*As percentage of projected liabilities*
31 December 1978	3.5/7.5/3	4.5	21.37	0.37	121.7	1.4
31 December 1980	6.5/9/6	3.0	27.82	6.82	5 315.7	22.01
31 December 1982	6.5/9/6	3.0				
(a) Before changes on 1 January 1983			29.71	8.41	7 057.6	25.6
(b) After changes on 1 January 1983			25.72	4.79	4 018.4	16.4
31 December 1984	6.5/9/6	3.0				
(a) Before changes on 1 January 1984 and 1 January 1985			25.94	4.94	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985			24.76	3.01	2 734.3	10.4
31 December 1986	6.5/9/6	3.0	26.15	4.40	3 187.2	13.2
31 December 1988	6.5/9/6	3.0	26.21	3.71	3 133.4	10.9
31 December 1990	6.5/9/6	3.0	24.27	0.57	641.0	1.8
31 December 1993	6.5/9/6	3.0	25.19	1.49	1 857.1	4.3
31 December 1995	5.5/8.5/5, with 1.9 per cent cost of two-track	3.5	25.16	1.46	1 688.7	4.0
31 December 1997	(same as 1995)	3.5	23.34	(0.36)	(417.3)	1.0
31 December 1999	(same as 1995)	3.5	19.45	(4.25)	(5 278.6)	11.5
31 December 2001	(same as 1995)	3.5	20.78	(2.92)	(4 284.4)	8.0
31 December 2003	4.5/7.5/4, with 1.9 per cent cost of two-track	3.5	22.56	(1.14)	(1 949.6)	3.1
31 December 2005	(same as 2003)	3.5	22.41	(1.29)	(2 760.1)	3.7

[a] Since 1978, valuations have been carried out on a fully dynamic basis; that is to say, inflation is assumed to continue indefinitely in future.

Annex II

Terms of reference of the Audit Committee of the United Nations Joint Staff Pension Board*

1. Constitution

The Audit Committee (the Committee) is established as an advisory committee of the United Nations Joint Staff Pension Board (the Board). The terms of reference of the Audit Committee were approved by the Board and are included by reference in the Fund's Rules of Procedures.

2. Purpose and objectives

2.1 The Audit Committee, established by the Board with the concurrence of the General Assembly, will provide assistance to the Board in fulfilling its oversight responsibility relating to:

(a) the performance and independence of the internal audit function;

(b) the accounting and financial audit reporting processes of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund);

(c) adherence to the Internal Audit Charter of the Fund, and UNJSPF regulations and Administrative Rules relating to audits.

2.2 The main objectives of the Committee are to:

(a) Provide general oversight and offer recommendations for the Fund's audit arrangements, including both internal and external auditing;

(b) Oversee the work of the Internal Auditors and consider the scope, particularly concerning risk management, results and effectiveness of the audit reports;

(c) Consider the scope and recommendations in the Board of Auditors' reports and management letters as well as actions taken to implement the Board of Auditors' recommendations;

(d) Review and assess, from time to time, the adequacy of the Internal Audit Charter, and recommend amendments thereto to the Board.

3. Organization and composition

3.1 The Board will appoint at least three members from the Staff Pension Committees of UNJSPF Member Organizations reflecting the tri-partite composition of the Board. In addition to the members, the Board may select experts from outside the Board to serve in their private capacity with the Committee. One additional member will be appointed by the Board to represent the UNJSPF retirees. The Committee's total membership shall always be an odd number, not exceeding nine.

3.2 All members of the Committee shall satisfy the following requirements: be independent, knowledgeable in accounting, auditing, financial management or

* These terms of reference are available on the Fund website: www.unjspf.org.

compliance and have long-established exposure and demonstrated expertise in these fields. To be considered independent, a member must be independent of UNJSPF management, including the Investment Management Service, or of the Office of the Representative of the Secretary-General for Investments of the Fund. Members should be free from any relationship that in the opinion of the Board would result in actual or perceived conflict of interest situation. While performing their functions the Committee members shall exercise duty of care reasonably expected from them. The term of all Committee members shall be four years and they may not be selected for consecutive terms.

3.3 The Committee shall select a Chairperson and one Vice-Chairperson. To meet, a quorum of a majority of the Committee's membership is required.

3.4 The Secretary/Chief Executive Officer of the Fund shall designate the Secretary of the Committee.

3.5 The Committee shall adopt its own rules of procedure, which shall be communicated to the Board. It shall meet at least twice a year, bearing in mind practice for audit committees in international organizations as well as industry practice.

4. Authority

4.1 The Committee shall have unrestricted authority within the scope of its terms of reference. In this connection, the Committee shall review significant changes in the Fund's policies, as they relate to:

(a) risk management for all Fund activities, including investment management;

(b) internal control, including fraud prevention;

(c) accounting and financial reporting.

4.2 When exercising its duties and responsibilities, the Committee may bring to the Board's attention any matters that have emerged through the audits. The Committee may also make observations and provide recommendations to the Board, including proposals to audit those specific areas of the Fund which the Committee considers necessary.

5. Responsibilities

The Audit Committee has the following responsibilities:

Internal and external audit

5.1 Discuss, with the Board of Auditors, the Internal Auditors, the Chief Executive Officer of the Fund and the designated Representative of the Secretary-General for the Investments of the Fund, the internal audit function responsibilities, as defined in the Internal Audit Charter, normally once a year.

5.2 Consult with the Chief Executive Officer of the Fund, the designated Representative of the Secretary-General for the Investments of the Fund, the Board of Auditors and the Internal Auditors on matters related to the internal audit plan and audit procedures applied. The review of the internal audit plan shall focus on the scope and effectiveness of the internal audit function and the risk assessment of Fund activities, including those related to investments.

5.3 Ensure that the internal audit function of the Fund is performed in compliance with all the provisions of the Fund's Internal Audit Charter.

5.4 Review the internal audit reports submitted by the Internal Auditors in order to be fully informed of the Fund's financial exposures, management actions to address issues related to internal audit activities, and the Internal Auditors' evaluation of internal controls.

5.5 Provide opportunity (at least once a year) for the Board of Auditors and the Internal Auditors to meet privately with the members of the Committee to discuss matters which they may wish to bring to the Committee's attention.

5.6 Review the findings and recommendations of the Board of Auditors and of the Internal Auditors, and monitor management's responses to those findings and related corrective action plans.

5.7 Review the implementation of audit recommendations and assess the instances of recommendations for remedial action not accepted by management.

5.8 Maintain open lines of communication and consultation with the Board of Auditors, the Internal Auditors, the Pension Board, the Chief Executive Officer of the Fund, and the designated Representative of the Secretary-General for the investments of the Fund.

5.9 The Committee may consider whether additional audits not included in the audit plans are necessary or appropriate.

Financial statements

5.10 Review and discuss the audited financial statements of the Fund with management and the Board of Auditors.

Compliance

5.11 Review the audit reports as to the effectiveness of the system for monitoring compliance with the Regulations of the Fund and obtain regular updates from management regarding compliance matters.

Reporting responsibilities

5.12 Report annually on the Committee's activities to the Board or to the Standing Committee.

5.13 Conduct from time to time a self-assessment of the Committee's performance and effectiveness.

Other responsibilities

5.14 Perform any other functions as requested by the Board, and review other relevant reports the Fund or auditors issue that relate to the Audit Committee's responsibilities. Review of these reports should protect their possible confidential nature and the identity of individuals concerned. In doing so, members shall protect the confidential nature of these documents as well as privacy of the individuals who may be concerned.