United Nations A/70/7/Add.6

General Assembly

Distr.: General
4 November 2015

Original: English

Seventieth session
Agenda item 134
Proposed programme budget for the biennium 2016-2017

Administrative expenses of the United Nations Joint Staff Pension Fund

Seventh report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2016-2017

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund (A/70/325) and the report of the Secretary-General on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/70/2). In addition, the Committee had before it the Secretary-General's note on the membership of the Investments Committee. During its consideration of these matters, the Committee met with the Chair of the Pension Board, the Chief Executive Officer of the Pension Fund and the Representative of the Secretary-General for the investment of the assets of the Fund, all three of whom provided additional information and clarification, concluding with written responses received on 9 October 2015.

2. The report of the Pension Board contains the projected expenditures and the performance report for the biennium 2014-2015; the proposed budget estimates for the biennium 2016-2017; and a recommendation to the General Assembly that it authorize the Fund to supplement contributions to the Emergency Fund for the biennium 2016-2017 by an amount not exceeding $225,000. Section V of the report contains the recommended action to be taken by the Assembly and section VI presents a summary of follow-up action taken to implement the requests and recommendations of the Advisory Committee. Annex I to the report summarizes the Board's discussions on the revised appropriations for the biennium 2014-2015 and the estimates for the biennium 2016-2017, annex V contains the financial statements of the Fund for the year ended 31 December 2014 and annex VI contains the report of the United Nations Board of Auditors on the Fund for the period ended

31 December 2014. The comments and observations of the Advisory Committee are contained in sections II and III below.

3. The overview to the Board's report indicates that there were 23 member organizations of the Fund as at 31 December 2014, with a combined total of 195,126 participants (122,759 active participants and 72,367 retirees and other beneficiaries), which, the Advisory Committee was informed, represents an increase of nearly 5,000 additional individuals being serviced in only one year. According to the supplementary information to the Board's report, there has been a 73 per cent growth in the overall number of participants (active participants, retirees and other beneficiaries) over the past 16 years due to the growth in size of member organizations, the entry of new organizations and the fact that retirees and other beneficiaries are living longer. The Committee was also informed that the Fund provides pension benefit payments to retirees and other beneficiaries in over 190 countries in 15 different currencies and that, by 2020, the Fund was expected to have over 85,000 beneficiaries. In addition, the Committee was informed that at the end of 2014 the assets of the Fund stood at more than $52 billion and that annual benefit payments currently exceed $2.4 billion.

4. The Advisory Committee notes, from the Board's discussions on the revised budget estimates for 2014-2015 and the budget estimates for the biennium 2016-2017 (see A/70/325, annex I), that the Board, as per established practice, convoked a budget working group comprised of members from each of the constituent groups and two representatives of the Federation of Associations of Former International Civil Servants to review the Fund's budget proposals and to make relevant recommendations to the Board. The role of the working group and its comments and recommendations in respect of the revised estimates for the biennium 2014-2015 and the budget estimates for the biennium 2016-2017, which the Board endorsed, are described in the Board's report (ibid., annex I, paras. 15-41). These include the recommendation that the Board express regret regarding the delays in filling senior management positions; the great concern with which it noted that the Fund was overly reliant on general temporary assistance for its long-term requirements; and its concern at the delay in the deployment of the Integrated Pension Administration System project (IPAS) and the additional cost related to the renewal of existing legacy systems. **The Advisory Committee takes note of the observations and recommendations of the Pension Board's budget working group.**

II. Revised budget estimates and performance report for the biennium 2014-2015

5. The Advisory Committee recalls that the General Assembly, in its resolution 68/247 A, approved appropriations for the biennium 2014-2015 totalling $177,666,500, comprising administrative costs ($91,000,300), investment costs ($83,713,500), audit costs ($2,543,900) and Pension Board expenses ($408,800). Of that amount, $156,341,800 is chargeable directly to the Fund and $21,324,700 is the share of costs to be borne by the United Nations. In addition, resources amounting to $155,800 were authorized for extrabudgetary costs and funded by a number of member organizations. It is indicated in the Board's report (A/70/325, para. 6) that total expenditure for the biennium 2014-2015 is estimated at $176,550,800, comprising administrative costs ($93,768,500), investment costs ($79,898,500),

audit costs ($2,475,000) and Board expenses ($408,800), which would result in an overall underexpenditure of $1,115,700, or 0.6 per cent of the total appropriation. It is also indicated that, under extrabudgetary costs, an underexpenditure of $7,600, or 4.9 per cent, is projected. The reasons for the variances in expenditure are provided in detail in paragraphs 7 to 40 of the Board's report.

6. As indicated in table 1 of the Board's report, the projected administrative costs of the Fund for 2014-2015 amount to $93,768,500, which would result in an overexpenditure of $2,768,200, or 3.0 per cent, owing principally to overexpenditures under contractual services ($3,740,500), due to the extension of the testing period for IPAS, and under posts ($879,900) and other staff costs ($748,100) due to higher salary costs in the Fund's Geneva office as a result of the appreciation of the Swiss franc against the United States dollar, offset in part by underexpenditures under general operating expenses ($1,351,100), attributable mostly to savings in bank fees as a result of the implementation of a new contract; under furniture and equipment ($667,600), attributable to cost savings in information technology software and equipment within the Information Management Systems Service; and under consultants ($357,700), attributable to cost-saving measures under consultants.

7. The total expenditure for the biennium 2014-2015 under investment costs is projected at $79,898,500, which would result in an underexpenditure of $3,815,100, or 4.6 per cent, mainly due to the delay in recruitment to fill the 20 new posts approved for 2014-2015, underexpenditure of $3,635,200 under contractual services resulting from the termination of the fixed-income advisory services of BNP Paribas as at 31 January 2015, the expiration and non-extension of the Murex software licence as at 31 December 2014 and the postponement of the selection of a hedge fund adviser until later in 2015, offset in part by an overexpenditure of $2,708,500 under operating expenses arising from the costs associated with the renovation of the new office space for the Investments Section and higher-than-anticipated rent for the new space.

III. Proposed budget for the biennium 2016-2017

8. According to table 3 of the report of the Pension Board, the requested resource requirements for the Fund for 2016-2017 amount to $178,055,500 ($180,714,200 after recosting), which represents an increase of 0.2 per cent when compared to the appropriations for 2014-2015 amounting to $177,666,500. The resources comprise requirements under executive direction and management ($14,822,400); programme of work ($112,765,000); support ($46,630,400); audit costs ($2,893,500); and expenses of the Pension Board ($944,200). According to table 3, the overall resources estimate of $180,714,200, after recosting, would be apportioned between the Fund ($158,464,500) and the United Nations ($22,249,800), under the relevant cost-sharing arrangement.

Recruitment and staffing

9. According to table 5 of the Board's report, the budget estimates for 2016-2017 provide for a total of 279 regular posts. The Board's proposals on posts, reflected in table 6 of the report, comprise the establishment of 21 additional posts, of which 20 are proposed under administrative costs (1 P-5, 1 P-4, 6 P-3, 1 General Service

(Principal level) and 11 General Service (Other level)), and one P-3 proposed under investment costs. The proposals also include the reclassification of six posts (3 under administrative costs and 3 under investment costs). The Advisory Committee's comments on the Board's post proposals are contained in paragraphs 14 to 20 and 27 to 33 below.

Vacant posts

10. During its consideration of the Board's report, the Advisory Committee enquired about the concerns expressed by the Pension Board regarding the 24 vacant posts in the Professional and higher categories (including 6 senior-level posts) as at 15 July 2015, particularly the posts of Chief Financial Officer, Director of the Investment Management Division, Chief Operating Officer of the Investment Management Division and Chief Information Officer, which were critical to the operations of the Fund and had been vacant for an extended period of time. The Committee was informed that the delays had been influenced by factors such as: the lengthy recruitment process; the time taken to classify posts in the Investment Management Division due to their specialized nature; as well as the challenge of attracting suitable candidates who possess the specialized skills required for those posts, a fact which often necessitated re-advertising the posts. As for the recruitment status of the posts, the Committee was informed that, in order to expedite its incumbency, the post of Chief Operating Officer (D-1) had recently been filled on a temporary basis. As for the post of Director of the Investment Management Division (D-2), the Committee was informed that the shortlisting process was in progress and that the vacant post of Deputy Director of Private Markets (D-1) would be filled after the Director of the Division had been hired in order to enable him/her to have input in the recruitment process. **Taking into consideration the already lengthy recruitment process, the Advisory Committee is of the view that there is no need to attach such conditions to the filling of this vacant post.** As for the vacant post of Chief Financial Officer (D-1), the Committee was informed that it had been decided to re-advertise the post. **The Advisory Committee reiterates its concern about the high number of vacant posts in the Pension Fund and urges the Fund to fill all vacant posts expeditiously.**

A. Administrative costs

11. The estimated requirements under administrative costs for 2016-2017 are described in paragraphs 67 to 136 of the report of the Pension Board. The overall level of resources proposed for the administrative costs under executive direction and management, programme of work and support amounts to $90,361,400 before recosting, reflecting a decrease of $638,900, or 0.7 per cent, compared with the appropriation for 2014-2015. The decrease, when broken down by resource category, is attributable primarily to resource reductions under contractual services, a large portion of which are due to the efficiencies realized from the deployment of the IPAS project in 2015 and the corresponding reductions in maintenance and support costs for discontinued legacy systems. The decrease, when broken down by component, is the net result of reduced requirements under programme support ($6,616,300), offset, in part, by increased requirements under executive direction and management ($144,200) and programme of work ($5,833,300) (see A/70/325, table 3).

Post resources

12. Under administrative costs, the proposed resources for posts for the period from 1 January 2016 to 31 December 2017 amount to $46,829,900 before recosting, an increase of $4,927,300, or 11.8 per cent, compared with 2014-2015. The proposed budget provides for 172 existing and 20 new established posts and the continuation of one extrabudgetary post. The budget also reflects the discontinuation of 10 temporary posts as at 1 January 2015. The Advisory Committee's comments and recommendations on posts are contained in the following paragraphs.

New posts

13. The Pension Board proposes the establishment of 20 new posts under administrative costs as follows:

(a) Under Executive Direction and Management, in the Office of the Chief Executive Officer, one post of Personal Assistant (General Service (Other level));

(b) Under programme of work:

(i) In the Office of Operations (New York), two posts in the Operational Review and Development Unit, one post of Benefits Officer (P-3) and one post of Benefits Assistant (General Service (Other level));

(ii) In the Office of Operations (New York), Client Services, Records Management and Distribution Section, six posts as follows: three posts in the Records Management and Distribution Unit, one post of Benefits Officer, Chief, Records Management and Distribution Unit (P-3), to be converted from an existing P-3 general temporary assistance position; one post of Benefits Assistant (General Service (Other level)); one post of Records Assistant (General Service (Other level)); and three posts of Benefits Assistants (General Service (Other level)) in the Client Services Unit, to be established as at 1 January 2017;

(iii) In the Office of Operations (Geneva), three posts as follows: one post of Chief, Client Communication and Liaison (P-5) in the Client Services and Finance Section; one post of Benefits Officer (P-4) in the Pension Entitlements Section; and one post of Finance Officer (P-3) in the Client Services and Finance Section;

(iv) In the Financial Services Section: one post of Senior Accounting Assistant (General Service (Principal level)) in the Payments Unit and one post of Cashiers Assistant (General Service (Other level)) in the Cashier's Unit;

(v) In the Risk Management and Legal Services Section: one post of Legal Officer (P-3) in New York, to be converted from an existing P-3 general temporary assistant position, and one post of Legal Assistant (General Service (Other level)) in Geneva also to be converted from an existing General Service (Other level) general temporary assistance position;

(c) Under the programme support component: (i) in the Information Management Systems Service: one post of Data Manager (P-3) and one post of Information and Communications Technology (ICT) Security Officer (P-3); (ii) in the Executive Office, one post of Facilities Management Assistant (General Service (Other level)) and one post of Travel/Team Assistant, both to be converted from existing General Service (Other level) general temporary assistance positions.

14. **The Advisory Committee recommends approval of 13 new posts proposed by the Pension Board and recommends against the approval of seven posts for the reasons indicated in paragraphs 15 to 18 below.**

15. As regards the proposed post of Personal Assistant (General Service (Other level)), it is indicated in the supplementary information provided to the Advisory Committee that over the years the number of committees and working groups has increased, as has the number of documents to be handled and general administrative tasks to be performed, resulting in a significantly increased workload for the existing Meeting Services Assistant (General Service (Principal level)) who provides administrative support to the Chief Executive Officer and the Deputy Chief Executive Officer. The new post is therefore proposed to ensure that these functions are performed more efficiently and that client requests are addressed in a timely manner. **The Advisory Committee is of the view that the existing support provided by the Meeting Services Assistant (General Service (Principal level)) is sufficient for the requirements of the Office. Therefore, the Committee recommends against the proposed new post of Personal Assistant (General Service (Other level)) in the Office of the Chief Executive Officer.**

16. With regard to the eight new posts proposed for the Office of Operations in New York, it is indicated in the supplementary information provided to the Advisory Committee that the Fund has reached a critical juncture in its evolution following an unprecedented growth in its client population and scope of service demands over the last 16 years. The information provided included statistics showing a 73 per cent growth in the number of participants since 1998, as well as a seven-fold increase in the number of provisions included in the Fund's pension adjustment system since the inception of the Fund. According to the supplementary information provided, the eight posts proposed for the two sections (Pension Entitlement Section and Client Services, Records Management and Distribution Section) in the Office of Operations are meant to strengthen the foundation of the Fund's client servicing capacity in the intermediate term so that it will be better positioned to realize the longer-term vision of strengthening its client service capabilities, as articulated in the report presented to the Board in 2014.

17. **The Advisory Committee is of the view that while the client service demands of the Fund have grown, they do not justify the number of additional posts proposed. The Committee is of the view that 1998 is hardly an appropriate baseline from which to measure the growth in client service requirements to support the resource requests for the biennium 2016-2017. In addition, the Committee is of the view that it may be too early to determine the additional client service requirements for 2017, considering that the expected standardization of work processes under IPAS should have an impact on the efficiency and effectiveness of the Fund's client service operations, with the possible effect of minimizing the requirement for additional staffing resources** (see also para. 42 below). **In this regard, the Advisory Committee recommends against the approval of the following posts proposed in the Office of Operations in New York: one post of Benefits Officer (P-3) in the Operational Review and Development Unit; one post of Records Assistant (General Service (Other**

level)) (G-5) in the Records Management and Distribution Unit; and three posts of Benefits Assistant (General Service (Other level)) proposed with effect from 1 January 2017 in the Client Services Unit.

18. With regard to the one post of Senior Accounting Assistant (General Service (Principal level)) in the Payments Unit, Financial Services Section, the information provided indicates that the post will be involved with fundamental issues of the Payments Unit processing related to areas such as: the testing of data entry and audit processing; monitoring implementation of existing and future information technology projects, web applications as well as upcoming IPAS stabilization and potential updates of the International Public Sector Accounting Standards (IPSAS); providing guidance and training of new and existing General Service staff of the Unit; and providing support to the Chief of the Unit in analysing complex pension cases. The Advisory Committee notes, however, that no workload indicators have been provided to facilitate an objective assessment of the proposal for this post. In addition, the Committee notes from the organization chart included in the supplementary information provided that the staffing structure under the Office of the Deputy Chief Financial Officer/Chief Payments Unit, whose post is being proposed for reclassification to the P-5 level, includes two P-3, one P-2 and 10 General Service (Other level) posts, as well as a general temporary assistance provision for two General Service (Other level) positions for 18 months to provide post-IPAS stabilization support. **In view of the above information, the Advisory Committee recommends against the proposed new post of Senior Accounting Assistant (General Service (Principal level)) in the Payments Unit, Financial Services Section.**

Reclassifications

19. **The Pension Board proposes the reclassification of three posts under administrative costs, of which the Advisory Committee recommends against the reclassification of one post and recommends approval of the reclassification of two posts, as indicated in subparagraphs (a) to (c) below:**

(a) In the Office of the Chief Executive Officer, the reclassification of one post of Programme Officer (P-4) to Senior Programme Officer (Strategic Planning and Coordination) (P-5) to assist the Chief Executive Officer and the Deputy Chief Executive Officer in making sure that that key decisions and management responses to short- and long-term challenges are consistent with the Fund’s mission, values and strategy and that the middle-managers understand their roles and responsibilities and implement the decisions of the senior managers and legislative bodies in the most efficient, coherent and consistent manner. **The Advisory Committee is of the view that the scope of tasks described in the supplementary information to the Board’s report does not merit the upward reclassification of the post to the P-5 level and that most of the strategic planning and coordination functions could continue to be undertaken by the incumbent of the post at its current level. Therefore, the Committee recommends against the reclassification of the post of Programme Officer (P-4) to the P-5 level;**

(b) In the Financial Services Section, the reclassification of the post of Chief, Payments Unit (P-4), to Chief of Payments/Deputy Chief Finance Officer (P-5) is proposed in order to reflect the changes in the area of financial services provided to the retirees of the Fund such as: the need to apply the rules and regulations of the Fund to properly manage the increased volume of financial transactions related to more than 72,000 monthly periodic benefits, totalling approximately $190 million per month (over $2.3 billion per year), payable in 15 currencies throughout the world to more than 190 countries and territories, including countries with limited banking structures; the monitoring of enhanced requirements of the financial services industry in order to ensure correct application of data used for payments execution; and the implementation of additional provisions of the rules and regulations of the Fund and the two-track pension adjustment system, which requires quarterly adjustments to more than a third of the overall periodic benefits payable. **The Advisory Committee recommends approval of the proposed reclassification;**

(c) In the Risk Management and Legal Services Section, it is proposed to reclassify the post of Senior Legal Officer (P-5) to the P-4 level as recommended by the Pension Board's budget working group. **The Advisory Committee recommends approval of the proposed reclassification.**

20. **Subject to its observations and recommendations contained in paragraphs 14, 15, 17, 18 and 19 (a) above, the Advisory Committee recommends approval of the Pension Board's post proposals under administrative costs for the biennium 2016-2017.**

Non-post resources

21. The proposed non-post requirements under administrative costs for the Fund in 2016-2017 amount to $43,531,500, compared with $49,097,600 in 2014-2015, which reflects a decrease of $5,566,200, or 11.3 per cent. The decrease in non-post costs is attributable primarily to the reduction in contractual services ($7,714,200), as described in paragraph 11 above, as well as reductions in consultants ($225,000), travel ($351,900) and supplies and materials ($22,100). The above decreases are offset in part by increases in other staff costs ($2,266,300), general operating costs ($1,548,100), furniture and equipment ($123,900) and hospitality ($1,900) (see A/70/325, para. 70).

22. **The Advisory Committee recommends the approval of the Pension Board's proposals for non-post resources under administrative costs, and further recommends that the non-post resources related to the proposed new posts referred to in paragraphs 14, 15, 17, 18 and 19 (a) above be reduced accordingly.**

Fraud prevention

23. The Advisory Committee notes from the report of the Board of Auditors on the financial statements of the Fund for the year ended 31 December 2014 that no case of pension fraud had been reported during the year. The report also indicates that there had been one case of presumptive fraud that was under review by the Geneva office, which had been identified through normal and operational control activities. The amount involved was $6,848.26. Upon enquiry, the Committee was informed that, in addition to regular audits conducted by the Office of Internal Oversight Services and the Board of Auditors, the Fund administration's fraud prevention programme included: promoting fraud awareness among staff and guidelines for the reporting and escalation of fraud related concerns; an annual fraud risk assessment conducted to identify and assess the Fund's exposure to fraud risk scenarios

identified in other pension funds and to identify control gaps; external risk assessments conducted by independent consultants at least every three years; and a comprehensive internal control system, which included a mix of preventive and detective anti-fraud controls, including the delegation of authority and the segregation of duties. The Committee's comments on fraud prevention in the Investment Management Division are contained in paragraph 37 below.

B. Investment costs

24. The proposed investment costs are discussed in paragraphs 137 to 162 of the report of the Pension Board. The overall level of resources for the Investment Management Division amounts to $83,856,400 before recosting, reflecting a net increase of $142,900, or 0.2 per cent, compared with the appropriation for the biennium 2014-2015. The net increase, when broken down by component, is mainly due to increased requirements under executive direction and management ($1,851,100) and programme support ($482,100), offset, in part, by reduced requirements under the programme of work ($2,190,400) (see A/70/325, table 23).

Post resources

25. According to table 4 of the Board's report, the proposed resources for posts under investment costs for the period from 1 January 2016 to 31 December 2017 amount to $25,975,900 before recosting, an increase of $3,880,900, or 17.6 per cent, when compared with the 2014-2015 appropriation. Table 5 indicates that the proposed resources would provide for 86 established posts, of which one is a proposal for a new post.

Post changes

26. The Board's proposals for posts under investment costs are summarized in table 6 of its report. The proposals include the establishment of one new post of Trade Execution Officer (P-3) in the Investments Section of the Investment Management Division; the reclassification of three posts (1 post of Legal Officer (P-4) to Senior Legal Officer (P-5); 1 post of Administrative Assistant (General Service (Other level)) to Senior Administrative Assistant; and one post of Accounting Assistant (General Service (Other level)) to Associate Accountant (P-2)); as well as the reassignment of three posts in the Operations and Information Systems Section. The observations and recommendations of the Advisory Committee on the above proposals are contained in paragraphs 27 to 31 below.

New posts

27. In the Investments Section of the Investment Management Division, it is proposed to establish one post of Trade Execution Officer (P-3), as explained in the supplementary information to the Board's report, to prepare the Division for the implementation and handling of more complex portfolios and trading strategies in order to minimize transaction costs, improve investment performance and maximize operational efficiency. It is further explained that the Trade Execution Officer will support the Trade Execution Team and be responsible for the timely, accurate, and efficient execution of securities as directed by the Senior Investment Officers and under the supervision of the Trade Execution Officer (P-4). **The Advisory**

Committee recalls that 20 new posts were approved for the 2014-2015 biennium in the Investments Management Division and that some of these posts, including at least one on the Trade Execution Team, are yet to be filled (see also para. 10 above)**. The Committee also notes from the supplementary information that two posts of Trade Execution Officer (P-3) are being proposed for reassignment from the Operations and Information Services Section to strengthen the Team. The Committee is of the view that, until the impact of the additional staffing resources approved in 2014-2015 and the proposed post reassignments are determined, it would be premature to request additional resources for the Trade Execution Team at this time. Therefore, the Committee recommends against the approval of the proposed new post of Trade Execution Officer.**

Reclassifications

28. **The Pension Board proposes the reclassification of three posts under investment costs, of which the Advisory Committee recommends against the reclassification of one post and recommends approval of the reclassification of two posts as indicated in paragraphs 29 to 31 below.**

29. It is proposed to reclassify one post of Legal Officer (P-4) to Senior Legal Officer (P-5) in the office of the Representative of Secretary-General, based on the anticipated increase in the complexity and volume of legal advice required by the Division. According to the supplementary information to the Board's report, the volume of legal matters and the range of needs in that area are expected to increase considerably in the next biennium. **The Advisory Committee notes that the justification for the reclassification proposal is based on anticipated, not actual, requirements, which have not been articulated to any level of detail. Therefore, the Committee recommends against the approval of the proposed post reclassification.**

30. It is also proposed to reclassify one post of Administrative Assistant (General Service (Other level)) to Senior Administrative Assistant (General Service (Principal level)) in the office of the Representative of the Secretary-General, taking into account the growth in the responsibilities of the post in terms of complexity, diversity and technical competencies and skills over the past several years. According to the supplementary information to the Pension Board report, the post supports the financial and budgetary processes and payment of invoices, as well as providing administrative support to the staff of the Division, all of which require knowledge of the Division's budget, pertinent rules and regulations, including the fee payment schedules of external service providers as well as invoicing and procedures. **The Advisory Committee recommends approval of the proposed post reclassification.**

31. Finally, the Board proposes to reclassify one post of Accounting Assistant (General Service (Other level)) to Associate Accountant (P-2) to provide more professional expertise to manage the accounting and review of the private funds portfolio. This expertise is required in the light of the increase of investment in private funds, from 72 funds in 2012 to 128 funds as of 31 January 2015, representing an average market value of approximately 10 per cent (including cash for unfunded commitments) of the overall portfolio of the Division. It is further explained that the accounting treatment of new investment instruments, as required

by the recently adopted IPSAS, demands expertise that is not currently available within the Fund. **The Advisory Committee recommends approval of the proposed post reclassification.**

Reassignments

32. The Pension Board proposes the outward reassignment of three vacant P-3 posts (Data Security Administrator, Risk and Compliance System Officer and Information System Officer) in the Operations and Information Systems Section. Two of these posts are proposed for reassignment to the Investment Section as Trade Execution Officers (P-3) to support the anticipated growth in trading volume resulting from the establishment of an internal trading desk. One post is proposed for reassignment to the office of the Representative of the Secretary-General as a Contract Management Officer (P-3) to improve the management and monitoring of service provider contracts, following the decision to centralize the management of all of the Division's contracts. **The Advisory Committee recommends approval of the proposed post reassignments.**

33. **Subject to its observations and recommendations in paragraphs 27 and 29 above, the Advisory Committee recommends approval of the Pension Board's staffing proposals under investment costs.**

Non-post resources

34. The proposed non-post requirements under investment costs for the Fund for the biennium 2016-2017 amount to $57,880,500, which represents a net decrease of $3,738,100, or 6.1 per cent, compared with 2014-2015. The decrease is attributable mainly to reductions in the requirement for contractual services ($4,462,200) and consultants ($401,600), offset, in part, by increased requirements under other staff costs ($897,000), general operating expenses ($242,200) and supplies and materials ($70,100). The decrease in requirements for contractual services is mainly due to the planned reduction of non-discretionary advisory services, which is balanced by the increase in the staffing capacity of the Investment Management Division. **The Advisory Committee recommends the approval of the Pension Board's proposals for non-post resources under investments and further recommends that the non-post resources related to the posts referred to in paragraphs 27 and 29 above be reduced accordingly.**

Update on investments

35. According to the supplementary information to the Board's report, the Pension Fund's assets were valued at $52.8 billion at the close of 2014. Upon enquiry, the Advisory Committee was informed that the Fund had outperformed its long-term real rate of return objective and policy benchmark of 3.5 per cent in the calendar year 2013 (15.5 per cent) and underperformed it in the calendar year 2014 (3.2 per cent). The Committee was also informed that the market value of the Fund's assets had declined to $50.1 billion as at 28 September 2015, reflecting a negative 5.16 per cent year-to-date rate of return, due to the higher than normal volatility experienced in the financial markets during the year. The Committee was further informed that, while this volatility was expected to continue on a near term basis, the Fund remained focused on its long-term objective of a 3.5 per cent real rate of return, which it had achieved consistently over the past 50 years. In its report on the

financial statements of the Fund for the year ended 31 December 2014, the Board of Auditors observed that the Fund had underperformed its 3.5 per cent real rate of return objective during the year and had showed underperformance in the five-year period ended December 2014. The Board recommended that the Fund take steps to achieve the policy benchmarks on each portfolio by improving its internal investment processes. **The Advisory Committee concurs with the observations and recommendations of the Board of Auditors with regard to the Fund's investment performance, which has been below its overall policy benchmark in recent years. With the strengthened leadership of a full-time Representative of the Secretary-General and the benefit of increased staffing resources, as well as the acquisition of more efficient investment business applications, the Committee trusts that all efforts will be made to improve the Fund's investment performance and that measures taken in this regard will be reported to the General Assembly in future reports on the investments of the Fund.**

36. Upon enquiry, as to the diversity of the Fund's investments, the Advisory Committee was informed that geographic diversification had been identified as an objective in the UNJSPF investment policy statement of 31 March 2014, which specifically reported that, in order to ensure effective realization of its stated purpose, the long-term objectives of the Fund would be: (a) to preserve the principal of the Fund in real terms; (b) to obtain optimal return without undue risk, as defined in the risk appetite statement and risk tolerance; and (c) to diversify the portfolio with respect to the asset type, currency and geography. In this connection, the Committee recalls that geographic diversification was also addressed by the General Assembly in paragraphs 22, 23, 26, 27 and 28 of its resolution 69/113. Upon further enquiry, the Committee was informed that geographic diversity was a necessary component of an investment strategy for a global pension plan such as the United Nations Pension Fund, which, according to the information provided by the Fund's master record keeper, was invested in 39 countries directly through internal management as at 30 June 2015. The Committee was also informed that the Fund invests in an additional 75 countries indirectly through externally managed funds, which would bring the total of countries in which it invests to 114. Upon request, the Committee was provided with a list of countries in which the Fund is invested directly and indirectly. **The Advisory Committee encourages the Fund to continue exploring opportunities for geographical diversification, with due regard to the key criteria of safety, profitability, liquidity and convertibility. In that connection, the Committee recommends that the General Assembly request the Secretary-General to provide clear and detailed information on the geographical diversification of the Fund's investments in his next report to the Assembly on the investments of the Fund.**

Fraud prevention

37. Upon enquiry as to the existence of a fraud prevention policy in the Investments Management Division, the Advisory Committee was informed that the Division did not have a specific anti-fraud policy and that no cases of fraud had been reported, but that comprehensive controls were embedded throughout the Division's relevant policies and procedures to deter and/or detect such activity. These included: ethics training; a mandatory leave policy by which the staff of the Division were required to take 10 consecutive work days of leave (fraudulent activity can come to light when the individual responsible is not there to conceal it);

a zero tolerance policy on the receipt of gifts; and a policy to address personal trading in securities based on activity or information related to the Fund (so-called front-running). It was also indicated that these policies were supplemented by the United Nation's financial disclosure programme and data analytics installed to detect anomalous activity that is valuation specific. **Considering the high value of the Fund's investment portfolio, the Advisory Committee is of the view that the Secretary-General should consider establishing a comprehensive anti-fraud policy to better address the risk of fraud in the management of the Fund's investments.**

C. Other comments and recommendations

Travel

38. The total proposed requirements for official travel amount to $3,111,800 in 2016-2017, including both administrative and investment costs, reflecting a decrease of $431,200, before recosting, or 12.1 per cent, compared with the 2014-2015 appropriation of $3,550,000 (see A/70/325, table 4). The Advisory Committee notes from table 1 of its report that the Board projects an underexpenditure of $907,700 under official travel for the biennium 2014-2015, compared with the appropriation of $3,550,000 approved by the General Assembly in its resolution 68/247. The report indicates that the underexpenditure under administrative costs ($83,900) was due to the increased use of alternative means of communication, such as videoconferences and teleconferences (ibid., para. 12) while the underexpenditure under investment costs was due to the non-attendance of members of the Investment Committee at meetings, reduced travel due to the exigencies of service and the use of videoconferences (ibid., para. 20). The Committee therefore notes that the amount proposed for official travel for 2016-2017 reflects an increase of $469,500 before recosting, or 17.8 per cent, compared with the projected expenditure of $2,642,300 for the biennium 2014-2015, as indicated in table 1 of the Board's report.

39. Upon request, the Advisory Committee was provided with detailed information on the actual and projected travel for 2014-2015, as well as the budgeted travel for 2016-2017. From the information provided, the Committee notes the significant number of staff travelling on certain trips planned for 2016-2017 and the frequency of travel to particular destinations. **The Advisory Committee is of the view that further economies could be realized through a reduction in the number of staff on each trip, where feasible, and by combining some trips. In addition, the Committee trusts that the Fund will continue to apply the new standards of accommodation for air travel in accordance with General Assembly resolution 67/254 A and recommends that the Assembly request that the Board carefully monitor the use of resources for the travel of staff.**

Implementation of the Integrated Pension Administration System

40. Paragraph 16 of the Board's report provides an update on the implementation of the IPAS project and outlines the activities carried out during the 2014-2015 biennium. It is indicated that the Fund carried out the "implementation" and "testing, training and deployment" phases of the project and initiated the deployment of the solution in June 2015. In addition, the report provides an outline of the project activities that were accomplished during the period and also indicates

that work is ongoing to ensure that the system is able to fully and accurately process the Fund's payroll. It is also explained that, in light of the experience gained from user acceptance testing, it had been decided to add a "controlled parallel deployment" phase to the project in June and July 2015, allowing for dual entry of limited transactions in both the Pension Fund administration system (PENSYS) and IPAS. Upon further enquiry, the Committee was informed that it had been decided to operationalize IPAS as the official system of record as at 1 August 2015 after having successfully tested the system in parallel. The Committee was also informed that, as an added precaution, the legacy environment had been maintained until the end of September 2015 after which, it was completely decommissioned.

41. The Advisory Committee notes that, in its report on the financial statements of the Fund for the year ended 31 December 2014, the Board of Auditors observed that the delay in the implementation of IPAS beyond its originally scheduled date of June 2014 to June 2015 had resulted in a cost escalation of the project from \$16.7 million to \$19.94 million (see A/70/325, annex VI). The Board also observed that not all deliverables slated for June 2015, such as the testing of payroll reconciliation reports, had achieved a satisfactory level of performance by that date. **The Advisory Committee concurs with the concerns expressed by the Board of Auditors and trusts that they will be addressed in a timely manner.**

42. Upon enquiry with regard to the possible resource implications of the late implementation of IPAS, the Advisory Committee was informed that the IPAS project had been implemented to address the Fund's problems, identified as the fragmentation of processes and systems as well as obsolete technology. The project's main objective was to build service capacity to respond to the demands of the growing client population while reducing system costs and mitigating operational risks. The Committee was further informed that the expected efficiency gains related to IPAS had been achieved through savings against the recurrent cost of contractual services and information technology infrastructure. At the present rate of savings, estimated by the Fund at \$3.3 million annually, or \$6.6 million biennially, it was expected that the project cost would be fully recovered in approximately eight years. It was also explained that the gains envisaged at the inception of the project had not included the reduction in staffing resources because the Fund had been considered to be understaffed with regard to its client workload. This drawback, according to the information provided to the Committee, had been identified in a risk assessment concluded in December 2005 by an independent consulting firm and also in a high-level business case review, the results of which were reflected in a related study on IPAS presented to the Pension Board in 2008. **While noting the explanation provided by the Fund's representatives, the Advisory Committee is nevertheless of the view that further efficiencies and savings, beyond the reduced information technology infrastructure costs and contractual services, should be identified. In this regard, the Committee notes, for example, that the system's enhanced capabilities could provide a platform for the development of more efficient online self-service tools.**

Service delivery

43. During its consideration of the Pension Board's report, the Advisory Committee enquired as to whether any alternative models of service delivery had been considered by the Pension Fund in view of its growing client base and complexity of its service demands. In this connection, the Committee cited the

example of the global service delivery model that was being considered by the Secretariat of the United Nations. The Committee was informed that the Fund had a clear and concrete mandate, as well as concomitant fiduciary duty to its participants and beneficiaries: ongoing accrual and maintenance of assets and payment of long-term liabilities (beneficiary entitlements) from the Fund. The Committee was also informed that the Fund's operations were already centralized, with the division of responsibilities clearly defined between New York, the main office of the Fund, and Geneva, functioning as a satellite office, and that both followed a global strategy and approach. It was explained that there were no inefficiencies resulting from duplication, or wasteful use of resources, that needed to be addressed with an alternative service delivery model. It was further explained, however, that there was an urgent need to strengthen the Fund's client servicing capacity through the addition of posts to address the growing demand for outreach activities at various duty stations. **Nevertheless, the Advisory Committee is of the view that the Pension Fund should continue reviewing its existing operating structure and office locations to determine whether they optimally meet the Fund's growing service delivery demands.**

IV. Procedure for submission of the report of the Board of Auditors on the financial statements of the Fund to the General Assembly

44. During its consideration of the administrative expenses of the Fund, the Advisory Committee, upon request, received a detailed note from the Board of Auditors explaining its position regarding the procedure for the submission of its annual report on the financial statements of the Fund to the General Assembly. In the note, the Board of Auditors indicated that unlike its other reports, which are presented directly and separately to the Assembly through the Advisory Committee, its report on the financial statements of the Fund is annexed to the report of the Pension Board to the Assembly. The Board of Auditors also indicated that during its review of the practice conducted during its annual audit of the Fund's financial statements it had concluded that the practice was neither in consonance with the founding resolution of the Board of Auditors nor with the resolutions relating to the Pension Fund or its regulations and rules. Therefore, the position of the Board of Auditors, which it supported with references to relevant General Assembly resolutions and regulations of the Fund, was that its report on the Pension Fund should be presented directly and separately to the General Assembly through the Advisory Committee, as is the case with its reports on other United Nations entities under its audit jurisdiction.

45. Upon enquiry, the Advisory Committee was informed by the Board of Auditors that its position had been conveyed to the management of the Pension Fund as well as to the Pension Board at various stages, including during the deliberations on the draft financial rules of the Fund, and later to the secretariat of the Fund on 14 April 2015. Furthermore, the Committee was informed by the Board of Auditors that it had reiterated this position in its statement to the Pension Board at its annual session in July 2015 and that no response had been received from the Pension Board on the matter. Upon further enquiry, the Committee was informed by the representatives of the Pension Fund that the Pension Board had not yet received any proposal from the Board of Auditors reflecting the above position, that the matter had therefore not

been discussed by the Pension Board and its Audit Committee and that, therefore, the Pension Board had not reached any conclusion or position on the matter. Furthermore, the Committee was informed by the representatives of the Pension Fund that the Board of Auditors had not informed the Fund of its intention to raise the matter with the Advisory Committee.

46. **The Advisory Committee notes the views expressed by the Board of Auditors on the procedure for submission of its annual report on the financial statements of the Fund to the General Assembly and sees merit in the position taken by the Board. The Committee also notes the information provided by the Pension Fund in this regard. It is the Committee's understanding that a separate report of the Board of Auditors to the Assembly would not alter the current practice by which the report of the Board of Auditors on the financial statements of the Fund is considered within the same agenda item as the annual report of the Pension Board to the General Assembly. Similarly, it is the Committee's intention to continue providing its comments and recommendations on both reports as per the established practice, within the same agenda item.**

V. Membership of the Investments Committee

47. Article 20 of the regulations and rules of the Pension Fund stipulates that the 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. Accordingly, the Secretary-General conveyed to the Board and to the Committee the names of six regular members for reappointment for a three-year term and one regular member for appointment for a one-year term. **In accordance with established procedure, the Advisory Committee conveyed its views on the above proposals in a letter to the Secretary-General dated 23 October 2015.**

VI. Conclusions and recommendations

48. In his report on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/70/2), the Secretary-General indicates that, at the time of the preparation of his 2016-2017 programme budget proposals, the Fund's budget for the biennium 2016-2017 had not been finalized and that, when finalized, it would still be subject to review by the Pension Board and the General Assembly and that implications for the regular budget, if any, of the action to be taken by the Board and the decision by the Assembly in connection with the budget proposals of the Fund for the biennium 2016-2017 would be the subject of a statement of programme budget implications that would be submitted to the Assembly during its consideration of the report of the Board (ibid., para. 2). The Secretary-General further indicates that, at the time the Fund's budget estimates were prepared, the United Nations share of the administrative budget of the Fund was estimated at $23,869,500, based on one third of specific elements of the budget, of which $13,835,300, or 58 per cent, would be from the regular budget and the balance shared among the funds and programmes (A/70/6 (Sect. 1), para. 1.46). In his present report, the Secretary-General indicates that, on the basis of the Fund's latest data on the number of participants (A/70/325, annex IV),

the regular budget share would need to be revised from 58 per cent to 64.4 per cent (A/C.5/70/2, para. 5). Furthermore, the Secretary-General indicates that the United Nations share of the Fund's budget, as recommended by the Board, would be $22,249,800, of which the regular budget share at 64.4 per cent would amount to $14,328,900, hence his request for an additional appropriation of $493,600 after recosting, to be charged against the contingency fund (ibid., para. 6).

49. Upon enquiry, the Advisory Committee was informed that, should the General Assembly endorse proposals of the Pension Board that would result in an increase in the regular budget share (the most recent example being a charge of $1,865,500 in relation to the proposed programme budget for the 2010-2011 biennium (see A/C.5/64/2)), it has been the practice to propose any additional appropriation required as a charge against the contingency fund. As for the increase in the regular budget share of the administrative budget of the Fund from 58 per cent to 64.4 per cent, the Committee requested, but was not provided with details as to how this increase had been determined. **The Advisory Committee is not in a position to recommend approval of the additional appropriation of $493,600 proposed by the Secretary-General. The Committee trusts that the Secretary-General will provide the additional information in this regard to the General Assembly at the time of its consideration of the administrative expenses of the Fund for the biennium 2016-2017.**

50. **Subject to its recommendations contained in paragraphs 14, 15, 17, 18, 19 (a), 20, 22, 27, 29, 33, 34 and 49 of the present report, the Advisory Committee recommends that the General Assembly approve the recommendations of the Pension Board as contained in paragraph 170 of its report (A/70/325).**