



WORLD TRADE
ORGANIZATION

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WTO PENSION PLAN

REPORT OF THE INDEPENDENT EXTERNAL AUDITOR ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE WORLD TRADE ORGANIZATION PENSION PLAN FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

The report of the independent External Auditor on the audit of the Financial Statements of the WTO Pension Plan for 2022 is attached.

Cour des comptes
FRANCE



EXTERNAL AUDIT OF THE WORLD TRADE ORGANIZATION PENSION PLAN

AUDIT REPORT

FINANCIAL STATEMENTS OF THE
WORLD TRADE ORGANIZATION
PENSION PLAN
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2022

REFERENCE OF THE COUR DES COMPTES: OMC-2023-2



WTO OMC

Cour des comptes



Le Premier président

Paris, - 1 JUIN 2023

To
Mr Jean-Marc VAN DRIL
Chairman of the Management Board of
the Pension Plan of the World Trade
Organization

AUDIT OPINION

We have audited the Financial Statements of the Pension Plan of the World Trade Organization (WTO PP) for the 12-month period ended 31 December 2022. These Financial Statements include a Statement of income and expenditure, the Balance Sheet and additional tables. They have been prepared in conformity to the Status and Rules of procedure of the Plan under the responsibility of the Secretariat of the Management Board of the Pension Plan of the World Trade Organization. They have been established in accordance to the principles and accounting methods in use since the creation of the Plan and they constitute Special Purpose Financial Statements. Our responsibility is to express an opinion on these statements based on our audit.

We have conducted our audit in accordance with the International Standards on Auditing (ISA). These standards require us to plan and perform our audit in order to obtain reasonable assurance that the Financial Statements are free from material misstatements. An audit namely consists in collecting, by sampling, audit evidence regarding the amounts and the information presented in the Financial Statements. It also consists in evaluating the appropriateness of the accounting principles and estimates made by the Secretariat of the Plan, and the overall presentation of the Financial statements. We believe that the evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

In our opinion, the Financial Statements give a fair view of the financial position of the Pension Plan of the World Trade Organization as at 31 December 2022, as well as of the profit and loss result at date, in conformity with the special accounting framework of the Pension Plan of the World Trade Organization.

Emphasis of matter

We alert users that the Financial Statements are prepared in accordance with a special purpose framework and that, as a result, they may not be suitable for another purpose.

Pierre MOSCOVICI

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SUMMARY

The Pension Plan provides retirement, death, disability and related benefits for the staff of the World Trade Organization (WTO). These benefits are funded through contributions received from WTO Members and staff. The surplus resulting from the contributions received less the benefits paid is invested by the Plan. The Plan's investments amounted to assets of CHF 639.6 million at the end of 2022.

The Pension Plan's financial position has deteriorated, with a net asset value down by CHF 97 million compared to the amount at the end of 2021, owing to financial losses incurred on financial investments. These losses amounted to CHF 94 million in 2022, despite the Plan recording a profit on financial investments of CHF 75 million in 2021.

Beyond the cyclical fluctuations in investment returns, the Plan's long-term balance is not assured. The latest actuarial valuation highlighted that the contribution rate actually applied is 10.5% lower than the theoretical contribution rate required to cover future pensions.

The Pension Plan Management Board spent most of 2022 developing a reform proposal aimed at bringing the Plan back to a sustainable position. If no action is taken, the funding gap will increase.

The reform proposal, which was still under discussion at the time of the audit, seeks to take action on a combination of several parameters, mainly an increase in contribution rates for WTO Members and participants, an increase in the retirement age from 65 to 68 years for future staff members, a downward adjustment of the benefits calculation for future staff members and a capital infusion from WTO Members.

The External Auditor has issued an unqualified opinion on the Financial Statements of the Pension Plan for the financial year ended 31 December 2022. The opinion includes an Emphasis of Matter paragraph on the limitations of financial statements presented in accordance with a specific basis of accounting.

I. OBJECTIVES AND SCOPE OF THE AUDIT

1. In accordance with the engagement letter dated 24 November 2020 and with our notifications of 5 October 2022 and 28 March 2023, a team of seven auditors conducted the audit of the financial statements of the World Trade Organization (WTO) and its Pension Plan for the financial year ended 31 December 2022. The audit work was carried out at the WTO headquarters in Geneva in two phases:

- an interim audit mission from 7 to 18 November 2022;
- a final audit mission from 24 April to 12 May 2023.

2. The audit was carried out in accordance with the provisions of the financial and administrative regulations of the WTO Pension Plan, the International Standards of Auditing (ISAs) and the International Standards of Supreme Audit Institutions (ISSAIs) on financial audits.

3. The purpose of the audit was to determine, with reasonable assurance, whether the financial statements fairly present, in all material respects, the Pension Plan's financial position as at 31 December 2022 and the results of transactions recorded during the financial year, in accordance with the Plan's Regulations and Rules of Procedure.

4. The financial statements for the financial year ended 31 December 2022 were submitted to the External Auditor on 3 May 2023.

5. Each observation and recommendation was discussed with the relevant officials. Senior management received the External Auditor's interim report on 26 May 2023 and their written comments have been fully taken into account in this report.

6. The External Auditor has issued an **unqualified opinion** on the Financial Statements of the Pension Plan for the financial year ended 31 December 2022, **including an emphasis of matter paragraph** on the limitations of financial statements presented in accordance with a specific basis of accounting.

II. LIST OF RECOMMENDATIONS

7. The recommendations made are assigned a priority level, decided by the External Auditor:
 - **Priority 1:** fundamental issue requiring management's immediate attention. Indicates the existence of a high level of risk for the management's objectives.
 - **Priority 2:** less urgent control issue to be addressed by management. Indicates an intermediate level of risk.
 - **Priority 3:** issue for which controls could be improved and to which management's attention is drawn. Indicates a moderate level of risk.
8. The External Auditor is not issuing any new recommendations as part of its financial audit of the Pension Plan's accounts.

III. FOLLOW-UP TO PREVIOUS RECOMMENDATIONS

9. The status of the recommendations depends on the extent to which they have been implemented:

- **Closed:** the recommendation was fully implemented under the same conditions as which it was made and in line with its intended objective;
- **Ongoing:** implementation has started in the recommended direction, but actions are yet to be finalized;
- **Open:** implementation has not started (for whatever reason);
- **Lapsed:** an old, unimplemented recommendation, whose implementation would prove unsuitable for the new management conditions, may lapse or be superseded by a new recommendation that better meets the reference quality criteria.

10. The External Auditor had previously made two priority 2 recommendations in support of its audit of the WTO Pension Plan Financial Statements for the financial year ended 31 December 2021.

Table 1: Summary of the implementation of recommendations

<i>Issue</i>	<i>Implemented</i>	<i>Ongoing</i>	<i>Open</i>	<i>Lapsed</i>	<i>Total</i>	<i>Year/ Observation No.</i>
Clarify, with objective and quantitative criteria, what is expected in terms of the long-term balance of the Pension Plan and set a deadline for the achievement of this balance.		X				4.3/2021 (1)
Communicate to employees, beneficiaries and members of the Management Board the actuarial information produced by the actuary EY, as well as the actuarial information produced by the consulting actuary c-alm, and explain the differences and purposes.		X				4.4/2021 (2)

11. The first recommendation is in follow-up to the consulting actuary's 2021 interim actuarial valuation report, which indicated the long-term cost of the Pension Plan was equivalent to a contribution rate of 33.1% at year-end 2021, but the actual contribution rate was 23.7%, i.e. an actuarial gap of 9.4%.

12. The External Auditor had also recommended clarifying, with objective and quantitative criteria, what type of long-term balance the Pension Plan should aim to achieve and setting a deadline for the achievement of this balance.

13. The Secretariat asked the Pension Plan's consulting actuary to give its opinion on how to respond to this recommendation and make the Plan's actuarial communications simpler and more transparent. The consulting actuary analysed three quantitative criteria, namely the required contribution rate, the underfunding/overfunding amount, and the funding ratio. The consulting actuary suggested that the funding ratio (defined as the ratio of existing assets plus future contributions to future benefits plus administrative costs) might be the most appropriate quantitative criterion to measure the funding of the Pension Plan in the future.

14. On acceptable deviations and time frames for correcting a deficit, the consulting actuary advises that the Pension Plan is considered fully funded when a funding ratio of 100% is achieved. Owing to the volatility of the assets market and the uncertainty of actuarial assumptions, the Pension Plan could be considered as balanced when a funding ratio of between 90% and 110% is achieved. If the funding ratio is below 90% in a given year (based on the actuary report), the Management Board should take measures to bring the funding ratio within a range of 95% to 105% within five to seven years. If the funding ratio is below 80%, the Management Board should launch a process that aims to move the funding ratio back within a range of 95% to 105% within three to five years.

15. At its 145th meeting held on 14 February 2023, the Pension Plan Management Board acknowledged that it was important to carefully define acceptable deviations from the actuarial balance, but noted that the implementation of this recommendation went hand in hand with the ongoing reform aimed at restoring the long-term viability of the Plan (see Section 4). In the meantime, the Management Board suggested that it would be useful to investigate what other international organizations use as indicators and criteria for their actuarial position. This item will be discussed again this year.

16. As a result, the External Auditor considers that the recommendation is ongoing.

17. The second recommendation is to communicate to employees, beneficiaries and members of the Management Board the actuarial information produced by the WTO's actuary (as part of the preparation of the IPSAS financial statements) in the same way as the actuarial information produced by the Plan's consulting actuary, and to explain the differences and purposes.

18. This recommendation is taken into account in Statement 2 (balance sheet) of the Pension Plan's Financial Statements, in which explanations are provided on the differences between the open-group valuation of the Plan's consulting actuary and the WTO actuary's termination valuation. In addition, the Plan's consulting actuary will henceforth now include the results of the WTO IPSAS valuation in all the actuarial valuation reports that it produces for the Pension Plan, and explain the differences between the two valuations.

19. As a result, the External Auditor concludes that this recommendation is ongoing and will be implemented once the final report of the consulting actuary has been issued.

IV. OBSERVATIONS AND RECOMMENDATIONS

1. Corrections to the accounts

20. In the course of its audit, the External Auditor did not identify any misstatement that would have required the Plan to modify the financial statements for the financial year 2022.

2. Overview of the financial position of the Pension Plan

2.1 Presentation of the simplified financial position statement

**Table 2: Simplified financial position statement of the WTO Pension Plan
(in CHF)**

	31/12/2022	31/12/2021
<u>Non-current assets</u>		
Investments	639,621,203	737,347,289
<u>Current assets</u>		
Withholding taxes to be recovered	1,693,786	1,775,026
<u>Total non-current assets</u>		
TOTAL ASSETS	641,314,989	739,122,315
<u>Current liabilities</u>		
Accrued expenses	89,004	540,004
<u>Capital</u>		
Capital as at 1 January	738,582,311	665,585,646
Profit / Loss	-97,356,326	72,996,664
TOTAL LIABILITIES	641,314,989	739,122,315

Source: Financial Statements of the WTO Pension Plan (rounded amounts).

21. The Pension Plan provides retirement, death, invalidity and related benefits for WTO staff. These benefits are funded through contributions received from WTO Members and staff. The surplus resulting from the contributions received less the benefits paid is invested by the Plan. The Financial Statements of the Pension Plan set out these operations.

22. The simplified financial position statement of the WTO Pension Plan, given above, shows a deteriorating financial structure, with a net asset value of CHF 641 million at the end of 2022, down CHF 97 million compared to the amount at the close of 2021 given in the previous Financial Statements, due to the investment losses suffered by the Plan.

23. The other receivables amounting to CHF 1.7 million relate to recoverable tax refunds resulting from withholding taxes on dividend payments and coupons received. The other receivables have remained stable in relation to the previous year.

24. Accrued expenses amounted to CHF 0.1 million, down from CHF 0.4 million, but the figure is consistent with that of 31 December 2020. The increase seen in 2021 was due to the late reimbursement to the WTO of health insurance contributions for the fourth quarter of 2021 (payment received on 8 February 2022). Reimbursement payments were not late in 2022.

2.2 Presentation of the simplified income and expenditure statement

Table 3: Simplified income and expenditure statement of the WTO Pension Plan (in CHF)

	2022	2021
<i>Income</i>		
Investment income	0	75,371,340
Organization, contributions	19,770,060	19,486,923
Participants, contributions	9,928,018	9,778,321
Other income	1,078,671	169,180
Reimbursements of insurance claims	657,535	645,051
Total income	31,434,285	105,450,815
<i>Expenditure</i>		
Periodic benefits	28,768,133	27,146,847
Lump sum benefits	4,978,090	3,368,145
Participants' death and disability coverage	0	707,813
Loss on investment	94,016,030	200,913
Administrative expenses	1,028,358	1,030,433
Total expenditure	128,790,611	32,454,151
Profit / Loss for the period	-97,356,326	72,996,664

Source: Financial Statements of the WTO Pension Plan (rounded amounts).

25. The Pension Plan has registered a financial loss on investments of CHF 94 million in 2022, after making a profit of CHF 75 million in 2021. The investment portfolio had a nominal return of -12.9% in 2022, compared to the -12.2% benchmark index of the Pension Plan. As inflation for 2022 in Switzerland was close to 2.8%, the portfolio's real rate of return was therefore -15.7% for the year.

26. Contributions grew by 4.6%, from CHF 29.3 million in 2021 to CHF 30.8 million in 2022, while periodic benefits increased by 6.0%, from CHF 27.1 million in 2021 to CHF 28.8 million in 2022. Lump sum benefits reached CHF 5.0 million in 2022, compared to CHF 3.4 million in 2021. These variations, in terms of contributions, are mainly the result of staff arriving from other international organizations, who are entitled to transfer their pension rights, in recognition of which the first organization transfers the contributions collected. In terms of periodic benefits, the variations are largely due to changes in the number of Plan beneficiaries.

Table 4: Number of participants and beneficiaries as at 31 December

	2022	2021	2020
Participants	705	716	709
Beneficiaries	446	427	408

Source: Financial Statements of the WTO Pension Plan.

27. Thus, in both 2022 and 2021, while contributions were sufficient to cover periodic benefit payments, they did not cover lump sum benefit payments.

28. Lastly, administrative expenses reached CHF 1.0 million and remained stable in relation to 2021.

29. Furthermore, it should be noted that, since 2022, the Pension Plan covers disability benefits, which were previously covered by an insurance policy. That policy was terminated at the end of 2021. The expenditure recorded in 2021 for CHF 0.7 million was therefore not incurred again in 2022. Although this insurance policy has been cancelled, the Pension Plan continues to receive reimbursements linked to disability cases that predated the termination of the contract (CHF 0.7 million in 2022).

3. Accounting standard applicable to the presentation of the accounts of the Plan

30. The Pension Plan of the World Trade Organisation is not a separate legal entity but a component of the WTO.

31. Article 5(d) of the Regulations of the WTO Pension Plan (as amended on 26 July 2017) provides that its Management Board present a report each year to the WTO General Council, giving various pieces of information and in particular (i) an account of the financial transactions during the year, (ii) the balance sheet, [...] (vi) any other decisions taken in connection with the administration of the Plan.

32. The financial statements presented by the Pension Plan and submitted to the External Auditor specifically meet the obligations provided for in this Article. According to the principles and definitions of the International Standard on Auditing (ISA), they are "special purpose financial statements".

33. Article 5(e) of the Regulations of the WTO Pension Plan provides that its accounts are audited by the External Auditors [of the WTO] in a manner agreed with the Management Committee. Since no agreement relating to the external audit of the accounts of the Pension Plan had been concluded, the accounts were audited in accordance with ISA 800 (Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks).

34. As part of the audit procedures, in accordance with the requirements under ISA 800, the External Auditor first sought to obtain from the Plan managers the description of the accounting principles and policies used to produce their accounts.

35. Nevertheless, pursuant to the provisions of ISA 800, paragraph 14, the opinion of the External Auditor includes an Emphasis of Matter paragraph *"alerting users [i.e. the Plan's beneficiaries] that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose"*.

4. Long-term balance of the Pension Plan

36. The last full actuarial valuation of the Pension Plan¹, based on data as at 31 December 2020, identified an actuarial gap of 10.5% (expressed as a percentage of the contribution rate) resulting from the difference between the theoretical contribution rate needed to cover future pensions and the contribution rate actually applied. As a means of illustration, this gap could be closed by an increase of 10.5% in the actual pension contribution rate (from 23.7% to 34.2%, which is referred to as the "required contribution rate" or RCR), or by an increase in the Plan's assets by CHF 380 million with a capital infusion from Members.

37. The Pension Plan Management Board has been working for most of 2022 to develop a reform proposal that aims to bring the Plan back to a sustainable position. But there should be no doubt that if no action is taken, the actuarial position of the Plan will continue to deteriorate, in other words, the funding gap will increase.

¹ 11 February 2022.

38. The Plan's reform proposal was submitted to the Committee on Budget, Finance and Administration on 2 November 2022 (WT/BFA/W/613). The proposal is guided by various principles, including the principle of fairness regarding the burden sharing among stakeholders, and the use of the contribution rate as the element that contributes most to reducing the funding gap (while respecting the 1/3 - 2/3 allocation between participants and WTO Members).

39. The reform proposal submitted addresses several parameters, the main ones being:

- Raising contribution rates from 15.8% to 19.2% for WTO Members and from 7.9% to 9.6% for participants.
- Increasing the retirement age from 65 to 68 years for future staff.
- Reducing the accumulation rate for the purpose of the benefit calculation for future staff: currently, for each year of service for the first 30 years, staff are entitled to a pension accumulation equivalent to 2% of final average remuneration for each year of service, and then 1% for year 31 to year 40. This rate would be revised to 1.5% for year 1 to 5, 1.75% for year 6 to 10, 2% for year 11 to year 32, and then 1% per year after year 32, with total accumulation capped at 70%.
- A capital infusion of CHF 68.77 million from WTO Members.

40. The impact on the actuarial gap of changing these parameters is set out below:

Table 5: Actuarial impact of the changes envisaged in the reform proposal

	Actuarial impact
Contribution rate increase	5.1%
Retirement age increase for future staff members	2.0%
Accumulation rate reduction for future staff members	1.2%
Capital infusion of CHF 68.77 million by WTO Members	1.9%
Other measures	0.3%
TOTAL	10.5%

Source: WTO Pension Plan (update given to the CBFA at the meeting of 8 November 2022).

41. To date, the draft reform of the Plan remains under discussion.

V. ACKNOWLEDGEMENTS

42. The External Auditor extends its thanks to all the teams of the WTO Pension Plan for the assistance provided during the audit.

End of audit observations.

ANNEX: AUDIT ADJUSTMENTS

The work of the External Auditor has not identified any audit adjustments, whether due to errors or judgmental differences.

Audit adjustments	Impact on the statement of financial position					Impact on the statement of financial performance
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net position	
NONE	NONE	NONE	NONE	NONE	NONE	NONE

Source: External Auditor