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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 YEAR ENDED 31 DECEMBER 2020

The Report of the Independent External Auditor on the Audit of the Financial Statements of the WTO Pension Plan for 2020 is attached.

Cour des comptes
FRANCE



EXTERNAL AUDIT OF THE WORLD TRADE ORGANIZATION'S PENSION PLAN

AUDIT REPORT

FINANCIAL STATEMENTS OF THE WORLD TRADE
ORGANIZATION'S PENSION PLAN
FOR THE YEAR ENDED
31 DECEMBER 2020

REFERENCE COUR DES COMPTES: OMC 2021-2



WTO OMC

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I. OBJECTIVES AND SCOPE OF THE AUDIT

1. In accordance with the conditions of our undertaking and our notification letter dated 12 January 2021, a team of five auditors carried out, from 26 April to 14 May 2021, the final audit mission of the financial statements of the World Trade Organization (WTO) and its pension plan (WTOPP) for the financial year ended 31 December 2020.
2. The audit of the financial statements took place in accordance with the provisions of the Organization's financial and administrative regulation for the Pension Plan, International Standards on Auditing (ISA) and International Standards of Supreme Audit Institutions (ISSAI¹) on financial auditing.
3. The financial statements for the year ended 31 December 2020 were sent to the external Auditor on 23 April 2021.
4. Due to the health situation and travel and contact restrictions related to the COVID-19 pandemic, interim and final audit work of the financial statements could not be carried out at the headquarters of the World Trade Organization and were therefore carried out exclusively remotely. Even though the WTO provided computer equipment to auditors to perform this remote work in accordance with the Organization's security rules, these circumstances have nevertheless made it more difficult to access the resources (data and justifications) required to document the statements under review as well as contacts with the persons responsible for administrative and financial services. However, this did not significantly affect the efficiency and scope of the due diligence performed or the assurance given by our opinion.
5. The observations and recommendations were discussed with the relevant managers of the WTO and the Pension Plan, who received a provisional report on 4 June 2021. Their comments (factual and/or formal) and written responses were, where applicable, fully taken into account in the final version of this report.
6. The external Auditor issued **an opinion**, on the financial statements of the Pension Plan for the year ended 31 December 2020, **without reserve and with an observation** relating to the limits on the use of financial statements presented in accordance with a specific accounting framework.

¹ International Standards of Supreme Audit Institutions.

II. LIST OF RECOMMENDATIONS

7. The recommendations made are assigned a priority level, decided by the external Auditor:
- **Priority 1:** fundamental point requiring special attention of the governing bodies and immediate action of the general management,
 - **Priority 2:** point which must be implemented but the implementation may be delayed depending on the circumstances,
 - **Priority 3:** point of improvement of controls, financial reporting or management, brought to the attention of the general management.
8. The external Auditor formulated a single recommendation in support of his audit of the financial statements of WTO's Pension Plan. This recommendation is assigned "Priority 1" as it involves a fundamental point requiring the special attention of the governing bodies of the WTO and the Pension Plan, and immediate action by the administrative managers of the Plan.

Domain	Priority	Recommendation
	1	1. The External Auditor recommends (i) submitting the Pension Plan accounting standard, applied as per use, for a formal approval of the Management Board along with the approval of the 2020 financial statements; (ii) also submitting the option of adopting an appropriate existing accounting standard and, where applicable, deviations to this standard justified by the information of stakeholders of the Plan for presenting the 2021 accounts to the Management Board

III. AUDIT OBSERVATIONS

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

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

9. Article 5(d) of the Plan's regulation (in its amended version updated as of 26 July 2017) provides that its Management Board shall present a report to WTO's General Council every year comprising various elements of information and including (i) an account of the financial transactions carried out during the financial year, (ii) the balance sheet, [...] (vi) all decisions taken in relation with the Plan's administration.

10. The financial statements presented by the Pension Plan and submitted to the External Auditor specifically meet the obligations provided for in this article. According the principles and definitions of international audit standards, they constitute special purpose financial statements.

11. Article 5(e) of the Pension regulation provides that its accounts are audited by the External Auditor [of WTO] under the conditions approved by mutual agreement with the Management Board. Since no agreement relating to the external audit of the Pension Plan accounts had been signed, its accounts were audited in accordance with the international audit standard ISA 800.

12. The question regarding the accounting framework applicable to the Pension Plan has arisen since WTO's adoption of the international public sector accounting standards (IPSAS²) applicable as of the financial year 2017. Article C1 of the rules of procedure of the Management Board stipulates in fact that "the provisions of chapter XI ("External audit of accounts") [...] of the Financial regulation of the WTO are applicable mutatis mutandis to the audit of the accounts of the Plan".

13. After the WTO's Financial Regulation was revised following the adoption of the IPSAS Standard, Chapter XI now concerns financial information and not the external auditing of accounts. Article 32 of chapter XI stipulates "The financial statements of the Organization are drawn up in accordance with the international public sector accounting standards (IPSAS) applicable to the accounting year concerned. Any deviation from the use of the prescribed standards must be set out in the notes to the financial statements" – Since reference to chapter XI is maintained in Article C1 mentioned above, there is an ambiguity in the interpretation of this article.

14. Since the Rules of Procedure of the Pension Plan were revised in July 2017, it could be assumed that the new version of this regulation has taken into account WTO's adoption of the IPSAS standard decided previously, and that it is the mention "external audit" rather than the reference to "chapter XI" that must be considered incorrect; in this case, mutatis mutandis, the IPSAS standard should, by application of chapter XI of WTO's Financial Regulation, be adopted by the Pension Plan. Since the accounting framework and methods of presenting the accounts of the Plan were never clearly mentioned and explicitly associated with the accounts produced, today it is impossible to decide on it.

15. The IPSAS standards did not exist in 1999, when the Pension Plan was created; this justified the definition of a sui generis (article 5(d)) framework for presenting the accounts in the regulation of the Plan. The preparation of the special purpose financial statements can always be set in an equally specific accounting framework (under the control of the External Auditor in terms of its consistency and acceptable nature with respect to the objectives pursued for the stakeholders' information – ISA 800 §8 and ISA 210 §A5-A8). But this room for manoeuvre would exist no longer if the internal regulatory provisions stated otherwise.

² International Public Sector Accounting Standards.

16. **A clarification of the accounting framework applicable to the presentation of WTO's Pension Plan accounts as well as a revision of the internal regulation of the Plan to lift any ambiguity are therefore required.** Pursuant to Article A8 of the Rules of Procedure of the Pension Plan, "the Management board is responsible [...] for the financial controls and maintenance of accounts". If the Management Board is responsible for the preparation of the financial reports of Article 5(d) and if these reports must include a detailed description of the accounting principles and methods adopted by the Plan, it is important that this clarification is subject of an explicit decision of the Management Board.

17. Assuming that the IPSAS standard is not applicable de jure to the Pension Plan, the clarification recommended would benefit from an as close a reconciliation of an existing structured, accounting standard as possible, with the sui generis provisions of Article 5(d) of the Rules of Procedure continuing to be extremely inaccurate.

18. As of date, no IPSAS standard specifically deals with Pension Plans (the production of a specific IPSAS 26 standard is registered in the working plan of the IPSAS Board³, but would be finalized only by end of 2022. However, the Organization voluntarily refer to the conceptually proven provisions of the IPSAS 3 standard, which calls for "making use of the judgement to develop and apply an appropriate accounting method", and considering "(a) the most recent official positions of other accounting standards bodies, and (b) the accepted practices of the public or private sector [...]", including the positions of the IASB (International Accounting Standards Board), the IFRS (International Financial Reporting standards), etc. In such a legal and normative framework, the Organization shall remain free to adopt deviations for the specific needs of users of the Pension Plan account.

19. To supervise his audit procedures, in accordance with the requirements of the international standard ISA 800, the External Auditor first sought to obtain the description of the accounting principles and methods applied to the production of their accounts from the Plan managers. It appeared that in fact, these resulted from practices that were partly customary, partly prescribed in scattered documents and for some old ones, the official character of which could not be assured in all cases.

20. Section 15 of the aforementioned standard ISA 700, which continues to apply in the formulation of the opinion on the accounts, prescribed to the External Auditor "for assessing, whether the financial statements fell adequately within an accounting framework or describe the one that is applied". Failure to be able to refer to any explicit accounting framework, even if only to direct the audit of the accounts and base the formulation of his opinion, the External Auditor would have had to resolve to issue a disclaimer on the accounts of the Pension Plan, submitted to him.

21. The External Auditor is pleased to recognise the spirit of cooperation of the Plan managers and the efforts deployed by their collaborators to bring about a solution to the problem raised. Albeit late, a document was prepared comprehensively mentioning and providing details of all, previously disseminated accounting principles and methods, underlying the establishment of the Plan's financial statements. Although this document is not official in nature and was not incorporated in the signed and approved financial statements, submitted to the External Auditor, the compliance of these statements to the principles and methods adopted in previous years could therefore be established, at the cost of additional audits.

22. Despite the formal inadequacy of the aforementioned document, the External Auditor, concerned about giving preference to substance over form, ultimately formulated an opinion, without reservation on the Pension Plan accounts submitted to him for review.

³ *International Public Sector Accounting Standards Board.*

23. However, pursuant to the provisions of the standard ISA 800 §14, this opinion has a formal observation (emphasis of matter) attached to it "warning the users [i.e the beneficiaries of the plan] about the fact that these financial statements are prepared in accordance with a specific purpose standard and that consequently, it is possible that they cannot be used for any other purpose."

Recommendation No. 1. The External Auditor recommends (i) submitting the Pension Plan accounting standard, applied as per use, for a formal approval of the Management Board along with the approval of the 2020 financial statements, (ii) also submitting the option of adopting an appropriate existing accounting standard and, where applicable, deviations to this standard justified by the information of stakeholders of the Plan for presenting the 2021 accounts to the Management Board.

2. Other audit observations

24. The External Auditor's other observations relating to the valuation of net assets and Pension commitments and the basic implementation and actuarial assumptions can be found in the audit report of WTO's financial statements to which the reader may refer.

IV. ACKNOWLEDGEMENTS

25. The external Auditor sincerely thanks all the World Trade Organization's Pension Plan teams for their availability and the quality of information provided during the audit, given that the circumstances caused by the health crisis weighed heavily on the conduct of this mission.

End of audit observations.
