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COMPLIANCE AUDIT:
2016 FINANCIAL STATEMENTS OF
THE GENERAL PENSION FUND
SINT MAARTEN



General Audit Chamber

Algemene Rekenkamer

This report is an English translation of the original document entitled "Rechtmatigheidsonderzoek: Jaarrekening 2016 van het Algemeen Pensioenfonds Sint Maarten". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

PREAMBLE

In this report the General Audit Chamber presents the results of the audit of the 2016 Financial Statements of the General Pension Fund Sint Maarten (Algemeen Pensioenfonds Sint Maarten – APS).

With a coverage ratio of 99.6% (2015: 92.6%), the situation at APS is again not optimal. To date, the Fund has failed to follow up on our (repeated) recommendation to draft and implement a recovery plan for improving the coverage ratio to a level of at least 105%.

The Minister of Finance plays an important role. Not only does he bear administrative responsibility for APS, he also must safeguard the interests of the participants. The ongoing issue of the financial settlement of Government's outstanding claims to APS, is not helpful.

The improvement of APS's coverage ratio at the end of 2016, is essentially due to the adjustment of the retirement age from 60 to 62 years.

Based on the proposed pension reform, the retirement age will increase to 65 years. The adjustment of the retirement age will, once again, positively influence the coverage ratio, because the period of benefit will be shorter while premiums will be paid for a longer time. We hope that APS is able to improve the coverage ratio in the near future, by means other than a change to the pension scheme that is burdensome to the participant.

We look forward to APS's recovery plan and believe that the interests of the participants can be secured if all parties take their respective responsibility.

Ronald C. Halman

Chairman of the General Audit Chamber

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SUMMARY

Based on article 26 of the National ordinance General Pension Fund Sint Maarten, the General Audit Chamber performed an audit on APS's 2016 Financial Statements.

Our report provides the Minister of Finance and Parliament with information as to whether APS's 2016 Financial Statements presents a true and fair representation of the Fund's financial situation. The report also provides information about APS's legal compliance. Moreover, we provide insight about the adequacy of the internal control measures used in the application and amendment process of the participant administration, which is essential to its reliability. Our report is public; therefore the participants of the Fund can also take note of the results of our research.

The financial situation at APS is troubling. At the end of 2016, outstanding claims total ANG 172.4 million (2015: ANG 153.3 million). The largest outstanding claim is against Government, namely ANG 102.7 million.

In addition, there is increased uncertainty regarding the valuation of claims, specifically, ANG 37.1 million (2015: ANG 25.8 million). In this regard, the uncertain claim against Government is the largest, namely ANG 19.1 million. In addition, the settlement date of a ANG 20.2 million claim against Government (based on the debt payment basic agreement), is uncertain.

For the third consecutive year, the coverage ratio of APS is below the minimum limit of 100%. The increase in the coverage ratio from 92.6% in 2015, to 99.6% in 2016, is essentially due a change in the retirement age from 60 to 62 years¹, and the reduction of the accrued benefits² of not-yet-retired participants. As a result, the accrued benefits of these participants is worth approximately 11% less.

With regard to the participant administration, APS's control measures appear to be insufficient to ensure that participant data is recorded correctly and completely, and thus guaranteeing reliability.

We are of the opinion that APS's 2016 Financial Statements provides a true and fair representation of the financial position of the Fund, and the financial results as of December 31, 2016, with the exception of the following qualifications.

The qualifications relate to the uncertain valuation of ANG 37.1 million in outstanding claims, the lack of clarity regarding the settlement date of the ANG 20.2 million claim against Government, as well as the inadequacy of the internal control measures regarding the application and amendment process required to ensure the reliability of the participant administration. As a result, uncertainty exists regarding the size of the pension obligation provision stated on the Balance Sheet.

¹ National ordinance of the 11th of April 2016 amending the National Ordinance Civil Service Pension, the National Ordinance age limit civil servants and the Redundancy Scheme for civil service in connection with the increase of the retirement age.

² In the pension world, this is described as the accrued rights (amounts) of participants for their pension.

We conclude that APS is legally compliant, with the exception of a few stipulations. Based on the findings regarding the foreign investment portfolio, we are not certain whether APS was fully 'in control'³ in 2016. As a result, there is a risk that the Fund did not maximize the return on the foreign portfolio.

³ This means that the board has insight into the actual ins and outs of the pension fund and can adjust the associated risk accordingly. Source: Appendix II to Article 2 of the Designation decision board and board member profile of the General Pension Fund Sint Maarten.

RECOMMENDATIONS

In our previous report, we requested specific attention for the following recommendations: drafting and implementing a phased plan (hereinafter: recovery plan), securing certainty regarding outstanding claims, and improving the confidence in the accuracy and comprehensiveness of the participant administration. Our evaluation shows that these recommendations have not been fully met. There is still no recovery plan in 2018, although the intention for drafting a plan exists. Moreover, the size of uncertain claims has increased, and the participant administration is, in our opinion, not yet reliable.

Based on our findings and conclusions, we issue the following recommendations for improving the Fund's financial management:

- Prepare and implement a realistic recovery plan for achieving a coverage ratio of at least 105% before December 31, 2018 (see section 2.4);
- ensure that prior to December 31, 2018, an agreement is reached regarding the uncertain claims against Government, the other participating organizations as well as the General Pension Fund Curaçao. In addition, assure that the Fund takes action to financially settle the claims as quickly as possible (see section 2.2);
- make sure that the participant administration is reviewed at an (individual) participant level before December 31, 2018, in order to increase the confidence in the accuracy of the administration (see section 2.3.1);
- evaluate the descriptions of the application and amendment process for participants before December 31, 2018, and identify the measures necessary to safeguard the reliability of the participant administration (see section 4.2);
- ensure that prior to December 31, 2018, a policy regarding the method of rounding off the actuarial rate has been adopted (see section 2.3.2);
- investigate whether the mortality rates used are still suitable (see section 2.3.2);
- complete the risk management process before December 31, 2018 (see section 3.2);
- ensure that the board regulation comes into force by national decree (see section 3.1).

In addition, we make the following recommendations to the Minister of Finance:

- reach agreement, prior to December 31, 2018, regarding Government's debt to APS, and settle all outstanding debt (section 2.2);
- decide on APS's personnel regulations prior to December 31, 2018 (see section 3.1);
- ensure that in future, APS's approved budgets are submitted to Parliament in compliance with the statutory date (see section 3.1);
- make sure that the financial statements and the annual report are presented to Parliament shortly after their adoption (see section 3.1);
- take steps, going forward, to have a copy of the annual report of the Central Bank of Curaçao and Sint Maarten, regarding supervision of the Fund, sent to APS (see section 3.1).

1 OUR AUDIT

1.1 Basis for the audit

APS is subject to audit by the General Audit Chamber.⁴ Based on this, we conducted an audit on their 2016 Financial Statements.

In addition, we also conducted research into the reliability of the participant administration. A reliable participant administration is important for the calculation of the entitlements and benefits of the participants. There are risks that pose a threat to the accuracy and comprehensiveness of the participant administration. For example, the risk that the Fund does not correctly or completely process the registration of applicants in the participant administration. In this context, we assessed whether the existing internal control measures⁵ ensure that all application and amendment⁶ requests from participants are registered correctly and completely in the participant administration, and that the reliability of the registered data is safeguarded.

1.2 The objectives and audit questions

Our audit is aimed at providing information about the financial situation and the APS's legal compliance. We also provide insight into the reliability of the participant administration. By means of our recommendations we inform APS, the Minister of Finance and Parliament about items that require improvement.

In order to realize our audit goal, we answer the following questions:

1. Does APS's 2016 Financial Statements provides a true and fair representation of the Fund's financial position as of December 31, 2016, and the result for the year 2016?
2. Did APS comply with the following in 2016:
 - the National ordinance APS and related regulations and guidelines?
 - other relevant laws and regulations?⁷
3. Are the internal control measures used for the application and amendment process of APS's participant administration sufficient to secure its reliability?

⁴ Article 26 of the National ordinance APS.

⁵ Control measures are measures aimed to prevent risks, and to signal when something goes wrong, or when risks occur, to limit their impact. Derived from *330 Respond to assessed risks by the auditor*, Accountancy Accounting Manual (HRA), 2017, article 4, section b.

⁶ Amendments include: payment of pension, cancellation of pension, allocation of pension, change of name, address and place of residence details, salary changes, part-time percentage, and other changes that are important (for example those that occur on the application form or that have an impact on the calculation of the pension of the participant).

⁷ For example, the National Ordinance Civil Service Pension, foreign exchange regulation implementing the National Ordinance on Foreign Exchange Transactions from the Central Bank of Curaçao and Sint Maarten, imposed regulations by the Minister of Finance and internal regulations of APS.

1.3 Audit methodology

For our audit of the 2016 Financial Statements, we analyzed the financial statements and related documents, and we conducted interviews with APS's external auditor, its investment committee, its audit committee and management. Based on our review of the work carried out by APS's external auditor, we concluded that the information could be used for our audit. Finally, we engaged an external actuary to assess the actuarial assumptions used to determine the pension obligation provision ("voorziening pensioenverplichting", hereinafter: VPV).

For our review of the internal control measures concerning the application and amendment process of the participant administration, we met with APS's management to explain our audit and confirm our standard framework. We also conducted an interview with the manager and a senior employee at the department "Pensioenuitvoering & Rapportage" (hereinafter: P&R), and analyzed documents.

1.4 Reading guide

In chapter two, we discuss the findings with regard to the financial position and APS's financial result. We end the chapter with our opinion regarding the first audit question. The results regarding APS's legal compliance are presented in chapter three. As such, we answer the second audit question. In chapter four, we answer the question whether the internal control measures used for the application and amendment process concerning APS's participant administration are sufficient to secure its reliability.

On August, 3, 2018, the board of APS responded to our report. Based on that response, we drafted our epilogue. Both, the response from the board, as well as our epilogue are included in chapter five.

2 THE FINANCIAL STATEMENTS

APS is charged with the execution of the National Ordinance Civil Service Pension ("Pensioenlandsverordening overheidsdienaren" - hereinafter: Plvo).⁸ This means that APS is responsible for managing the pension of civil servants as described in article 4 of the Plvo.⁹ The manner in which APS provides accountability, is stated in chapter IV "Accountability" of the National ordinance APS ("Landsverordening" - hereinafter: Lv APS). The accountability is presented in the form of annual financial statements. The financial statements must show, among other things, the financial position of APS.¹⁰ For a pension fund the coverage ratio is used to represent the financial position.¹¹ The coverage ratio provides an indication of the financial health of the Fund. For the coverage ratio to be correct, it is important that the financial statements provide a true and fair representation¹².

In this chapter, we report our findings on the 2016 Financial Statements. We conclude the chapter with our opinion, which answers the first audit question:

"Does APS's 2016 Financial Statements provides a true and fair representation of the financial position as of December 31, 2016 and the result for the year 2016?"

2.1 Corrections relating to the financial year 2015

According to article 60 of the Plvo, a participating organization must pay pension premiums to APS before the end of the month. If APS does not receive the premiums on time, it will charge a statutory interest starting on the day after the final payment is due, until the date of receipt of the payment. In the years 2011 to 2015, APS incorrectly calculated the statutory interest on the outstanding claims. The Fund corrected this in the 2016 Financial Statements. The correction produced a reduction of ANG 2.1 million on the previously reported result for 2015, and a decrease of the coverage ratio to 92.6%, instead of the previously reported 93.2%.

2.2 Claims

At the end of 2016, APS's total outstanding claims amounted to ANG 172.4 million (2015: ANG 153.3 million). This increase in the amount of the claims was mainly caused by the non-payment of invoices related to the 3% difference in pension contribution¹³. Graph 1 shows which organizations owe APS, as well as the amount owed.

⁸ Article 3, first paragraph of the National ordinance APS.

⁹ This includes, among others, employees employed by the Country, teachers and employees of Government related organizations of Sint Maarten.

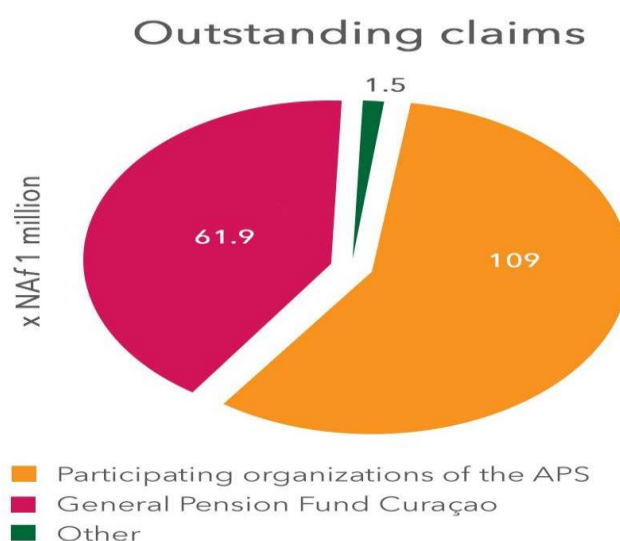
¹⁰ Article 18, fourth paragraph of the National ordinance APS.

¹¹ The coverage ratio is calculated by dividing the pension assets (total assets minus debts to third parties) of the Fund by the pension obligation provision.

¹² With "true and fair representation" we mean a correct and complete representation.

¹³ This concerns the difference of 3% between the collected 22% and the statutory pension contribution of 25% for the period October 10, 2010, up until December 31, 2015.

Graph 1: Overview of outstanding claims of APS as of December 31, 2016



Outstanding claim against the participating organizations of APS

At the end of 2016, the outstanding claims against participating organizations consisted of a claim against Government,¹⁴ amounting to ANG 102.7 million, and a claim against other participating organizations of ANG 6.3 million. The valuation of ANG 24.3 million of these claims, is uncertain. APS has not reached an agreement on the outstanding claim of ANG 4.4 million relating to the other participating organizations, nor on the outstanding claim against Government of ANG 19.9 million. The (former) Minister of Finance,¹⁵ indicated that his intention was to conduct an internal investigation into the latter claim with assistance of the Government Accountant Bureau (“Stichting Overheidsaccountantsbureau” – SOAB). The Minister suggested comparing the amount of the claim against the Government’s administration, analyzing any material differences, after which decisions regarding the differences would be taken, in consultation with APS.¹⁶ The Minister set no deadline within which he intended to carry out the internal investigation. We believe it is important that this research is completed by the (current) Minister of Finance.

Finally, APS has a claim against Government of ANG 20.2 million, based on the debt payment basic agreement.¹⁷ The Ministry of Finance has indicated that due to the poor liquidity position of Government (especially after hurricane Irma), it has not yet paid the ANG 20.2 million. A timeline for settling the amount is not known.¹⁸ Due to the lack of information, the timing of the financial settlement remains uncertain.

¹⁴ Government includes: Government of the Country Sint Maarten, the High Councils of State and the schools as referred to in Article 4, subsection e of the National Ordinance Civil Service Pension APS.

¹⁵ Mr. M.J. Ferrier.

¹⁶ The Minister of Finance confirmed this in his letter to APS dated January 24, 2018, with reference DIV-2529.

¹⁷ For further information about the debt payment basic agreement, please refer to our audit report of the 2014 Financial Statements of APS, (2016), page 12 and Compliance Audit 2015: Financial Statements of the General Pension Fund, (2017), section 2.4.

¹⁸ Minutes of the meeting with the secretary general of the Ministry of Finance dated June 21, 2018.

Outstanding claim against the General Pension Fund Curaçao

At the end of 2016, APS maintained a claim against the General Pension Fund Curaçao ("Algemeen Pensioenfonds Curaçao" - hereinafter: APC), in the amount of ANG 61.9 million. This claim consists of:

- ANG 34.6 million resulting from the division of the assets and liabilities with the General Pension Fund of the Netherlands Antilles;
- ANG 27.3 million resulting from the redistribution of the participants from the APC, the Pension Fund of the Dutch Caribbean, and APS.

In 2017, APC settled ANG 49.1 million of this claim. APS and APC are analyzing the remaining ANG 12.8 million. No agreement between APS and APC has been reached to date. APS wants to determine the extent to which the claim can be collected by the end of August 2018. Because of a lack of agreement, the valuation of ANG 12.8 million remains uncertain.

Including the aforementioned claim of ANG 12.8 million, the valuation of ANG 37.1 million, or 21.6% of the outstanding claims as of December 31, 2016, (2015: ANG 25.8 million) remain uncertain. In the short term, APS must reach agreement about these uncertainties, and arrange for the financial settlement of the outstanding amounts. The longer it takes to settle, the longer the Fund is unable to invest these funds in the service of their mission. The mission is to achieve the highest possible return on the assets of the Fund, considering proportionate financial risks, so as to contribute to the well-being of the Fund's members and safeguarding their future pension payment.

2.3 Pension obligation provision

On December 1, 2017, APS's actuary issued an actuarial statement regarding the financial year 2016. His opinion on the VPV is as follows¹⁹:

"The pension obligation provision, considered as a whole, has been adequately determined in accordance with the described calculation rules and principles."

The VPV is the amount that a pension fund must have at its disposal in order to be able to fully meet its obligations arising from the pension scheme (pension to be paid out) to its participants. At the end of 2016, APS's VPV amounted to ANG 623.8 million (2015: ANG 602.2 million). The VPV is calculated based on the participant's registered data, and predictions with respect to the future, also called actuarial assumptions²⁰. For the calculation of the VPV it is essential that the participant administration is accurate and complete, and that the actuarial assumptions are prudent.

¹⁹ Actuarial Statement Willis Towers Watson dated December 1, 2017.

²⁰ These are assumptions which are, among other things, used to calculate the pension obligation provision and the pension contributions. Examples of actuarial assumptions are: actuarial rate, mortality expectations, disability probabilities, future wage developments and cost increases.

2.3.1 Accuracy and comprehensiveness of the participant administration

Based on his audit on the participant's basic data²¹, APS's external auditor declared that the participant administration basic data, with the exception of one qualification, is accurate, complete and in accordance with the underlying documents in the participant files. APS's actuary needed to carry out additional work on the basic data before he could use the information to form his opinion on the adequacy of the VPV.

In his certification report, APS's actuary issued the following recommendations to APS regarding the quality of the basic data²²:

- "As in previous year, the auditor has issued restrictions on the statement of the basic data. In view of the expected transition to an average pay scheme as of January 1, 2017, we recommend checking the administration at a [individual] participant level and make corrections where necessary.
- We note that a lot of changes of considerable value have been made that relate to earlier financial years (retroactive changes). We recommend to further improve the amendment process, so that fewer corrections are needed in the future."

We endorse the recommendations issued by APS's actuary, and have already requested attention for the participant administration in previous reports regarding the financial statements.

In respect to the importance of an accurate and complete participant administration, we have investigated its reliability. Based on our research, the results of which are described in chapter four, we conclude that the internal control measures are not sufficient to secure a reliable participant administration.

2.3.2 Prudence of the actuarial assumptions

The actuarial assumptions used by APS for the calculation of the VPV are stated in the 2016 Financial Statements.²³ Two of the fundamental assumptions which are important for determining the level of the VPV are the actuarial rate and the mortality rates.

Actuarial rate

The actuarial rate is a value which is used to calculate the amount of money a pension fund currently needs, in order to fully pay (future) pensions of participants. In general, the actuarial rate is based on the expected risk-free return. It is important that the estimate of the actuarial rate is not excessively optimistic. After all, consistently using a higher actuarial rate results in a low VPV, which could result in insufficient reserves to fully pay the future pension of the participants.

²¹ Date of birth of the participant, deferred participant, pensioner, partner of the pensioner, deferred orphans; sex, date of marriage / divorce, date of death, participation date, retirement date, income data (among which: salary, part-time percentage, disability percentage, income limits).

²² Certification report financial year 2016 General Pensioen Fund Sint Maarten, Willis Towers Watson, 2017.

²³ General Pension Fund Sint Maarten, Financial Statements for the year ended December 2016, page 49 and 50.

In 2016, APS adopted a policy with regard to the method for determining the annual actuarial rate. For the calculation of the 2016 actuarial rate, a bandwidth of 0.25% was used. This means that the actuarial rate is adjusted only when it differs by more than 0.25% compared to the actuarial rate of previous year. On December 31, 2016, the actuarial rate was calculated at 3.75%. APS indicated that no policy has been adopted regarding the method of rounding off²⁴ the actuarial rate. We advise APS to adopt a policy. In our opinion, a policy contributes to the consistency of rounding off of the actuarial rate.

Mortality rates

If a pension fund knows the average life expectancy of its participants, then it also knows (presumably) how much money it has to pay out in the future. That is why it is very important to estimate the life expectancy as accurately as possible. To calculate the VPV in 2016, APS again used the GBM/V²⁵ 2000-2005 mortality table, with subsequent corrections.²⁶

Despite APS's corrections to the mortality table, we find it to be relatively outdated.²⁷ Moreover, the mortality table is based on the mortality assessments of the entire Dutch population. This Dutch population is not necessarily representative of the population of Sint Maarten. In addition, APS also does not take into account a further increase in life expectancy after the 10-year period. We advise APS to further investigate whether the mortality rates used, are still appropriate, as decreased mortality expectations may lead to a low calculation of the VPV.

2.4 Coverage ratio

A coverage ratio of 100% means that the Fund is just able to meet its future pension obligations. However, with a coverage ratio of 100%, the pension fund cannot withstand general and financial risks. To avoid this situation, a minimum coverage ratio is need. APS's policy stipulates a minimum coverage ratio of 105%.²⁸

At the end of 2016, APS's coverage ratio was 99.6% (2015: 92.6%). The year-over-year increase in the coverage ratio is primarily due to the increase of the retirement age from 60 to 62 years²⁹, whereby the accrued benefits of participants did not increase. In other words, the two-year postponement of the obligation to pay pension to the participants, and not increasing their accrued benefits, resulted in a considerable improvement of APS's financial position at the end of 2016. Conversely, the position of the participants deteriorated; they are required to work two more years, while the accrued benefit remains unchanged. The value of the benefits of the not-yet-retired participants has therefore been reduced by approximately

²⁴ For example, rounding off at five or ten hundredths.

²⁵ GBM/V stands for Entire Population Men respectively Women.

²⁶ APS has corrected this table with an increase for future life expectancy of 1 year for men, and 2 years for women. In addition, at the end of 2016, the VPV was increased by 3% in order to account for an increase in future life expectancy of the participants by 1 year over the next 10 years.

²⁷ The most recent mortality table is GBM/V 2011-2016, released on July 11, 2017.

²⁸ Actuarial and business technical note, General Pension Fund Sint Maarten, (2016), section 6.3.

²⁹ National Ordinance of the 11th of April 2016 amending the National Ordinance Civil Service Pension, the National ordinance age limit civil servants and the Redundancy Scheme for civil service in connection with the increase in the retirement age.

11%. This means that a participant whose accrued benefits were valued at ANG 10,000, are now worth approximately ANG 8,900.

We note that when determining the coverage ratio, it is assumed that the assets are valued accurately, completely and at fair value. In section 2.2 we stated that there is uncertainty about the valuation of ANG 37.1 million in outstanding claims.

For three consecutive years, APS did not attain a minimum coverage ratio of 100%. We expressed our concern about APS's inadequate coverage ratio in several reports. In our reports regarding APS's 2013, 2014 and 2015 Financial Statements³⁰, we repeatedly recommend that APS draft and implement a recovery plan³¹. In 2017, APS's actuary advised the Fund to draft a recovery plan.³² APS indicated that it intends to draft a recovery plan. The proposed amendment to the pension legislation already contains elements that will be part of the recovery plan.

In January 2017, as a precursor to future pension legislation, APS signed an agreement with labor representatives (unions) of civil servants, the Minister of Finance and the Minister of General Affairs.

By adopting the agreement, the signatories agree to the following obligations:

- the Minister of General Affairs has a best-effort obligation regarding the initiative to amend the pension legislation in accordance with the agreement. If he fails to do so, non-compliance could result in liability on the part of Government;
- APS has the obligation to draft a recovery plan within three months if the approved 2017 Financial Statements report a coverage ratio below 100%;
- APS and the Minister of Finance must conclude an agreement concerning the payment of outstanding premium payments, if the amended pension legislation retroactively goes into effect.

If the proposed pension legislation goes into effect retroactively, there will be consequences for the scope of the outstanding premium payment because, as of the date of implementation of the legislation, the premium percentage will be reduced from 25% to 18%. With a reduced premium percentage, the debt decreases for the retroactive period. The agreement stipulates that APS and Government must conclude an arrangement concerning the payment of outstanding premiums if the proposed pension legislation retroactively goes into effect. We consider the achievement of such an agreement important in order to provide surety regarding payment of the debt.

In our opinion, it is unacceptable towards participants – as it relates to their benefits – to retroactively reduce the pension premium in the absence of clarity regarding payment of the outstanding premiums.

³⁰ www.arsxm.org.

³¹ The recovery plan must show what measures the Fund will take to achieve a minimum coverage ratio of at least 100% within an expected timeframe.

³² Certification report financial year 2016 General Pension fund Sint Maarten, Willis Towers Watson, 2017.

APS reported that during a meeting in January 2018, the Minister of Finance³³ verbally agreed that the pension legislation will not enter into effect retroactively. We hope the Minister of Finance will comply with this verbal agreement.

Finally, APS and Government signed a financing agreement in May 2017. Among others, parties agreed that within the framework of an APS recovery plan, Government will finance an increase of the pension premium to a maximum of 19.3%. Government will do this at the moment that APS's coverage ratio threatens to fall below 100% as a result of the implementation of required changes of actuarial assumptions, though, only after the reduction of the accrual premium.

APS indicated that it has not yet taken any measures should Government fail to meet its obligation to finance a pension premium to a maximum of 19.3%.³⁴ Non-compliance of Government will have negative consequences for the pension of APS's participants. Given the financial situation of Sint Maarten, and the uncertainties related to the claims, it is appropriate for APS to reach agreement with Government, and indicate the steps to be taken if the agreement is not fulfilled.

2.5 2016 result

APS reported a positive result of ANG 41.8 million for 2016 (2015: ANG 29.5 million negative). We determined that the bonds listed on the balance sheet are overvalued by ANG 0.8 million. Consequently, the result and the coverage ratio are overstated in the 2016 Financial Statements. This error influences the coverage ratio by 0.14 percentage points. APS indicated that given the very limited impact on the coverage ratio, they did not correct the error in the 2016 Financial Statements, but will do so in the statements of the subsequent year, 2017.

2.6 Opinion regarding the Financial Statements

Based on our audit, we are of the opinion that APS's 2016 Financial Statements provides a true and fair presentation of the financial position as of December 31, 2016, and the result for the year 2016, with the exception of the possible effects related to matters described below.

The possible effects, or qualifications are:

1. APS has not yet reached an agreement regarding the amount of the following claims:
 - APC ANG 12.8 million;
 - Government ANG 19.9 million;
 - participating organizations ANG 4.4 million.

In total, there is uncertainty about the valuation of ANG 37.1 million.

2. Uncertainty about the settlement date of the claim against Government for ANG 20.2 million, based on the debt payment basic agreement.

³³ Mr. M.J. Ferrier.

³⁴ Minutes of the meeting with the management of APS dated December 6, 2017.

3. Internal control measures concerning the participant application and amendment process are insufficient to ensure the reliability of the participant administration. As a result, there is uncertainty about the size of the balance sheet item Pension obligation provision.

3 COMPLIANCE

In carrying out its duties, APS must comply with the applicable laws and also with internal and external regulations.

In this chapter we answer the following audit question:

“Did APS comply with the following in 2016”:

- the National ordinance APS and related regulations and guidelines
- other relevant laws and regulations?”³⁵

3.1 Legislation

In 2016, APS failed to comply with all stipulations of the Lv APS, because:

1. the board was not complete (article 5, first paragraph);
2. there was no deputy chairman (article 5, paragraph eight);
3. the budget adopted by the board was not submitted to the Minister of Finance on time (article 17, second paragraph);
4. no screening was carried out prior to hiring a (co-) policymaker³⁶ (based on article 5, fifth paragraph).

At the time of the writing of this report, we determined that APS took action, that resolved the first three legal deficiencies in 2017.

Ad 4

Based on article 5, fifth paragraph of the Lv APS, the Minister of Finance adopted profiles for the board and board members. The profile states, among others, that all (co-) policymakers of APS must successfully complete the screening and expertise review of the Central Bank of Curaçao and Sint Maarten’s (hereinafter: CBCS), prior to the starting their function.³⁷ We concluded that the managing director of APS was in function prior to the CBCS screening. Afterwards, the CBCS carried out the screening which was successfully completed by the managing director.³⁸ The board of APS is responsible for ensuring that the process of appointment is done in accordance with specified requirements. We believe that this is particularly important for a so-called vital function³⁹. APS has not informed the Minister of Finance nor the CBCS, why the Fund deviated from procedure.

³⁵ For example, the National Ordinance Civil Service Pension, foreign exchange regulation implementing the National Ordinance on Foreign Exchange Transaction from the Central Bank of Curaçao and Sint Maarten, imposed regulations by the Minister of Finance and internal regulations of APS.

³⁶ This means the board and the management.

³⁷ Appendix I to Article 1 of the Designation decision Board and Board member profile of the General Pension Fund Sint Maarten, section 4.4.

³⁸ Letter from the CBCS dated August 9, 2016 with reference SMS/mmh/2016-009806.

³⁹ These are functions that may only be filled by persons, who after review, are proved to not pose a risk to the national security of other vital interests of the Country. Source: article 43, of the National Decree establishing security functions and implementation of security screening.

Although APS is not obliged to do so, they chose to adopt a board regulation based on article 6, sixth paragraph of the Lv APS. The regulation requires approval by national decree in order to enter into force. Adoption of the regulation occurred in 2012, but due to the lack of a national decree, it is yet to enter into force. We recommend approval of the board regulation by means of a national decree. The board regulation states, for example, that APS must submit quarterly reports to the Minister of Finance, and requires an annual self-evaluation with notification of the result to the Minister of Finance. The monthly reports, prepared by APS, are currently reviewed by the external auditor.⁴⁰ The board's self-evaluation was done in February 2017.⁴¹ So far, APS has not sent the quarterly reports nor the results of the self-evaluation to the Minister of Finance. This information could have been useful to the Minister of Finance in the performance of his duties.

APS falls under the responsibility of the Minister of Finance.⁴² The authorization and responsibilities are granted by the Lv APS. The table below, indicates the stipulations in which the Minister of Finance failed to act in accordance with the Lv APS. Our recommendation for each deviation is included as well.

Table 1: statement of unlawful deviations of the Minister of Finance and the recommendations for improvement

Article No APS	Deviation	Recommendation
10, fifth paragraph	The minister has not formed an opinion on the conformity between the personnel regulations and rules that apply to civil servants.	Take a decision on the personnel regulations before December 31, 2018.
17, seventh paragraph	The minister did not send the approved 2016 budget to Parliament.	Ensure that the approved budget is presented to Parliament and that this takes place before the end of the year preceding the year to which the budget relates.
18, ninth paragraph	The adopted 2016 Financial Statements and annual report, were not submitted to Parliament.	Ensure that the adopted financial statements and the annual report, are sent to Parliament within a short period of time.
24, second paragraph	The minister did not send the CBCS report to APS.	Ensure that a copy of the report from the CBCS is sent to APS, so that the Fund is informed about the results of supervisory activities and any items requiring attention.

As the designated authority⁴³ for APS, we expect the Minister of Finance to take and execute responsibility in order to ensure that APS and Parliament are provided with timely information to support performance of their respective tasks.

⁴⁰ Minutes of the meeting with the management of APS dated February 19, 2018.

⁴¹ Willis Towers Watson, *APS Board self-evaluation*, dated February 23, 2017.

⁴² Explanatory Memorandum AB 2010, no. 64 / AB 2013, GT no. 65.

⁴³ The term designated authority means that the Minister of Finance must be able to give account to Parliament for APS, and he has the right to draw up additional rules for the board to improve the performance of duties as well as the supervision of APS.

3.2 Regulations

Based on article 5, fifth paragraph of the Lv APS, the Minister of Finance set forth additional rules for APS in the form of the profiles for the board and board members. The board member profile stipulates that a general characteristics of APS's board is that it must be 'in control' when executing the pension scheme. This means that the board is expected to have insight into the 'ins and outs' of the pension fund, and are able to adjust for associated risks, where and when necessary.⁴⁴

APS informed us that, they do not currently know whether sufficient control measures were taken in 2016 to cover risks.⁴⁵ To improve their insight, the Fund is setting up a system of risk management. The Fund has indicated that it intends to have a final risk management report drawn up by the end of September 2018.⁴⁶

Furthermore, in 2016, APS researched the risks of the investment portfolio.⁴⁷ This research is intended to provide insight into the risks of the investment portfolio and to support APS in its choices for fulfilment of the investment portfolio. Important results associated to internal control, primarily concern the foreign investment portfolio. Among the results related to the foreign portfolio:

- The costs for managing the current portfolio are above market costs.
- The current portfolio uses an assortment of investment funds.
- The asset managers⁴⁸ invest in a wide variety of investments.
- The impact of the asset managers' expertise on risk, is not immediately clear.
- Within the funds, it is not always clear what the sources of risk and return are, and how they are used by the asset managers.
- It is unclear what level of active management⁴⁹ is being handled by each manager, and whether the costs are in proportion to the level of active management.
- The asset managers use instruments with a higher risk within multiple funds in order to obtain a higher return.
- At balance sheet level, overdiversification in the portfolio leads to a laborious and difficult to monitor investment portfolio.

Based on the above findings, there is a chance that APS failed to achieved the maximum result from its foreign investment portfolio.

According to APS, the results of the investigation were used to completely restructure the foreign investment portfolio, with the aim of optimizing the transparency of the management, the composition and the management costs of the portfolio. To achieve the stated objective,

⁴⁴ Appendix II to article 2 of the Designation Order Management Profile and Director Profile General Pension Fund Sint Maarten, page 1.

⁴⁵ Minutes of the meeting with the management of APS dated June 9, 2017.

⁴⁶ Minutes of the meeting with the management of APS dated February 19, 2018.

⁴⁷ Risk budgeting – Results, Willis Towers Watson September 14, 2016.

⁴⁸ Kovack Securities, Inc and Morgan Stanley.

⁴⁹ Active management means that shares are bought and sold frequently.

the changes were implemented in 2017. We consider this a positive development and will review this in the future.

3.3 Opinion regarding the compliance

Based on the above, we are of the opinion that APS failed to comply with four legal requirements in 2016. On a positive note, at the time of the drafting of this report, three deviations no longer exist.

Based on our review of the foreign portfolio results, we are not certain whether APS was fully 'in control' of this portfolio in 2016. The fact that APS drew up measures in response to the results of the research, is a positive development.

4 INTERNAL CONTROL MEASURES PARTICIPANT ADMINISTRATION

Internal control measures are measures aimed at preventing risks, to signal when something goes wrong, or limit the impact of risk when they occur. When establishing the proper control measures, the (strategic) objective must first be clear. Subsequently, an estimation must be made of the risks that can occur during the realization of objectives, and the possible consequences when these risks occur. In summary, internal control measures are linked to risks and objectives.

A pension fund seeks to fulfill the pension obligation for the participants arising from the pension agreement and regulations. The number of participants, their characteristics and the actuarial assumptions, are important elements required for calculating the level of the VPV. The participant data is normally registered in the participant administration.

There are risks that affect the accuracy and comprehensiveness of the participant administration. For example, the risk that the Fund does not accurately or completely process the data of applicants in the participant administration. A reliable participant administration is important. This means that the number and the data of the pension fund's participants, must be recorded accurately and completely.

A proper system of internal control measures (including frequent monitoring), provides reasonable assurance that the pension fund is not subject to unacceptable risks with regard to the participant administration.

In this chapter, we present the results of our research and answer the third audit question:

"Are the internal control measures of the application and amendment process concerning APS's participant administration sufficient to secure a reliable participant administration?"

4.1 The standard framework

In order to determine whether the internal control measures of the application and amendment process are sufficient to secure a reliable participant administration, we examined the measures based on standards. The standard framework⁵⁰ that we drafted for this is research is centered on administrative organization theory, audit principles, and "best practice".⁵¹ This standard framework describes the internal control measures required to ensure a reliable participant administration.

In the internal control of the administration, there are two types of errors to consider, namely:

- intentional or unintentional errors in the basic data which is provided to the P&R department for processing;
- intentional or unintentional errors in the data processing itself.

⁵⁰ See appendix I.

⁵¹ Among other: Mark Paur RA MMO, Drs. Toine van Boxel, Drs. Jaco Korstjens RA, Ir. Berco Leeftink Prof. dr. Leen Paape RA RO CIA, *Series control business processes: The core of the administrative organization*, 2010; B.A.J. Westra RA RC *Compendium of the audits part 1 and 2*, 1996 and 2001; *COSO Internal Control - Integrated Framework and Compendium Bundle*, AICPA, 2013.

An important internal control tool is segregation of technical control duties. With this segregation, restrictions are placed on the authorizations issued to various employees, and the method for division of tasks such that each task influences a limited number of links in the overall process. Application of segregation of technical control duties, reduces the risk of fraud, increases the reliability of the reporting and enhances internal transparency.

Before the start of our research, we discussed the standard framework with APS's management, and they accepted it. The findings are described in the following paragraphs.

4.2 The findings

Administrative Organization / Internal Control

We determined that APS defined the application and amendment process, and that the board adopted the process in 2012. In 2016, APS did not operate in accordance with these adopted descriptions. The methodology used by APS in 2016, does not sufficiently identify or remove shortcomings in the Administrative Organization / Internal Control system.⁵²

At the end of 2015, APS established an audit committee to review and advise on financially related reports and other financial matters.⁵³ The regulations, describing the detailed work of the audit committee remain in draft. The audit committee indicated that the committee works based on the draft regulation. In 2016, the committee carried out various activities, but they have not yet reviewed the application and amendment process of the participant administration.

The application process

Based on the standard framework and taking into account the size of APS, we use a high level outline to describe the structure of the application process in table 2. In the last column, we indicate 'which' department of APS is responsible for 'what' part of the process.

⁵² We refer to page 23 under table 2 for the summary of the missing actions.

⁵³ Other financial matters include: reviewing the functioning or compliance with the system of internal control, the audit process and the process used by the Fund with regard to compliance with legislation and regulations and the code of conduct. Source: Draft regulation of APS audit committee.

Table 2: Phases of the application process

Phases of the application process	Work to be performed	Desired execution by	Actual execution by
1. Application	To receive and register the application of new participants	Reception department	P&R department
2. Research and advise	Review of the application for accuracy and completeness.	P&R department	P&R department
	Issue and register advice regarding the application.	P&R department	P&R department
3. Decision	Taking the decision	Board	Board/ P&R department ⁵⁴
4. Processing	Processing the application in the participant administration.	P&R department	P&R department
	Register the decision	P&R department	P&R department
5. Internal control	Control aimed to establish that: <ul style="list-style-type: none"> - all applications received are provided with an advice; - all advices have led to a decision; - all decisions in which participants are admitted as participants of APS, are included in the participant administration. 	A department other than the P&R department	None

Table 2 shows that APS did not establish the application process in accordance with the schedule, and, as of September 15, 2016, all phases of the registration process were carried out by employees of the P&R department.

The following actions are currently missing in the design and execution:

- a. registration of the application to a file to which the security access is coordinated with the authorized employee, and where changes to the file are evident (visible). This creates certainty about the completeness of application for adding, changing and deleting;
- b. based on the registered applications and amendments, an employee, independent of the Reception and the P&R department, regularly (for example, monthly) determines if all registrations have been dealt with and decided upon;
- c. registration of the decisions to a file where the security access is coordinated with the authorized employee, and where changes to the file are evident. The registration of the decisions must also take place before they are processed in the administration. This creates certainty about the completeness of the decisions to add, modify and delete;
- d. an employee, independent from the Reception and the P&R department, regularly determines (for example, monthly), on the basis of the recorded decisions (C), that all decisions have been correctly and completely processed in the participant administration.

⁵⁴ As of September 15, 2016, the task of decision-making by the board has been delegated to the manager of the P&R department.

In our opinion, the application of the aforementioned actions will support a reliable participant administration, thus requiring fewer additional audit activities from APS, the external auditor and the actuary.

Within the P&R department, there are insufficient authorization restrictions in the MAIA system⁵⁵ for amending participant data. There is a risk of unauthorized changes.

It is striking that applicants are already registered as participants before the manager of the P&R department formally takes the decision to accept the applicant.

Finally, APS conducts an annual premium analysis. This premium analysis is an internal check of the comprehensiveness of the participant administration. Based on the results of the premium analysis, corrections are made to the participant administration.

Appendix II contains a detailed overview of the application process in 2016, as reviewed in June 2017.

Information system

The MAIA system, is managed by an external party. This external party is responsible for the functionality⁵⁶ of the system, and issues biannual reports to APS. Based on these reports, it appears that there have been no instances of events, statements of serious deviations or incidents concerning the reliability and security of the system.

In addition, a consultant carries out an annual audit in which he establishes, with a high level of assurance, whether the manager of MAIA has taken sufficient measures and complies with same, to ensure that the system is working properly. For 2016, the external consultant has stated that this was the case.

4.3 Opinion regarding the internal control measures participant administration

Based on the above findings, there is a risk that:

- inaccurate applications are accepted or rejected;
- not all applications are processed correctly and timely in the participant administration.

All phases of the registration process have been transferred to one department as of September 15, 2016, and in our opinion, insufficient restrictions have been applied on the authorization of the employees of the P&R department to access the amendment process of the MAIA system. Furthermore, the actions described in section 4.2, are missing in the design and execution of the internal control of the amendment process. As a result, in our opinion, a reliable participant administration is not guaranteed.

⁵⁵ MAIA is the system in which APS conducts its participant administration.

⁵⁶ Functionality is defined as: the relevance of the data, the flexibility to work in the system, the reliability of the data to be provided, the speed with which the data is derived from the system and the user-friendliness. Source: Jans m.m.v. Van den Over, *Foundations administrative organization Part B: processes and systems*, (2001), page 22.

The premium analysis that is performed, annually, after the fact, does not provide sufficient assurance that all errors are identified.

Based on the above, we believe that the internal control measures concerning the application and amendment process for participants are not sufficient to secure a reliable participant administration.

5 REACTION OF APS'S BOARD AND OUR EPILOGUE

5.1 Reaction of APS's board

APS provided the following reaction to our report in a letter dated August 3, 2018.⁵⁷

The management of the General Pension Fund Sint Maarten (hereinafter: APS), has taken note of the final draft report of the General Audit Chamber (hereinafter: AR) regarding the audit of the 2016 Financial Statements of the APS dated July 20, 2018 (hereinafter: the Report). The comments of APS on the report are listed below per subject.

1. Preamble report

APS is of the opinion that the preamble is unflattering towards the Fund. The AR expressed the hope that APS is able to improve the coverage ratio in the near future, by means other than burdening the participant in the form of a change in pension scheme. APS is of the opinion that this could have been stated with additional nuance. APS has indicated that it was not involved in the amendment of the law to change the retirement age from 60 to 62 years, which substantially improved APS' financial position while reducing the participant's position, at the end of 2016. The country Sint Maarten, effectuated this change without consulting APS. APS tried to prevent the aforementioned with the new pension reform, by actively taking the lead in the pension reform work group and, due to the lack of funds, lack of proper expertise and lack of capacity in the government, paid for the legislative lawyer.

In comparison to the previous version of the Report, the preamble was not changed, while the content and the final opinion of the Report did. A qualified opinion was ultimately issued on APS' financial statements, instead of a disclaimer. APS is therefore of the opinion that the preamble should have been amended accordingly.

2. Pension reform

APS emphasizes that, in accordance with the recommendation of the AR, it intends to draw up a recovery plan, considering the January 1, 2019, introduction of the pension reforms. The new pension legislation contains articles that require that a recovery plan is drafted in the event APS' coverage is insufficient. If the coverage ratio is below 100%, APS must prepare a plan that includes various measures aimed at restoring a minimum coverage ratio of 100% within five years. The recovery plan will, if possible, be drafted in accordance with article 89a of the current amendment of the draft National Ordinance Civil Service Pension ("Pensioenlandsverordening Overheidsdienaren" - PLvo).

According to article 89a of the current draft amendment Plvo, the board of APS will prepare the recovery plan with the approval of the important stakeholders: the supervisor and the involved ministers. The Minister of General Affairs can only agree with a recovery plan after

⁵⁷ Reaction of the General Pension Fund Sint Maarten concerning the final draft report '2016 Financial Statements of APS', dated July 20, 2018, General Pension Fund Sint Maarten, reference 2018-08/APS-015.

consultation with the unions. The recovery plan must be approved by the Minister, the Minister of General Affairs and the Central Bank of Curaçao and Sint Maarten.

The article further stipulates that if the recovery plan fails to provide a coverage ratio above 100% within five years, additional measures can be taken. For example, employers are required to make capital deposits to the Fund. As a final resort, the recovery measure of reducing pension rights can also be implemented.

3. Reliability participation administration

In general, APS is of the opinion that, for the sake of completeness, the AR should have emphasized in the Report that APS is partly dependent on the quality of the participant data provided by participating organizations used to ensure a reliable participant administration. APS will take measures in accordance with the recommendation of the AR, as far it concerns our organization, in order to ensure the quality of the submitted participant data from the participating organizations. At present, APS is in discussion with its auditor, Grant Thornton⁵⁸, about this matter.

3.1 Insufficiency of the control measurements

APS disagrees with the AR's finding that the internal control measures of the application and amendment process, are insufficient to guarantee a reliable participant administration, thus resulting in uncertainty about the size of the balance sheet item 'Provision obligation provision'. In the opinion of the AR, the identified shortcomings of the control measures used for participant's application and amendment process, result in possible errors in the participant administration. These errors can lead to a material error in the calculation of the pension obligation provision. According to the AR this risk cannot be sufficiently mitigated by means of other activities, considering the materiality. After all, only then a limitation in the audit is evident.

According to APS, various additional control measures are deployed, and actually used, to reduce this risk to a level deemed acceptable to APS, the actuary and the external auditor. The results of the work performed by all these parties, did not lead to a conclusion of an additional limitation from the audit. APS would expect that the shortcomings noted by the AR to be reported as a recommendation to APS' management and board, and not as an adjustment of the opinion on the accountability.

Regarding the finding of the AR, Grant Thornton is of the opinion that: "when drawing this conclusion, the role of the AO/IC in the audit process and the additional work carried out by APS, the actuary and the auditor, was incorrectly disregarded. We understand that the work, in chapter 4 of the final draft report, was executed using literature research and interviews. Review on the existence and operation effectiveness of the control measures was very limited, and the role of the AO/IC in the entire spectrum of audit procedures was not been considered.

⁵⁸ As of August 1, 2018, PricewaterhouseCoopers Sint Maarten has become Grant Thornton Sint Maarten.

We have established that the required minimum level of the AO/IC is present at the Fund. The report of the AR does not offer a differing opinion on this point, therefore they agree that the basic controls are present, and that the Fund's participant administration is verifiable. If it is concluded that there is insufficient support to rely on the AO/IC, other audit procedures can be performed to achieve correct and suitable information in order to provide a statement on the true and fair representation of the accountability. These procedures can consist of the following:

- Determine that compensating audit procedures have been performed by the client to mitigate the possible identified risks;
- Determine whether the external (advisory and certifying) actuary performs activities (detail checks, analytical procedures, etc.) that mitigate the possible identified risks.

In our opinion the AR has insufficiently considered the substantive detail work performed by APS, the actuary and the auditor, and the conclusion on the reliability of the participant administration and subsequently the valuation of the VPV, is unjustified.

The Fund's certifying actuary, Willis Towers Watson (hereinafter: WTW), noted that "a lot of changes of a considerable value have been made that relate to earlier financial years (retroactive changes)." The actuarial statement indicates that the investigation proves that reasonable assurance present that the results do not contain any inaccuracies of material significance. Many of the retroactive changes relate to the application and amendment process from the participating organizations. In the event of a late application, the pension obligation provision is set slightly low, and for a late cancellation, the pension obligation provision is set slightly high. Finally, these effects will, partly, cancel out and are not considered material to the total pension obligation provision. This is the reason why the actuary's opinion states that the pension obligation provision is adequately determined.

In addition, the actuary also indicates that in the Netherlands it is common practice for pension funds to use a cutoff date (for example, October 1), for processing amendments in the pension obligation provision. This regards the planning of the annual work. At year end, not all amendments in the pension obligation provision are processed. The effect on the total pension obligation provision is considered immaterial.

WTW would have liked to see the following addition to the AR's remark about the uncertainty about the size of the balance sheet item pension obligation provision: possible deviations were considered non-material by the actuary and the auditor.

3.2 The standard framework/application process

The AR describes 'the appropriate approach' for the application process. APS considers this a subjective approach. There are various ways to set up an application process. The AR indicates that certain actions are missing in APS' application process. APS disagrees with this finding

and is of the opinion that the four missing actions mentioned by the AR should have not been reported in the Report because they do occur in the application process of APS. The actions emerge at various points in the process with the necessary controls. The AR is also aware that, as part of the risk management, APS will deliver Key Performance Indicators (KPI's), such as the timely delivery of entry messages.

3.3 Opinion control measurements participant administration

The AR is of the opinion that the premium analysis that is performed, i.e. annually and after the fact, by APS does not provide sufficient assurance that all errors are identified. APS believes that the finding of the AR should have been differently stated in the Report. The premium analysis is an additional control measure that APS performs with the purpose, among other things, of checking the received participant data. APS is partly dependent on the quality of the participant data provided by the participating organizations and, in particular the government, to ensure a reliable participant administration. APS states that the AR ignores the other work performed by the Fund, the actuary and the auditor when forming their final opinion on the participant administration.

4. 'In control' foreign portfolio

APS disagrees with the AR's finding which states that based on the results of their review on the foreign portfolio, the Fund was not in control of this portfolio in 2016. The result of which was that a risk that APS did not achieve a maximum result from this portfolio. APS is of the opinion that the AR's finding should not have been included in the Report.

APS has established that the AR's findings are based on the findings from the Risk Budgeting – Results, conducted by WTW on September 14, 2016. APS conducted a risk budgeting study to simplify and optimize the foreign investment portfolio by providing more transparency into the investment risks in the investment portfolio. The results of the study were used to restructure the foreign portfolio, with the aim of optimizing the transparency of the management, the composition of the portfolio, and the management costs. APS disagrees with the AR on the following points:

#	Position AR:	Comment APS:
1.	The costs of managing the current portfolio are above market costs.	It is unclear on which basis the AR has tested this.
2.	The current portfolio uses a multitude of investment funds.	An assortment of investment funds does not necessarily lead to not being "in control" of the investment portfolio.
3.	The asset managers invest in a wide variety of investments.	This does not necessarily lead to not being "in control" of the investment portfolio.

4.	The impact of the asset managers' expertise to risk, is not immediately clear.	It is unclear how the AR came to this conclusion and how this led that APS is not being "in control" of the foreign portfolio. In 2016, each month APS received investment that provided insight into the performance ratios of each asset manager including the Sharp Ratio (the average return earned in excess of the risk-free rate per unit or volatility or total risk), which is a qualification the contribution of the asset manager in relation to the market risk.
5.	Within the funds, it is not always clear what the sources of risk and return are, and how they are used by the asset managers.	It is unclear how the AR came to this conclusion and how this led that APS is to not being "in control" of the foreign portfolio. APS has access to all investments and transactions of each individual asset manager at any time. Moreover, APS has monthly access to the "realized and" unrealized gains / losses "of every investment in the portfolio.
6.	It is unclear what level of active management is being handled by each manager, and whether the costs are in proportion to the level.	It is unclear how the AR came to this conclusion and how this that APS is not being "in control" of the foreign portfolio. The investment reports show the monthly returns after all costs. The contribution in relation to the costs is therefore equally clear.
7.	The asset managers use instruments with a higher risk within multiple funds in order to obtain a higher return.	It is unclear how the AR came to this conclusion and how this led that APS is not being "in control" of the foreign portfolio.
8.	At balance sheet level, overdiversification in the portfolio makes monitoring arduous and difficult.	It is unclear how the AR came to this conclusion and how this led that APS is not being "in control" of the foreign portfolio.

APS believes that the Fund was, and is, sufficiently in control of its foreign portfolio based on the measures that were available in 2016, and are currently available, at policy and monitoring level. Moreover, APS believes that if the findings of the AR are not factually obtained, these should not have been reported in the Report. If the AR wanted to provide a subjective opinion, they should have explicitly stated that they could not demonstrate that APS was not in control of the foreign portfolio in 2016.

Trusting to have informed you sufficiently.

Kind regards,

Nadya Croes- van Putten

Managing director APS

5.2 Our epilogue

The reaction from APS, referencing four subjects, required an epilogue.

1. The preamble

APS is of the opinion that the preamble does not benefit the Fund.

Our preamble was drafted impartially, as it is meant to clearly and concisely introduce interesting findings and concerns resulting from the audit.

2. Pension reform

APS emphasizes that it intends to draw up a recovery plan in keeping with the recommendations that we issued. We are pleased to learn of their intention, and will monitor its progress.

3. Reliability of the participant administration

APS is of the opinion that the General Audit Chamber, should have highlighted, for the sake of completeness, the fact that to ensure a reliable participant administration, APS is partly dependent on the quality of the participant data provided by the participating organizations. We are aware of APS's reliance on data from participating organization. We addressed this matter in previous reports by means of a recommendation that APS request auditor's reports from external accountants of the participating organizations as relates to participant data.

Fact is, our research focused on the internal control measures within APS regarding the application and amendment process. We examined whether APS's internal control measures are sufficient to ensure a reliable participant administration. In our report, we described the shortcomings of the process, and identified the specific actions that are absent. Because these are essential elements, we believe that the required minimum level of AO / IC is not present at APS. This is part of our opinion. In their response, APS's board states that the actions mentioned are included in the process. During our review, we specifically examined the process to establish the existence of the aforementioned actions. We found no evidence of the actions and none could not be shown to us.

APS disagrees with our opinion that, despite the additional work performed by APS, the internal control measures concerning the application and amendment process are insufficient to ensure a reliable participant administration. This is unfortunate.

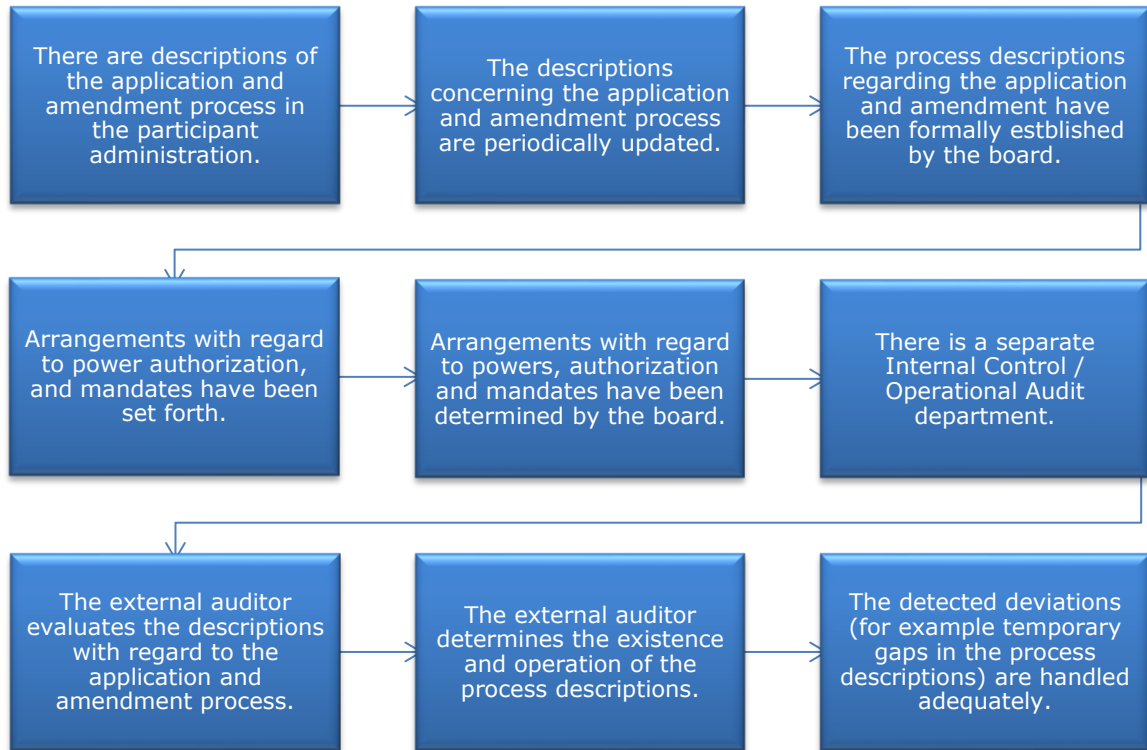
Nevertheless, APS has indicated that it will take measures within its organization to ensure the quality of the participant data provided by the participating organizations, in keeping with our recommendations. We are pleased with this intention and will monitor its progress.

4. 'In control' foreign portfolio

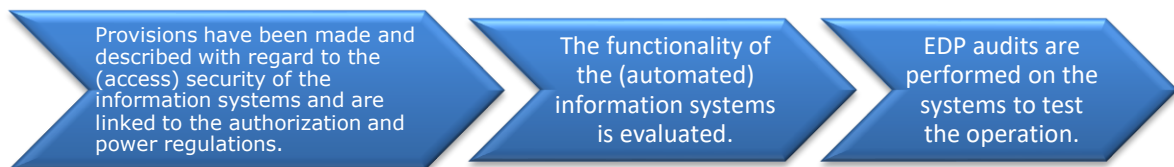
We have taken note of your comment and have adjusted our opinion in the final report.

APPENDIX I: THE FRAMEWORK

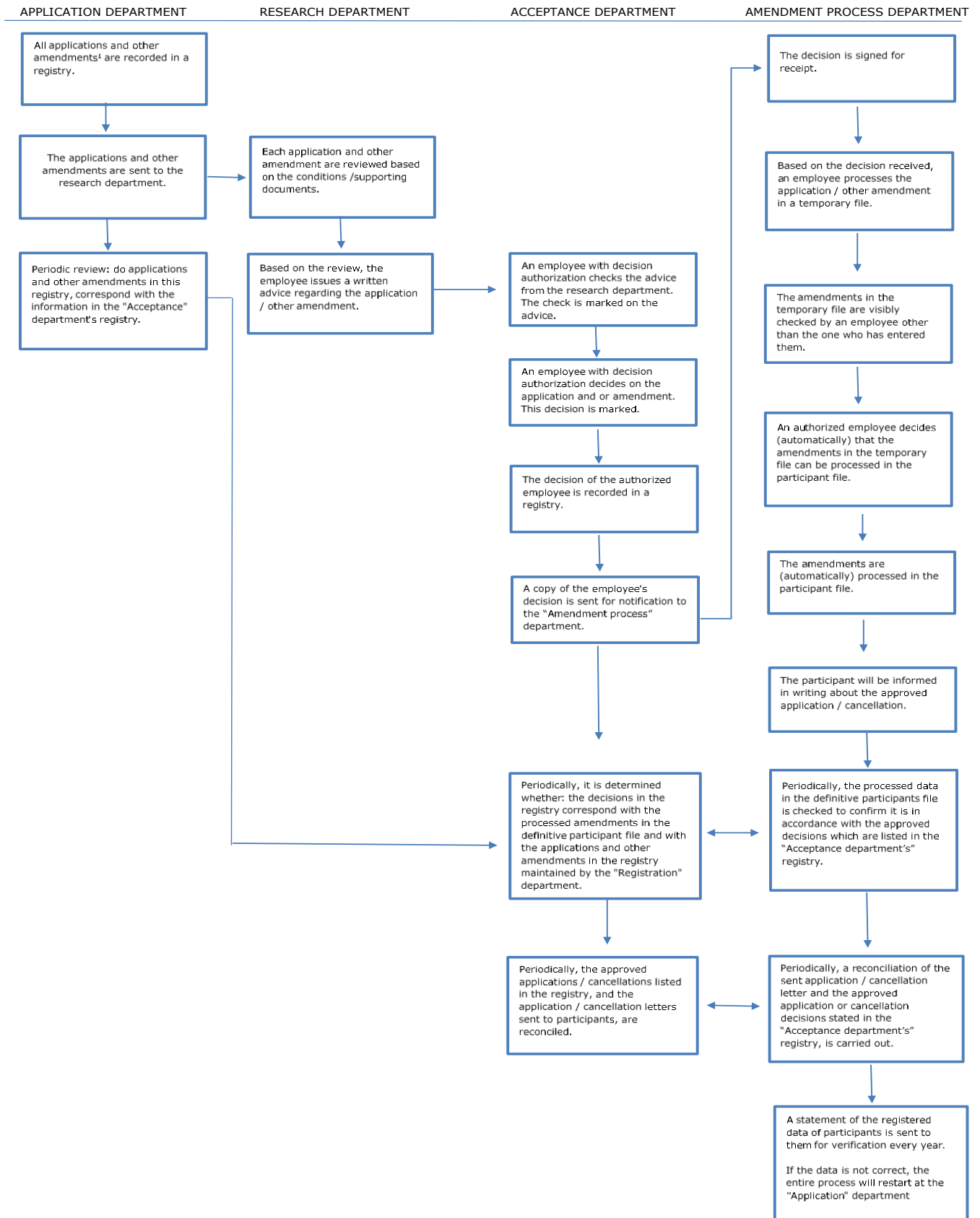
1. General framework administrative organization / Internal control



2. Framework regarding information system



3. Framework regarding the application and amendment process



1. This include: payment of pension, cancellation of pension, allocation of pension, change of name, address and place of residence details, salary changes, part-time percentage, and other changes that are important (for example those that occur on the application form or that have an impact on the calculation of the pension of the participant).

APPENDIX II: PROCESS SCHEME APPLICATION PROCESS PARTICIPANT ADMINISTRATION

Application process of the participant administration as of September 15, 2016

Legend				
1 = receptionist of the P&R department	2 = employee front office 2 nd line of the P&R department	3 = employee back office of the P&R department	4 = senior employee of the P&R department	5 = manager of the P&R department

No.	Activity	1	2	3	4	5
	APPLICATION					
1.	Receiving the application documents for the time being	x				
2.	Analyzing the accuracy and completeness of the received documents	x				
3.	Answering questions from the receptionist		x			
4.	Final receipt of the application documents	x				
5.	Registration of the received documents in the mail registration system	x				
6.	Scanning / archiving documents in the client files (UnitY)	x				
7.	Hand off the documents to the back-office employee of the P&R department	x				
	RESEARCH					
8.	Definitive processing of amendment in MAIA ('push through')			x		
9.	Registering the application in a temporary file in MAIA			x		
10.	Print the amendment record of the recorded data			x		
11.	Deliver the documents and the amendment report to the senior employee of the P&R department			x		
12.	Check the amendment processing based on the received documents				x	
13.	Accreditation of the amendment processing				x	
	REGISTRATION					
14.	Final processing of the amendment in MAIA ('push through')				x	
15.	Drafting and printing the entry message				x	
16.	Issuing the entry message and the accompanying documents to the manager of the P&R department				x	
17.	Checking the entry message based on the received documents					x
	DECISION					
18.	Sign the entry message (= decision of acceptance as participant)					x
	ISSUE ENTRY MESSAGE					
19.	Delivery of the entry message to the participant	x				
	INTERNAL CONTROL					
20.	Annually performing the premium analysis				x	



General Audit Chamber

Algemene Rekenkamer