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International Residual Mechanism for Criminal Tribunals

Financial report and audited financial statements

for the year ended 31 December 2016

and

Report of the Board of Auditors

United Nations • New York, 2017

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

Letter dated 21 June 2017 from the Secretary-General addressed to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to submit the financial statements of the International Residual Mechanism for Criminal Tribunals of the United Nations for the year ended 31 December 2016, which I hereby approve. The financial statements have been completed and certified by the Controller as correct in all material respects.

Copies of these financial statements are also being submitted to the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) António **Guterres**

Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the International Residual Mechanism for Criminal Tribunals for the financial year ended 31 December 2016.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the International Residual Mechanism for Criminal Tribunals, which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Mechanism as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the International Residual Mechanism for Criminal Tribunals, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is appropriate and sufficient to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Secretary-General of the United Nations is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Secretary-General of the United Nations is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the International Residual Mechanism for Criminal Tribunals to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate the Mechanism or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Mechanism.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance regarding whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate and sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mechanism's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the Mechanism to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Mechanism to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the Mechanism that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the Mechanism.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

Chapter II
Long-form report of the Board of Auditors

Summary

On 22 December 2010, the Security Council adopted its resolution 1966 (2010) to establish the International Residual Mechanism for Criminal Tribunals. The Mechanism was created to complete the remaining tasks of the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda. It operates from two branches, located in Arusha, United Republic of Tanzania, and The Hague, Netherlands.

The Board of Auditors has audited the financial statements and reviewed the operations of the Mechanism for the year ended 31 December 2016. The audit was carried out through the examination of financial transactions and operations of the Mechanism in Arusha and The Hague and the Kigali sub-office.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, and has been discussed with the Mechanism's management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion on whether the financial statements present fairly the financial position of the Mechanism as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed the Mechanism's operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined key activities of the Mechanism, including evaluation of overall service sustainability, completion strategy, post-implementation of IPSAS, assets management, archives and records management, travel management, and information and communications technology. The report also includes a brief commentary on the status of implementation of recommendations from previous years.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements for the period under review, as reflected in chapter I.

Overall conclusion

The Board did not identify material deficiencies in the financial records and operations of the Mechanism. The entity had made good progress in ensuring a smooth transition in respect of taking over the functions of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia. The Board did note, however, the need for the Mechanism to build on the best practices and lessons learned from both tribunals in order to actively maintain and improve its

procedures so as to enable it to be an independent entity that can deliver its mandate efficiently when it fully takes over the remaining operations of the closed tribunals by the end of 2017. The Board also noted that there was scope for improvement in the areas of construction and contract management, travel management, archives and records management, and information and communications technology.

Key findings

The Board has identified a number of issues related to enhancing the effectiveness of the Mechanism's operations. In particular, the Board highlights the following key findings:

Unclaimed liquidated damages from the contractor due to delay in the completion of works

(a) On 13 June 2016, the United Nations Procurement Division in New York approved an extension of the project's completion date from 28 February to 16 May 2016. There was no further approval of an extension of the completion date. Despite the expiry of the period allowed under the last extension, the Mechanism did not charge liquidated damages to the contractor at the rate of 0.2 per cent on the contract price per each day delayed, as required under clause 8.7 (a) of the contract. The Board noted that the construction was substantially completed on 1 December 2016; however, the remaining construction and installation works under the defect liability period were still continuing, especially in the court building. The Board is concerned that the liquidated damages cannot be fully recovered from the remaining balance owing to delayed recovery;

Delays in finalization of the Mechanism Archives and Records Section policy

(b) Out of nine policies, strategies and standards identified for development by the end of June and December 2016 in the Mechanism Registry workplans, five (56 per cent) had not been finalized up to April 2017. The Board is concerned that the delayed finalization of the development of polices, standards, guidelines and procedures inhibits efficiency and effective management of Mechanism records and archives;

Lack of an approved workplan for the backlog project

(c) The Mechanism Archives and Records Section has no approved workplan for the backlog of records, such as court proceedings records and exhibits generated before 2010 and stored on media such as video cassettes, audio cassettes and compact discs which could not be digitized by then, as well as court records materials generated from 2011 to 2014. The Mechanism also does not know the actual number of tapes that need to be digitized as part of the backlog project. Further, there were no documented criteria to be used to determine the order in which cases, appeals and contempt recordings are selected for digitization. The Board is concerned that in the absence of a workplan for the backlog project and documented criteria governing the order in which cases are being selected for digitization, the entire backlog project may not be moving in the right direction;

Lack of a consolidated information and communications technology function within the Mechanism's Arusha branch

(d) From the review of the organizational structure of the Mechanism's Arusha branch, the Board noted that information and communications technology (ICT) staff members are located in different offices. One staff member is under the Office of the Prosecutor and another is under the Mechanism Archives and Records

Section, while the remaining five ICT staff members are located in the ICT department. While management states that it is assessing internally how IT support can best be provided to both the Archives and Records Section and the Office of the Prosecutor, the Board considers that such initiatives need to be expedited, inasmuch as the location, within the Mechanism's Arusha branch, of ICT staff in other sections, with a scattering of ICT-related functions, could result in a duplication of efforts and hence could affect the quality and availability of ICT services. The Board is concerned that the non-consolidation of ICT sections into a single unit, so as to enable provision of services as a package to other sections, makes it difficult to properly manage infrastructure, information systems, ICT user support and services, and backup and restoration of systems.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that the Mechanism:

Unclaimed liquidated damages from the contractor due to delay in the completion of works

(a) **Ensure that the contractor and the architect (consultant) complete the remaining works under the defect liability period without further delay; and continue to engage with the Secretariat on how to recover liquidated damages, as legally appropriate and economically feasible;**

Delays in finalization of the Mechanism Archives and Records Section policy

(b) **Revise the time frame for the development of its archives and records management governance document and establish a clear timeline for developing and implementing all remaining policies, guidelines and procedures;**

Lack of an approved workplan for the backlog project

(c) **Develop an overall project/workplan for the entire backlog project, including a determination of all of the cases and records to be covered and the corresponding time frame, and for how it will monitor the plan's implementations;**

Lack of a consolidated ICT function within the Mechanism's Arusha branch

(d) **Expedite the assessment and review of its ICT organizational structure so as to ensure (i) that functions are located outside the ICT unit only for approved reasons and (ii) that ICT functions are mainly consolidated and centralized to prevent the fragmentation of ICT expertise and capacity.**

Key facts

$137.40 million	Original biennium budget approved by the General Assembly for 2016-2017
$135.75 million	Final budget approved by the General Assembly for the biennium 2016-2017
$68.70 million	Original annual budget for 2016
$67.87 million	Final annual budget for 2016
$68.76 million	Total revenue for 2016
$61.52 million	Total expenses for 2016
$104.41 million	Total assets as at 31 December 2016
$89.55 million	Total liabilities as at 31 December 2016
328	Total staff (300 on a fixed-term contract, 1 on a continuing contract and 9 on a permanent contract and 18 temporary staff)

A. Mandate, scope and methodology

1. The International Residual Mechanism for Criminal Tribunals was established by the Security Council in its resolution 1966 (2010) to continue the jurisdiction, rights and obligations and essential functions of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia after the completion of their respective mandates, including a range of judicial activities, the enforcement of sentences, the resettlement of acquitted and released persons, the protection of victims and witnesses, and the management of archives.

2. The Mechanism has two branches: one in Arusha, United Republic of Tanzania, and the other in The Hague, Netherlands. The Arusha branch, which covers functions inherited from the International Criminal Tribunal for Rwanda, commenced its operations on 1 July 2012. The branch in The Hague, which covers functions inherited from the International Tribunal for the Former Yugoslavia, commenced its operations on 1 July 2013.

3. The Mechanism consists of three organs, namely, the Chambers, the Office of the Prosecutor and the Registry. The Chambers comprise a full-time President, a Trial Chamber for each branch, a duty judge at the Arusha branch and single judges appointed at both branches. The Chambers are responsible for all judicial work of the Mechanism, including the enforcement of sentences, administrative review, trials, appeals, proceedings for review of final judgment, contempt and false testimony proceedings, and disposition of other requests related to, for example, access to confidential material and witness protection. The Office of the Prosecutor is responsible for investigation and prosecution. The Registry, which services both the Chambers and the Office of the Prosecutor, is responsible for the administration and servicing of the Mechanism.

4. The Board of Auditors has audited the financial statements of the Mechanism and reviewed its operations for the year ended 31 December 2016 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as with the International Standards on Auditing. The Standards require that the Board comply with ethical requirements and plan and

perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

5. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the Mechanism as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

6. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of the Mechanism's operations under financial regulation 7.5, which requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Mechanism's operations. Those matters are addressed in the relevant sections of the present report.

7. The Board coordinates with the Office of Internal Oversight Services during the audit in order to avoid duplication of effort and to determine the extent to which the Board could rely on the latter's work.

8. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The observations and conclusions were discussed with the Mechanism, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Previous years' recommendations

9. Of the five recommendations that remained outstanding up to 31 December 2015, three recommendations (60 per cent) were fully implemented while two (40 per cent) were under implementation. The Board urges the Mechanism to increase the pace of implementation of the recommendations. Details of the status of implementation of recommendations are presented in the annex to this report.

2. Financial overview

10. In 2016, the Mechanism reported a surplus of $7.25 million, (2015:[1] deficit $23.58 million). The Mechanism realized revenue of $68.76 million for the year 2016 (2015: $11.93 million), against total expenses of $61.52 million (2015: $35.51 million). The increase in revenue by $56.83 million was the result of increases in the assessed contributions for the biennium 2016-2017.

11. The Mechanism reported total liabilities of $89.55 million as at 31 December 2016 (2015: $63.19 million) of which 69 per cent ($61.80 million) was employee benefits liabilities. The increase in employee benefits liabilities by $47.11 million in 2016 was caused mainly by the transfer of employee benefits liabilities of $6.23 million from the International Tribunal for the Former Yugoslavia and of

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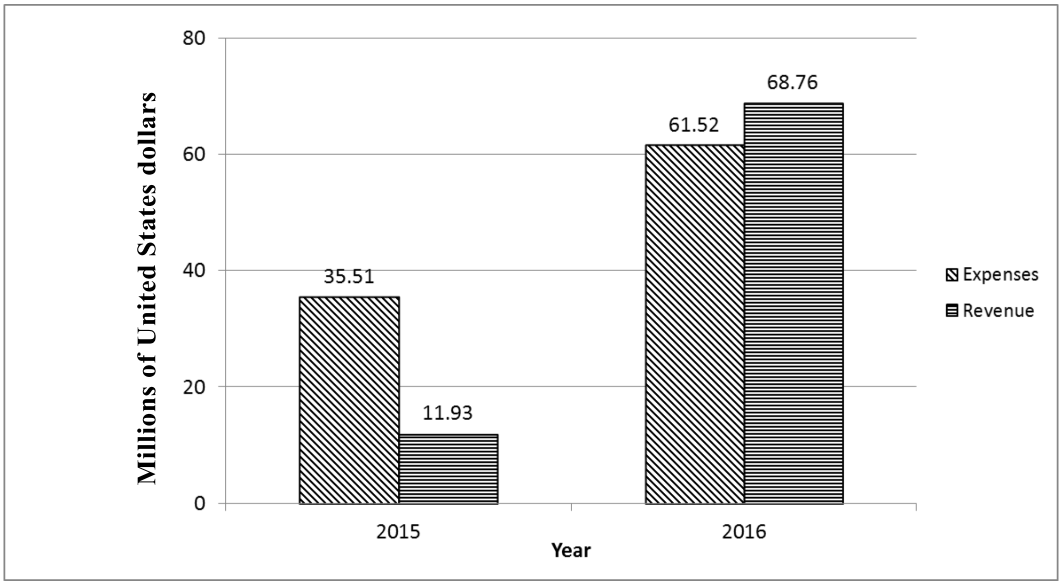
[1] The 2015 figures were restated in 2016.

$34.86 million from the International Criminal Tribunal for Rwanda, which were at different stages in closing down their operations.

12. A comparison of revenue and expenses for financial years 2015 and 2016 is illustrated in the figure below.

Trends in revenue and expenses



Source: Board of Auditors analysis of the Mechanism's 2016 financial statements.

Ratio analysis

13. Table 1 contains key financial ratios, as extracted from Mechanism financial statements for the year ended 31 December 2016.

Table 1
Ratio analysis

Description of ratio	*31 December 2016*	*31 December 2015 (restated)*
Total assets: total liabilities[a]	1.17	1.11
Current ratio[b] Current assets: current liabilities	7.46	0.88
Quick ratio[c] Cash and short-term investments and accounts receivable: current liabilities	7.38	0.84
Cash ratio[d] Cash and short-term investments: current liabilities	1.59	0.79

Source: Mechanism financial statements for the year ended 31 December 2016.

[a] A high ratio is a good indicator of solvency.

[b] A high ratio indicates an entity's ability to pay off its short-term obligations.

[c] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[d] The cash ratio indicates an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.

14. The current ratio of 7.46 indicates that current liabilities are largely covered by liquid assets and the ability of the Mechanism to pay its short-term obligations from its liquid resources is high. The increase in this ratio from 0.88 in 2015 resulted mainly from an increase in accounts receivable from the Tribunals of $62.16 million and a decline in current liabilities due to the reversal of a provision of $41.43 million made for assessed contributions received in 2015, which was to be offset against the contributions of the respective Member States in 2016.

3. Construction and contracts management

15. In its previous report (A/71/5/Add.15), the Board had reported weaknesses in the management of the new Mechanism facility which was under construction in Arusha. In the current audit, the Board noted that the construction had been substantially completed on 1 December 2016. The remaining construction and installation works under the defect liability period[2] were still continuing, especially in the court building. However, the Board continued to identify some deficiencies in overall administration of the contract for the construction of new facilities, as detailed below.

Unclaimed liquidated damages from the contractor due to delay in the completion of works

16. Sub-clause 20.1 of the contract allows the Mechanism to extend the time for completion of works when it is satisfied with the contractor's claims that the contractor will be implementing project activities in a delayed manner. The United Nations Procurement Division in New York approved an extension of the project's completion date from 28 February to 16 May 2016. The extension was granted so as to accommodate redesigning work proposed by the architects and to compensate the contractor for the time lost in reviewing and approving heating, ventilation and air conditioning (HVAC) system substitution. There was no further approval of extension of the completion date. Despite the delayed substantial completion of works by 1 December 2016, after expiration of the extended contract period of 16 May 2016, and the remaining defect liability period, the Mechanism did not charge liquidated damages of $0.66 million to the contractor (at the rate of 0.2 per cent on the contract price per each day) for days delayed, as required under clause 8.7 (a) of the contract.

17. The Mechanism explained that the legal team and the Procurement Division are in the process of determining whether liquidated damages could be charged on the delayed days. The Mechanism had already paid $5.96 million (90 per cent of the contract value) to the contractor, implying that the Mechanism can recover the liquidated damages from the remaining payment to the maximum of $0.66 million. While the liquidated damages cannot be fully recovered from the remaining balance, the Board considers that the Mechanism needs to withhold the remaining payments without further delay to reduce the loss as a result of failure to recover the liquidated damages on time.

18. **The Mechanism agreed with the Board's recommendation to (a) ensure that the contractor and the architect (consultant) complete the remaining works under the defect liability period without further delay and (b) continue to engage with the Secretariat on how to recover liquidated damages as legally appropriate and economically feasible.**

[2] A period for correcting the defects in the works, which is counted in a period of 12 months from the date when the works have been certified as substantially completed.

Absence of training and orientation for staff who occupied the new building

19. The Mechanism's new building/office premises were occupied by the staff on 5 December 2016 after the building's inauguration. However, there was no training and orientation provided by the contractor to the occupants on the use of the building and facilities, as required under paragraph 9.2 of the contract operation and maintenance manual. According to the contractor's training schedule and the list of uncompleted works, 12 training events were expected to be conducted for building users by December 2016; but only 2 training events had been conducted by December 2016. The conducted training sessions were on the plumbing for the water supply system and plumbing for the water system, and the fire alarm system.

20. The 10 remaining training events consisted of six courses on the security system, firefighting, the electrical system, ballistic elements, the solar light system and architectural finishes, related to works that were completed by February 2017, and 4 training events on the heat, ventilation and air conditioning (HVAC) system, the Hydramist system, curtain walling and the lift, related to works which were completed by January 2017. However, the training events had not been conducted by February 2017.

21. The Mechanism informed the Board that a plan for administering the remaining training and orientation is being developed jointly with the contractor, with the expectation that those training sessions will be completed before the end of September 2017, if the contractor is able to deliver the training within the time frame provided.

22. The Board is concerned that occupying the building without proper training may limit its effective use by Mechanism staff.

23. **The Mechanism agreed with the Board's recommendation that it exercise close supervision and ensure that the contractor conducts the 10 remaining training events and orientation sessions for the users of the building without further delay.**

Non-completion of the outstanding works

24. The itemized list of incomplete works (punch list) submitted to the Mechanism by the consultant in November 2016 was not updated and the contractor had not prepared the revised programme of work that could be used to measure the actual implementation of the outstanding works against that programme of work. Management stated that there was no revised programme of work and that the list of outstanding works had not been updated because the consultant was expected to certify those works once they were completed. The explanations provided are not in line with sub-clause 8.3 (f) to (j) of the contract (PD/C0036/15) for the construction of the facilities of Mechanism Arusha, United Republic of Tanzania, which requires the works to be monitored through the contract programme and the work programme to be modified if the actual work does not conform to the contract programme.

25. **The Mechanism agreed with the Board recommendation that it instruct the contractor to submit a revised work programme in order to monitor the outstanding works items and defects on the list.**

Surplus materials excavated during construction works were not removed from the site

26. The Board noted that the contractor had not removed the excavated soil materials from the site working area for disposal. Rather, the soil was pushed and spread along the wastewater chambers/lines and near the fence territories of the

Mechanism construction project area. This is contrary to schedule 7 of the contract which requires that the excavated materials be removed from the site. As a consequence, soil was washed down to the fence perimeter, which also indicates that the contractor had not compacted the loose soil to the standard.

27. The Mechanism stated that the contractor was allowed to reuse excavated soil materials for backfilling and reclamation according to the waste management plan, and that the area backfilled with excavated materials had been levelled during the years 2015 and 2016 in order to allow natural grass to grow.

28. The Board considers that the contractor could have followed the architect's instructions by backfilling through compacting in layers, as the Board noted that the soil had been dumped at the site mixed with other construction wastes like plastics and wood, resulting in the exposure of the site to water erosion. There is a risk that the fence perimeter foundation strip at the sloping sections will be exposed outward and may leave the bottom open, and that the fence perimeter chain-link supports at the lower sections will fall out owing to the surcharge force from the mud. In addition, the wastewater lines, the cabling systems for lighting and the security camera are prone to exposure as a result of the downstream washing of soil.

29. **The Mechanism agreed with the Board recommendation that it liaise with the architect and the contractor to ensure that the contractor fully adheres to the contract terms regarding the waste management plan and conducts compaction of loose soil material as required.**

4. Assets management

Progress and conclusion of the Mechanism's future office premises

30. The International Tribunal for the Former Yugoslavia and the branch of the Mechanism at The Hague are occupying privately owned premises located at Churchillplein 1. The branch at The Hague has a lease agreement which expires in December 2017. The Mechanism informed the Board that it intends to remain in the current premises even after the expiration of the lease agreement.

31. The Board noted, however, that the Mechanism's negotiations with the owner of the premises on its future housing needs were prolonged (since April 2014) mainly because the Mechanism was conducting parallel negotiations with another party as regards the possibilities for cohabitation of the building, at the suggestion of the Ministry of Foreign Affairs of the host country (Netherlands). According to the Mechanism, the intention was to meet space requirements and to maintain the location, which is of iconic historical value to international criminal justice. However, as this initiative towards cohabitation was unsuccessful, the Mechanism has decided to proceed with its own plan for future-housing.

32. The Mechanism informed the Board that the renovation has now been postponed for two years. According to the Mechanism's assessment, at this stage, the benefits of a gut renovation do not outweigh the costs both in financial terms and in terms of the potential disruption to ongoing judicial activity. The Mechanism also stated that at the meeting held on 6 July 2017, it had obtained the landlord's commitment with regard to a further two-year extension of the current lease. Given procurement timelines, this contract amendment is expected to be in place by mid-November 2017. The Mechanism further explained that an agreement had been reached on updating the terms of the contract, particularly with respect to required repairs and upgrades for the building and its systems so as to ensure that they continue to meet health and safety as well as habitability standards. During this lease extension, agreement is expected to be reached on a full renovation plan.

33. The Board takes note of the responses of management, but remains concerned that such a lengthy period of time has been required to secure the future office premises and that the lease extension agreement has not been signed. The Board also considers that owing to the challenges experienced during the process of securing the office premises and the decision to renovate those premises, proper documentations of all key developments in this regard needs to be maintained. For example, while the explanations have been provided to the Board, the minutes of the meeting held on 6 July 2017 which cover the landlord's commitment to extending the lease have not been provided.

34. **The Board recommends that the Mechanism ensure that the contract with the current owner of the premises is signed and that proper documentation on progress made in securing and renovating the office premises is maintained.**

5. Archives and records management

Delays in finalization of the Mechanism Archives and Records Section policy

35. Under article 27 (2) of the statute of the International Residual Mechanism for Criminal Tribunals, as adopted by the Security Council in its resolution 1966 (2010) and contained in annex I thereto, it was determined that the Mechanism should be responsible for the management, including preservation and access, of the archives of the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the Mechanism itself.

36. The approved Mechanism Registry strategic priorities for 2014-2015 and the Mechanism Registry workplans for 2014-2015 and 2015-2016 explain that the Mechanism Archives and Records Section is responsible for developing and implementing strategies, policies, standards, guidelines and procedures to ensure effective management of the records and archives. In May 2016, the Archives and Records Section developed a time frame for the development of a Mechanism archives and records management governance document setting out timelines for the development of policy documents. These included some actions that were to be completed by June and December 2016.

37. A total of nine policies, strategies and standards were identified for development in the 2014-2015 workplan. The Board noted that, as of 6 December 2016, out of nine policies, strategies and standards, four policies and metadata standards on access to the records held by the Mechanism had been finalized and approved by the Registrar. The remaining five policy documents (56 per cent) were lagging behind the timelines, as shown in table 2 below.

Table 2
Status of the development of policies

Name of policy	*Planned time frame of completion*	*Actual status as at 1 July 2017*
Mechanism record keeping policy	Registry review of the revised draft by December 2016	Archives and Records Section review of the first draft
Mechanism email policy	Approved policy position paper by December 2016	Policy paper had yet to be approved as at 1 July 2017
Preservation strategies for physical and digital archives	Revised draft by December 2016	Draft digital preservation strategy had yet to be approved

Name of policy	*Planned time frame of completion*	*Actual status as at 1 July 2017*
Standards, guidelines and tools for archival arrangements and descriptions	Finalization by June 2016	Draft manual under review
Mechanism records retention schedules	First draft by December 2016	Draft only for Mechanism Office of The Prosecutor

Source: Information submitted by Mechanism management.

38. Management explained that, the implementation of the time frame for governance document development had been affected mostly by competing priorities: much attention was focused on the Archives and Records Section, developing the universal judicial database and moving from the office located at the Arusha International Conference Centre to the new office premises at Lakilaki, Arusha.

39. The Board is of the view that delays in finalization of the development of policy standards, guidelines and procedures inhibit efficiency and effectiveness in respect of the management of Mechanism records and archives. The Board is also concerned that the deficiency noted will affect initiatives of the Mechanism for long-term preservation of the archives and records in accordance with its mandate.

40. **The Mechanism agreed with the Board's recommendation that it revise its time frame for the development of an archives and records management governance document and establish a clear timeline for developing and implementing all remaining policies, guidelines and procedures.**

Lack of an approved workplan for the backlog project

41. As part of the completion strategy for the International Tribunal for the Former Yugoslavia, the records and archives of the International Tribunal were to be prepared for transfer to the Mechanism for long-term preservation and access. These were stored mostly on media such as video cassettes, audio cassettes and compact discs on which court proceedings had originally been recorded. The International Tribunal had embarked on the project of digitization of all court proceedings records, exhibits and other related audiovisual materials pertaining to the period from 1994 to 2010. This project was contracted to an external company to which 37,227 tapes were sent for digitization. The contract was initially entered into for the period from 19 November 2009 to 15 December 2010, but it was later extended to 30 May 2011.

42. The Board noted that some records generated before 2010 were not under the digitization contract entered into in 2010 and therefore could not be digitized. The records included six digital video camera (DVCAM) tapes which had not been redacted by 2010 and were not sent to the company for digitization pending redaction; nine DVCAM tapes whose recordings were not compatible with the system used by the company; isolated camera (ISO) tapes; and recordings under confidential rule 70[3] which management decided would not be under the contract. Also, as of 6 December 2016, there were court records materials generated from 2011 to 2014 and recorded on DVCAM tapes which needed to be migrated to a file-based environment.

[3] Rule 70 (of the Rules of Procedure and Evidence of the International Tribunal for the Former Yugoslavia of 8 July 2015). is entitled “Matters not subject to disclosure”.

43. The Mechanism had no approved project plan or workplan for the backlog project, whose aim was to digitize the records that had not been included in the 2010 contract. The plan could have defined the scope of works, the sequence within the digitization process, and priorities with respect to records to be digitized. The Board also noted that management had anticipated that records to be digitized as part of the backlog project would likely be in the range of 8,000-12,000 tapes, although the actual number of tapes was not known. It had stated that the exact number of records could be known after conducting a more detailed investigation to determine the number of public and confidential sessions that were on each tape.

44. The Mechanism informed the Board that the International Tribunal for the Former Yugoslavia had agreed to digitize the backlog records as part of an in-house project under the supervision and management of the Mechanism's Archives and Records Section and that a team of six staff had been formed to implement the project and an internally developed application known as the session initiation tool had been developed to manage the court recordings, digitization of backlogs, and quality control process. While the Mechanism acknowledged that a comprehensive workplan is needed for the entire backlog project, it did note that work had been completed for two pilot projects to digitize the tapes from the Karadžić, Stanišić and Simatović cases.

45. The Board considers that in the absence of an overall plan, the entire backlog project may not be moving in the right direction in terms of the projected time frame for the project and the order in which records should be digitized.

46. **The Mechanism agreed with the Board's recommendation that the Mechanism's Archives and Records Section develop an overall project plan/workplan for the entire backlog project, including a determination of all of the cases and records to be covered and the corresponding time frame, and for how it will monitor the plan's implementation.**

Lack of reviews and mapping of records in the Mechanism Archives and Records Section repositories

47. Under section 4.1 of Secretary-General's bulletin ST/SGB/2007/5 of 12 February 2007, departments and offices are required to develop and implement a policy regarding the retention of their records, including transitory records, through a records retention schedule subject to approval by the Archives and Records Management Section.

48. In August 2012, the Archive and Records Management Section in New York approved records retention schedules for the Office of the Prosecutor and Registry. In June 2015, 11 new records retention schedules for administrative functions and five Chambers functions were also approved. The Board noted that, since the approval of the new records retention schedules in 2012 and 2015, the Mechanism Archives and Records Section had not reviewed the retention periods for the records in its three archives and repositories, M1A, M0A, and M096 and M098,[4] to ensure that they are in line with the latest approved records retention schedule. Failure to review the records retention periods hinders records disposition actions. For example, destruction of records from repositories M1A, M096 and M098 which was due to have occurred from December 2013 to November 2016 could not be carried out because the relevant periods were not reflected in the current approved records retention schedules. The disposition of those records could be initiated only after the

[4] In the main building: first floor room (M1A); ground floor room (M0A); and ground floor rooms 96 and 98 (M096 and M098).

review of records in Archives and Records Section repositories and mapping of records to records retention schedules.

49. The Board considers that unnecessary maintenance of expired records in the repositories for longer periods limits the effective use of the available space. There is also the risk that the disposition plans may not be fully implemented owing to the absence of a review of records in the repositories.

50. The management of the Mechanism's Archives and Records Section explained that the work of reviewing and mapping its records while holding to the approved records retention schedules needs to be planned for, but that it is not a priority in the biennium 2016-2017. The Section could not, however, provide a document demonstrating its priorities for that period.

51. **The Mechanism agreed with the Board's recommendation that the Mechanism ensure that all records in the repositories of the Archives and Records Section are clearly reviewed and mapped to the approved records retention schedules and that there is effective implementation through initiation of the appropriate disposition actions.**

6. Travel management

Non-adherence to the travel and approval process

52. Under paragraph 26 of the Mechanism's Standard Operating Procedures on Travel Requests and Authorizations (SOP-TRA-07-MICT-SOP-2015-02) of 30 March 2015, it is required that the travel request be approved in from one to three days.

53. The Board noted that the Mechanism had a total of 281 official travels in the year 2016, of which 205 (73 per cent) involved tickets that, contrary to the instructions, had been purchased less than 16 days before commencement of travel. The Board noted that of the 205 travels, a total of 53 tickets were for travels related to human resources and entitlement; these travels could have been foreseen and the associated tickets purchased in advance to avoid delays.

54. The Mechanism explained that compliance with paragraph 3.3 of administrative instruction ST/AI/2013/3 on official travel requires travellers to either finalize their travel arrangement 16 days in advance, or provide the reasons for, and the justification by management of, the non-compliance. The Board is aware that the Mechanism circular recognizes, inter alia, changes, in respect of court schedules, witness availability and organization of meetings by external actors as factors beyond staff control which can be accepted as providing valid justification for non-compliance. However, the non-compliance in the cases noted had been the result of delays in approval of Mechanism travel requests, and not of the factors accepted as valid justification. For example, with regard to the 205 tickets purchased less than 16 days before the travel date, 20 travel requests were approved after 4-34 days rather than after 1-3days, as recommended under the Standard Operating Procedures on Travel Requests and Authorizations of 30 March 2015.

55. The Board is of the view that that non-compliance with the administrative instruction on travel signifies that the Mechanism is not maximizing the use of its travel resources by benefiting from the more competitive airfare that is likely to be available through early bookings.

56. **The Mechanism agreed with the Board's recommendations that it ensure that the approval process is expedited in line with paragraph 26 of the Standard Operating Procedures on Travel Requests and Authorizations of 30 March 2015 (mentioned above).**

Late submission of travel expense report after completion of official travel

57. Under section 13 of administrative instruction ST/AI/2013/3 on official travel, staff members are required to submit to their executive or administrative office a completed travel reimbursement claim on form F.10 within two calendar weeks after completion of travel. In section 13 (para. 3), it is also stated that recovery of travel advances through payroll deduction shall be initiated in the event of non-compliance with the instruction.

58. The Board noted a delay in submission of travel reimbursement forms for 25 (9 per cent) staff out of 281 who had undertaken Mechanism staff travel during the year 2016. The delays ranged from 1 to 346 days. The Mechanism explained that most of the delays were associated with cases of entitlement travel, where no advances had been issued to staff. The delay in submission of the travel reimbursement forms had been due partly to technical issues which led to a situation where human resources staff were assigned the role of submitting expense reports during the wait for the Umoja implementation team to resolve issues related to the submissions of forms in Umoja. However, the Mechanism could not demonstrate progress with regard to how the technical issues were being addressed and when they would be resolved.

59. The Board considers that to ensure the exercise of proper control over staff advances, Umoja could be configured to perform automatic recovery of previously paid travel advances by a payroll run in the case of a failure to submit expense reports within 14 calendar days upon completion of the travel. The Mechanism explained that owing to the nature of the configuration of Umoja, it could not unilaterally implement recovery from payroll and that Headquarters needed to effect this change. Also, while global implementation of recovery had been delayed, in April 2017, global recovery was implemented for travels with advances and expense reports outstanding beyond 60 days after completion of travel. The Mechanism also explained that it had been consistently monitoring the status of reports of travel expenses, in particular those involving issuance of advances. The monitoring was carried out through weekly meetings of the General Services Section and the Finance Section, participation in global travel WebEx meetings and review of the monthly dashboard. However, the Mechanism did not provide evidence to substantiate that the measures had actually been taken and were effective, noting that the Board continued to observe delays in submission of travel reimbursement forms.

60. Delay in recovery of travel advances hinders the validation of travel costs in a timely manner and has the effect of understating the actual expenditures in the months concerned.

61. **The Board recommends that the Mechanism consistently monitor accountability of travel advances through ensuring that travel reimbursement forms are submitted in a timely manner and that the requisite measures are instituted in the event of non-compliance.**

7. Information and communications technology

Lack of procedures for the Records Manager Version 8.1 user provisioning and de-provisioning

62. In section 3.1 of the document entitled "Access Control for the United Nations Secretariat ICT Technical Procedure (SEC.02.PROC) of November 2013, it is stated that all requests for new user accounts shall be authorized by the substantive office or the Human Resources Management Service. User registration forms shall be

reviewed for completeness and appropriate authorizations prior to the granting of access to ICT resources.

63. The Board reviewed the user provisioning and de-provisioning processes under the Records Manager Version 8.1 (RM8) and noted that user access requests are submitted to the Mechanism Archives and Records Section by heads of sections or certain focal points through emails without specifying the user type and security access levels. Therefore, the administrator grants access to a user based either on the access levels given to other existing users in the same section or on the needs of the section and the responsibility of the user.

64. The Board also noted that 23 out of the 239 users of RM8 in the International Tribunal for the Former Yugoslavia had more than one user account with different security profiles in different data sets among the five data sets of the International Tribunal and the Mechanism at The Hague. The Mechanism explained that the existence of users with multiple accounts stemmed from the design of the system whose users had a unique account for accessing each data set,[5] since the data sets were independent of each other and some users had access to more than one data set. To access a different database requires a different account. In addition, a user can have different access privileges to the different data sets by virtue of the possession of different accounts. However, the Board did not find a robust procedure for the review of security access levels before the granting of access.

65. In addition, the Board noted while that the Mechanism's Archives and Records Section manages the business processes of archives and records for both the International Tribunal for the Former Yugoslavia and the Mechanism, it has no system user roles matrix and procedure for granting access to the system. The Board noted that the lack of a user role matrix resulted mainly from the decision to replace the standard operating procedure that had been in use under Archives and Records Management Unit services with the new standard operating procedure under the Mechanism's Archives and Records Section. The standard operating procedure introduced under the Section has not covered the management of user access to RM8, which would also include the user role matrix. The Mechanism explained that to mitigate the impact of this deficiency, the Archives and Records Section still refers to the standard operating procedure of the Archives and Records Management Unit whenever it receives requests for a change of access.

66. The lack of a procedure for reviewing security access levels and also referral to outdated standard operating procedures may result in the granting of access by users to unauthorized information.

67. **The Mechanism agreed with the Board's recommendation that it review and formalize the procedure for the provisioning and de-provisioning of user access to RM8 with a defined user role matrix.**

68. On 11 July 2017, the Mechanism shared a user role matrix with the Board, explaining that the document had been approved and distributed to relevant staff for immediate implementation. The Board will review the adequacy of the user role matrix and its implementation to determine if the measures taken fully address the audit recommendation.

[5] For the Office of the Prosecutor of the Mechanism, the Office of the Prosecutor of the International Tribunal for the Former Yugoslavia, the International Tribunal, the Mechanism and the Victims and Witnesses Section of the International Tribunal.

ICT disaster recovery plan has not been updated and tested

69. Under paragraph 63 (on the infrastructure management programme) of the report of the Secretary-General entitled "Investing in information and communications technology: information and communications strategy for the United Nations Secretariat" (A/62/793 and Corr.1), dated 9 April 2008, the global Secretariat would be required to have a comprehensive set of plans to address disasters or interruptions, especially with regard to the ICT aspects of business continuity and disaster recovery. In this regard, the Mechanism's Arusha branch has 20 information systems: 19 systems are used by Office of the Prosecutor and 1 system is within the Mechanism Archives and Records Section. The Board noted that none of the information systems are included in the ICT disaster recovery plan for the Arusha branch. The Board also noted that the Arusha branch disaster recovery plan was not comprehensive enough to cover all key information so as to ensure the continuity of business operations in a timely manner in the event of a disaster, while preventing the loss of critical information. For example, the plan for the Arusha branch has not been updated with all of the key contacts of service providers and ICT staff, as is illustrated in table 3 below:

Table 3
Information not included in the Mechanism disaster recovery plan

Information not covered under the disaster recovery plan
Key contacts of services providers and vendors such as Tanzania Telecommunications Company Limited (TTCL) and other internal contacts, such as ICT staff in both the Archives and Records Section and the Office of the Prosecutor
Key business applications of the Mechanism, including the Office of the Prosecutor and the Archives and Records Section in Arusha
Roles and responsibilities of the recovery team
Training in disaster recovery operations and the need for feedback on any revision of the ICT disaster recovery plan
Timing for the testing of the disaster plan

Source: Audit analysis of the disaster recovery plan.

70. Also, the plan has not been tested since it was developed in December 2016, to confirm adequacy of preparedness for resumption of normal business operations in a timely manner in the case of a disaster.

71. The Mechanism explained that its Archives and Records Sections in Arusha had prepared and begun to implement the Arusha International Conference Centre Interim Emergency Response and Disaster Recovery Plan in June 2017. The Board noted, however, that, the updated disaster recovery plan encompassed only the Archives and Records Section and not the Mechanism's Arusha office as a whole. The Board is still concerned that the lack of an updated and tested disaster recovery plan signifies that the Mechanism Arusha branch may not be able to resume its normal business operations in a timely manner and may therefore lose business and client confidence.

72. **The Mechanism agreed with the Board's recommendation that it review, update and test the disaster recovery plan of the Mechanism's Arusha branch and implement thereafter a comprehensive disaster recovery plan which considers all of the information systems and their dependencies.**

Lack of a consolidated ICT function within the Mechanism's Arusha branch

73. The ICT strategy of the United Nations Secretariat emphasizes the need to rationalize and harmonize ICT operations and structures through implementation of organizational changes within the ICT management structure, including consolidation of multiple ICT units within the same department or office and consolidation of applications, in order to ensure efficient staff utilization, preservation of institutional knowledge, a standardized ICT staffing model and leveraging of common ICT processes so as to enhance overall support and security capabilities.

74. In reviewing the Mechanism's organizational structure for the Arusha branch, the Board noted that ICT support services staff are present in different sections of the organization. One staff member was placed under the Office of the Prosecutor and another staff member under the Mechanism Archives and Records Section, while the remaining five ICT staff members were within the ICT department. The major functions of ICT staff in the Office of the Prosecutor and the Archives and Records Section were to manage the information systems in use within their respective sections which included taking backups, systems administration, ICT security-related issues, infrastructure issues related to software installation, system configurations and system maintenance, as well as to provide support to users within their sections.

75. Management explained that both the Office of the Prosecutor and the Mechanism Archives and Management Section are responsible for the management of large volumes of information in digital formats, and that there is a requirement for staff within those sections who possessed the ICT skills to support the information management systems and ensure their continued reliability. Further, the staff of the Office of the Prosecutor and the Mechanism Archives and Records Section report to their supervisors on the activities that they undertake in relation to the technical support of the information management systems.

76. Further, the Board reviewed the ICT staff job descriptions and noted that an Associate Information Technology Officer reports to the officer in charge in the Office of the Prosecutor. The Board noted that owing to the fact that the system was not being fully integrated into the ICT network infrastructure and that those that were fully integrated into the ICT network infrastructure had security features implemented and managed by ICT staff in the Office of the Prosecutor, the responsibilities for taking backups of information systems were not consolidated and that the backup of such information systems in the Mechanism's Archives and Records Section and the Office of the Prosecutor were undertaken by ICT staff in the Archives and Records Section and the Office of the Prosecutor.

77. The Board also noted that ICT help desk operations had not documented any issues or incidents that were reported by users between the first week of August 2016 and the time of the Board's audit in February 2017. This is because the ICT help desk function is distributed among ICT staff in the Mechanism's Arusha branch. Therefore, it becomes difficult for the one or two ICT staff deployed in each of the sections to document incidents reported by users and initiate the process of problem resolution. Further, while a total of 151 incidents had been documented between March and August 2016, the documents did not indicate how and when the reported incidents were resolved and closed.

78. The Mechanism also explained that it is assessing internally how ICT support can best be provided to both the Archives and Records Section and the Office of the Prosecutor so as to ensure consistency, efficiency and responsiveness to specific operational requirements. At the present time, there cannot be a predetermination of the results of that assessment, with a view to deciding on whether to consolidate the

ICT functions. In addition, some ICT functionality is decentralized for valid reasons and it is only the assessment that will be able to identify such functions.

79. The Board considers that it is crucial that the justification for having some scattering of ICT functions which departs from the ICT strategy requirements be established, documented and approved. The Board is also of the view that the Mechanism needs to expedite any assessment of ICT function in progress to ensure that ICT functions are located outside the ICT unit only when where there are valid reasons for doing so, so as to avert duplication of efforts and to ensure proper management of the infrastructure, information systems, ICT support services, and backups and restoration of systems.

80. **The Board recommends that the Mechanism expedite assessment and review of its ICT organizational structure to ensure that functions are located outside the ICT unit only for approved reasons, and that ICT functions are mainly consolidated and centralized so as to prevent the fragmentation of ICT expertise and capacity.**

C. Disclosures by management

1. Write-offs of losses of cash, receivables and property

81. Pursuant to financial rule 106.7 (a), the Mechanism approved write-offs of property, plant and equipment with an original cost of $28,640 during financial year 2016. Those assets were fully depreciated with no net book value. The Mechanism also formally wrote off receivables of $17,574.98 in connection mainly with value added taxes during financial year 2016.

2. Ex gratia payments

82. Management confirmed that the Mechanism had not made any ex gratia payments in 2016.

3. Cases of fraud and presumptive fraud

83. In accordance with the International Standards on Auditing (specifically ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities, including those resulting from fraud. The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

84. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to the Board's attention. It also asks whether management has any knowledge of any actual, suspected or alleged fraud, which includes enquiries of the Office of Internal Oversight Services. The additional terms of reference governing external audits include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

85. In 2016, the Board did not identify any cases of fraud and presumptive fraud and the Mechanism reported to the Board that it had no such cases.

D. Acknowledgement

86. The Board wishes to express its appreciation to the President, the Prosecutor, the Registrar and the staff of the International Residual Mechanism for Criminal Tribunals for the cooperation and assistance extended to its staff.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

Annex

Status of implementation of recommendations up to the year ended 31 December 2016

Financial period in which the recommendation was first made	*Paragraph reference*	*Recommendations*	*Mechanism responses*	*Board assessment*	*Status after verification: Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
2015	26	The Board recommended that the Mechanism use the policy development framework to update its administrative rules, policies and procedures to suit its current operating environment	The Mechanism is using the policy development framework to draft new administrative rules, policies and procedures, and anticipates having redrafted a majority of its administrative policies by the first quarter of 2017	The Management has yet to finalize the redrafted administrative policies. Therefore, the Board considers this recommendation to be under implementation		X		
2015	32	The Board recommended that the Mechanism, through the Mechanism Archives and Records Section, closely monitor the backup tapes in the storage place	The Archives and Records Section has implemented a regime for management of the tapes stored at the storage place. The tapes are now stored in locked safes, in an environmentally controlled room. The Section holds the keys to the safes and only Section staff members have access to them	The Board has made an assessment and noted that tapes are now stored in locked safes and that the management of the Mechanism continues to monitor the backups in the storage place	X			
2015	37	The Board recommended that the Mechanism, through the Mechanism Archives and Records Section, ensure that the training plan is updated and that the formal training in the disposition of digital records is carried out at the earliest possible time	The Archives and Records Section has updated the high-level project plan for the records disposition project of the International Tribunal for the Former Yugoslavia with respect to provision of training. The Section has established a schedule of training on preparation and transfer of both physical and digital records, which will be offered regularly from September 2016 to June 2017	Management has a high-level project plan for the records disposition project Training has been carried out regularly from September 2016	X			
2015	43	The Board recommended that the Mechanism urgently collaborate with the International Tribunal for the Former Yugoslavia and establish an appropriate working group to (a) review the Mechanism's information technology systems and	The Mechanism, in collaboration with the International Tribunal for the Former Yugoslavia, has established working groups for each business unit. The working groups are currently reviewing Mechanism IT systems and applications requirements and will develop workplans for the harmonization and	The Board reviewed the composition of the working group as well as work performed on reviewing Mechanism IT systems and applications requirements. Therefore part (a) of the recommendation is closed	X			

Financial period in which the recommendation was first made	*Paragraph reference*	*Recommendations*	*Mechanism responses*	*Board assessment*	*Status after verification*			
					Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
		applications requirements; and (b) develop workplans to harmonize and consolidate the applications and systems inherited from the two Tribunals, as appropriate, to meet those requirements	consolidation of applications and systems	The high-level workplan has been prepared. We consider part (b) of the recommendation to have been implemented				
2015	52	The Board recommended that the Mechanism collaborate with the Procurement Division at Headquarters to: (a) continue to closely monitor the project so as to avoid further delays; (b) prepare a project plan and supervise its implementation to demonstrate how the project will be completed on time and within the approved budget; and (c) evaluate and enforce the provision regarding liquidated damages, as appropriate, for the failure of the contractor to abide by the contractual terms	As regards part (a), the Mechanism continues to maintain close monitoring of the project and notes that a recent Office of Internal Oversight Services audit found that Mechanism project management was satisfactory. As regards part (b), the Mechanism notes that the project will enter the testing and commissioning phase in the last week of September 2016, the last step before substantial completion. The project remains well within its approved budget. The Mechanism therefore believes this part of the recommendation has been overtaken by events and is therefore closed. As regards part (c), the Mechanism continues to consult with the Office of Legal Affairs and the Office of Central Support Services to evaluate all contractual remedies and remains ready to enforce them as appropriate	Part (a) of the recommendation has been closed Part (b) of the recommendations has been overtaken by events. Implementation of part (c) is still in progress		X		
Total number of recommendations					**3**	**2**	**0**	**0**
Percentage of total number of recommendations					**60**	**40**	**0**	**0**

Chapter III

Letter dated 31 March 2017 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the International Residual Mechanism for Criminal Tribunals for the year ended 31 December 2016 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the Mechanism during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the International Residual Mechanism for Criminal Tribunals, numbered I to V, are correct in all material respects.

(*Signed*) Bettina Tucci **Bartsiotas**
Assistant Secretary-General, Controller

Chapter IV
Financial report for the year ended 31 December 2016

A. Introduction

1. The Registrar has the honour to submit herewith the financial report on the accounts of the International Residual Mechanism for Criminal Tribunals for the year ended 31 December 2016.

2. The present report is designed to be read in conjunction with the financial statements. Attached to the present chapter is an annex which includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

3. The Mechanism was established by the Security Council in its resolution 1966 (2010) to continue the jurisdiction, rights and obligations and essential functions of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia after the completion of their respective mandates.

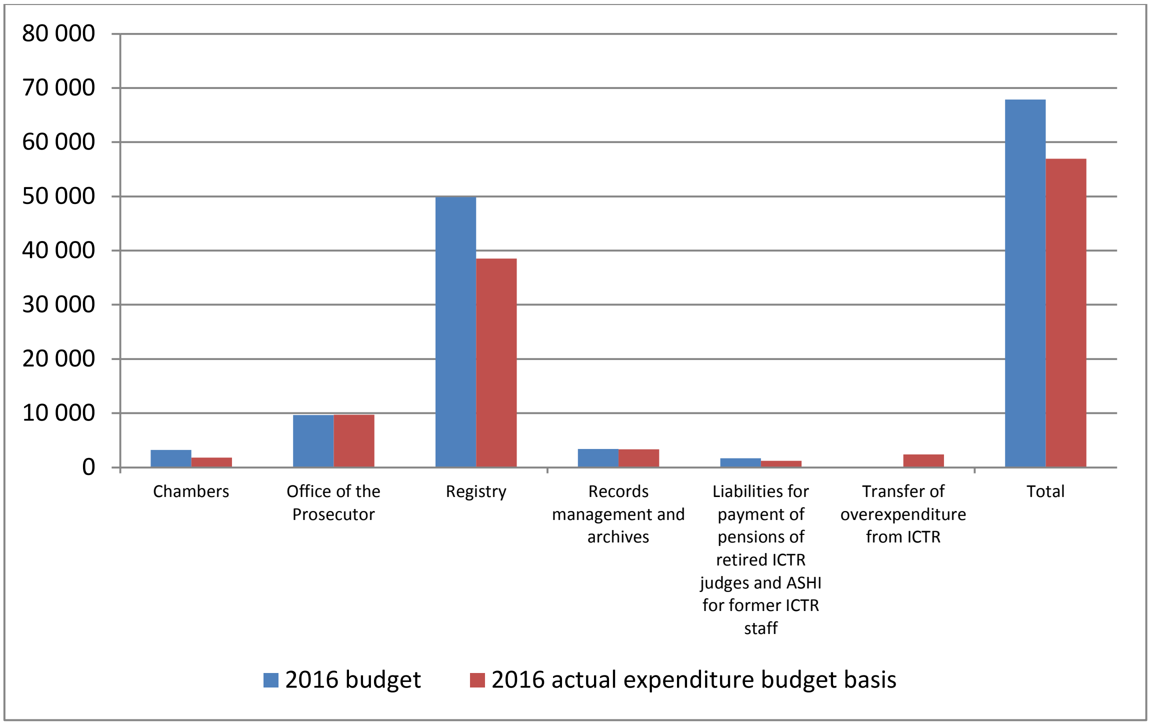
4. The Mechanism comprises two branches. One branch covers functions inherited from the International Criminal Tribunal for Rwanda and is located in Arusha, United Republic of Tanzania. It commenced its operations on 1 July 2012. The other branch is located in The Hague, Netherlands, and inherited functions from the International Tribunal for the Former Yugoslavia. It commenced its operations on 1 July 2013.

5. In accordance with its mandate, the Mechanism has assumed responsibility for many functions of the two Tribunals, including a range of judicial activities, the enforcement of sentences, resettlement of acquitted and released persons, the protection of victims and witnesses and the management of archives. Upon the conclusion of the mandate of the liquidation team for the International Criminal Tribunal for Rwanda, on 31 July 2016, the Mechanism assumed full responsibility for the remaining liquidation tasks. As the International Tribunal for the Former Yugoslavia has been progressively downsizing its operations, the Mechanism continued to work closely with Tribunal principals and staff to ensure a smooth transition of the remaining functions and services and the harmonization and adoption of best practices.

6. The accompanying figure shows the relative proportion of the 2016 budget of the Mechanism for each of its programme components; the final annual budget totalled $67.87 million (2015: $12.80 million) and expenditure amounted to $56.96 million (2015: $44.16 million). Actual expenditure was less than budget by 16.1 per cent, principally as a result of the lower-than-anticipated level of judicial activity at the Arusha branch of the mechanism, due mainly to the lower-than-budgeted costs for the arrest of fugitives. The comparative budget and expenditures of the three organs of the Mechanism are presented below.

Budget and expenditure of the organs of the International Residual Mechanism for Criminal Tribunals (annual basis)

(Thousands of United States dollars)



Abbreviations: ASHI, after-service health insurance; ICTR, International Criminal Tribunal for Rwanda.

B. Overview of the financial statements for the year ended 31 December 2016

7. Financial statements I to V show the financial results of the activities of the Mechanism and its financial position as at 31 December 2016. The notes to the financial statements explain the Mechanism's accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements.

Revenue

8. In 2016, revenue totalled $68.76 million (2015: $11.44 million). The main source of revenue was assessed contributions of $67.87 million received from Member States, which is the same as the final annual budget presented in statement V, Comparison of budget and actual amounts. This revenue has been recorded in accordance with the Financial Regulations and Rules of the United Nations and the relevant resolutions of the General Assembly for the biennium 2016-2017 (resolutions 70/243 and 71/269). Assessed revenue has increased significantly, from $11.44 million in 2015 to $67.87 million in 2016. The low level of assessed revenue in 2015 was a result of the reduction by $48.71 million of the final appropriation for the biennium 2014-2015 (from $120.30 million to $71.59 million), as approved by the Assembly in its resolution 70/243.

9. The other sources of revenue included mainly investment revenue and contributions in kind of $0.42 million and $0.39 million, respectively. Revenue reported as contributions in kind represents transfer of used equipment items from the International Criminal Tribunal for Rwanda.

Expenses

10. Expenses reported in statement II are shown on a full accrual basis. This contrasts with statement V, which shows expenditure on a budget basis. The main difference between the two is the cost of after-service employee and judges' benefits liabilities, which are accrued as the service is delivered in statement II, but shown on a cash basis in statement V.

11. For the year ended 31 December 2016, expenses totalled $61.52 million (2015: 35.51 million). The main expense categories were employee salaries, allowances and benefits of $44.09 million, which constituted 71.7 per cent of the total expenses; other operating expenses of $10.14 million (16.5 per cent); grants and other transfers of $2.11 million (3.4 per cent); judges' honorariums and allowances of $1.54 million (2.5 per cent); travel expenses of $1.52 million (2.5 per cent); and depreciation and amortization of $1.32 million (2.1 per cent).

12. Total personnel cost, which includes employee salaries, allowances and benefits and judges' honorariums and allowances, amounted to $45.63 million; in 2015, total personnel cost was $26.19 million. The increase in personnel cost in 2016 is in line with the transition of the remaining functions and services of the Tribunals to the Mechanism.

13. The grant out of $2.11 million to the International Criminal Tribunal for Rwanda is to cover overexpenditure incurred and paid by that Tribunal in 2016, in compliance with the requirements of General Assembly resolution 71/267.

Operating results

14. The surplus of revenue over expense in 2016, as measured under the International Public Sector Accounting Standards (IPSAS), was $7.25 million (11.8 per cent). The lower-than-budgeted expense on a budget basis was partly offset by IPSAS adjustments, principally the accrued cost of after-service liabilities earned by staff for their service during the year.

15. The deficit under IPSAS in 2015, which was $23.58 million, resulted mainly from the adjustment on revenue, as noted in paragraph 8 above.

Assets

16. Assets as at 31 December 2016 totalled $104.41 million compared with the balance as at 31 December 2015 of $70.03 million.

17. The main assets at 31 December 2016 were other accounts receivable of $63.79 million, representing 61.1 per cent of total assets; cash and cash equivalents and investments totalling $23.75 million (22.7 per cent); property, plant and equipment of $12.81 million (12.3 per cent); and assessed contributions receivable from Member States of $2.38 million (2.3 per cent).

18. Other accounts receivable include a receivable of $55.93 million from the International Criminal Tribunal for Rwanda for the transfer as of 1 January 2016 of judges' pension liabilities ($21.07 million) and employee benefits liabilities ($34.86 million), pursuant to General Assembly resolution 70/243, and a receivable from the International Tribunal for the Former Yugoslavia for the transfer of

employee benefits liabilities ($6.23 million) as part of the transition of its remaining functions.

19. Cash and cash equivalents and investments of $23.75 million at 31 December 2016 were held in the United Nations main cash pool. This represents a decrease of $35.48 million on the balance of $59.23 million held at the end of 2015. The decrease is attributable to the reduction of the final appropriation for the biennium 2014-2015 at the end of 2015. This reduction was netted off the assessments to Member States in 2016, resulting in a cash inflow from contributions that was correspondingly lower than the 2016 budgeted expenditure.

20. The new Arusha facility was completed and came into use in December 2016. The total gross value recognized in property, plant and equipment for this facility was $7.39 million for buildings and $1.46 million for infrastructure.

Liabilities

21. Liabilities as at 31 December 2016 totalled $89.55 million (31 December 2015: $63.19 million). The largest liability was for employee benefits earned by staff members and retirees in the amount of $61.80 million, representing 69 per cent of the Mechanism's total liabilities. The increase of these liabilities in the amount of $47.11 million in 2016 was due primarily to the transfer of employee benefits liabilities for $6.23 million from the International Tribunal for the Former Yugoslavia and of $34.86 million from the International Criminal Tribunal for Rwanda.

22. The liabilities related to judges' honorariums and allowances amounted to $20.50 million, which represented primarily the judges' pension liabilities transferred from the International Criminal Tribunal for Rwanda.

Net assets

23. An error relating to the 2015 financial statement has been identified and restated, which led to an increase of the total net asset position from $5.34 million to $6.84 million. This error relates to the non-recognition of income for contributions of $1.50 million included in the final appropriation for 2012-2013 but excluded from the assessment for that biennium under General Assembly resolution 67/244 A. The amount was included in the final assessment for 2014-2015 but revenue for the 2015 financial statements included only the appropriation for that biennium and omitted this assessment from the previous biennium.

24. The movement in net assets during the year reflects an increase of $8.03 million, from $6.84 million in 2015 to $14.87 million in 2016, explained mainly by the 2016 surplus of 7.25 million. As at 31 December 2016, the net assets of the Mechanism included a restricted portion of $5.03 million relating to the balance of the special account for the construction of the Arusha facility.

Liquidity position

25. At 31 December 2016, liquid assets totalled $85.23 million (cash and cash equivalents of $6.56 million, short-term investments of $11.61 million, and other accounts receivable, assessed contributions receivable and other assets totalling $67.07 million), whereas total current liabilities amounted to $11.43 million.

26. The following table summarizes four key liquidity indicators for the financial year ended 31 December 2016, with comparatives for the year ended 31 December 2015:

Liquidity indicator	Year ended 31 December 2016	2015
Ratio of liquid assets to current liabilities	7.5:1	0.8:1
Ratio of liquid assets less accounts receivable to current liabilities	1.6:1	0.8:1
Ratio of liquid assets to total assets	0.8:1	0.6:1
Average months of cash, cash equivalents and investments on hand	4.7	20.4

27. The ratio of liquid assets to current liabilities is a measure of the ability of the Mechanism to pay its short-term obligations from its liquid resources. The ratio of 7.5:1 indicates that current liabilities are largely covered by liquid assets. The change in the value of this ratio from 0.8:1 in the prior year resulted mainly from an increase in accounts receivable from the Tribunals of $62.16 million (detailed in note 8) and a decrease in current liabilities from the reversal of the 2015 provision of $41.43 million relating to credits to be returned to Member States.

28. As at 31 December 2016, the Mechanism's liquid assets were about 82 per cent of its total assets and it held sufficient cash and cash equivalents and investments to cover its estimated average monthly expenses (less depreciation and amortization) of $5.02 million for five months.

29. As at the reporting date, the Mechanism had liabilities for employee benefits and judges' honorariums and allowances of $82.31 million. With total cash and cash equivalents and investments of $23.75 million, there was not sufficient coverage for the full amount of employee benefits liabilities incurred to date. No amounts were reserved in the accounts to cover employee benefits liabilities to be paid in the future.

Annex

Supplementary information

1. The present annex provides supplementary information that the Registrar is required to report.

Write-off of losses of cash and receivables

2. Pursuant to financial rule 106.7 (a), receivables of $17,574.98 have been approved for write-off during 2016.

Write-off of losses of property

3. Pursuant to financial rule 106.7 (a), write-offs of property, plant and equipment had no net value in the financial statements since they were all fully depreciated before disposal. The original cost of these assets was $28,640.

Ex gratia payments

4. There were no ex gratia payments made by the Mechanism during 2016.

Chapter V

Financial statements for the year ended 31 December 2016

International Residual Mechanism for Criminal Tribunals

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015 (restated)*
Assets			
Current assets			
Cash and cash equivalents	7	6 560	9 630
Investments	7	11 605	29 685
Assessed contributions receivable	7, 8	2 379	2 257
Other accounts receivable	7, 8	63 794	473
Other assets	9	892	1 644
Total current assets		**85 230**	**43 689**
Non-current assets			
Investments	7	5 588	19 918
Property plant and equipment	10	12 807	5 907
Intangible assets	11	788	513
Total non-current assets		**19 183**	**26 338**
Total assets		**104 413**	**70 027**
Current liabilities			
Accounts payable and accrued liabilities	12	6 390	7 040
Advance receipts	13	22	29
Employee benefits liabilities	14	2 870	1 376
Judges' benefits liabilities	15	1 316	–
Provisions	16	829	41 426
Total current liabilities		**11 427**	**49 871**
Non-current liabilities			
Employee benefits liabilities	14	58 933	13 316
Judges' benefits liabilities	15	19 187	–
Total non-current liabilities		**78 120**	**13 316**
Total liabilities		**89 547**	**63 187**
Net of total assets and total liabilities		**14 866**	**6 840**
Net assets			
Accumulated surpluses/(deficits) — unrestricted	17	9 831	1 894
Accumulated surpluses/(deficits) — restricted	17	5 035	4 946
Total net assets		**14 866**	**6 840**

The accompanying notes to the financial statements are an integral part of these financial statements.

International Residual Mechanism for Criminal Tribunals

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015 (restated)*
Revenue			
Assessed contributions	18	67 874	11 440
Other transfers and allocations	18	386	175
Other revenue	18	82	–
Investment revenue	7	419	313
Total revenue		**68 761**	**11 928**
Expenses			
Employee salaries, allowances and benefits	19	44 088	26 031
Judges' honorariums and allowances	19	1 544	161
Contractual services	19	354	372
Grants and other transfers	19	2 105	–
Supplies and consumables	19	448	1 118
Depreciation and amortization	10, 11	1 318	587
Travel	19	1 520	1 104
Other operating expenses	19	10 139	6 133
Total expenses		**61 516**	**35 506**
Surplus/(deficit) for the year		**7 245**	**(23 578)**

The accompanying notes to the financial statements are an integral part of these financial statements.

International Residual Mechanism for Criminal Tribunals

III. Statement of changes in net assets for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	*Accumulated surpluses/(deficits) Unrestricted (restated)*	*Accumulated surpluses/(deficits) Restricted*	*Total (restated)*
Net assets as at 1 January 2015		25 658	5 568	31 226
Changes in net assets in 2015				
Actuarial gains/(losses) on employee benefits liabilities		(814)	6	(808)
Surplus/(deficit) for the year (restated)	5	(22 950)	(628)	(23 578)
Net assets as at 31 December 2015 (restated)	**5**	**1 894**	**4 946**	**6 840**
Changes in net assets				
Actuarial gain/(loss) on employee benefits liabilities		694	(11)	683
Actuarial gain/(loss) on judges' pensions		98	–	98
Surplus/(deficit) for the year		7 145	100	7 245
Net assets as at 31 December 2016		**9 831**	**5 035**	**14 866**

The accompanying notes to the financial statements are an integral part of these financial statements.

International Residual Mechanism for Criminal Tribunals

IV. Statement of cash flows for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015 (restated)*
Cash flows from operating activities			
Surplus/(deficit) for the year		**7 245**	**(23 578)**
Non-cash movements			
Depreciation and amortization	10, 11	1 318	2 145
Actuarial gain/(loss) on employee benefits liabilities	14	683	(808)
Actuarial gain/(loss) on judges' pensions	15	98	–
Transfers and donated property, plant and equipment and intangibles	10,11	(386)	(175)
Changes in assets			
Increase/(decrease) in assessed contributions receivables	8	(122)	730
Increase/(decrease) in other receivables	8	(63 321)	(414)
Increase/(decrease) in other assets	9	752	(1 350)
Changes in liabilities			
Increase/(decrease) in accounts payable — other	12	(650)	5 143
Increase/(decrease) in advance receipts	13	(7)	(205)
Increase/(decrease) in employee benefits payable	14	47 111	2 496
Increase/(decrease) in judges' benefits liabilities	15	20 503	–
Increase/(decrease) in provisions	16	(40 597)	41 426
Increase/(decrease) in other liabilities		–	(4 832)
Investment revenue presented as investing activities	18	(419)	(313)
Net cash flows from/(used in) operating activities		**(27 792)**	**20 265**
Cash flows from investing activities			
Pro rata share of net changes in the cash pool	7	32 410	(15 420)
Investment revenue presented as investing activities	18	419	313
Acquisition of property, plant and equipment	10	(7 712)	(5 170)
Acquisition of intangibles	11	(395)	(260)
Net cash flows from/(used in) investing activities		**24 722**	**(20 537)**
Cash flows from financing activities			
Net cash flows from/(used in) financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		(3 070)	(272)
Cash and cash equivalents at beginning of year		9 630	9 902
Cash and cash equivalents at end of year		**6 560**	**9 630**

The accompanying notes to the financial statements are an integral part of these financial statements.

International Residual Mechanism for Criminal Tribunals

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2016

(Thousands of United States dollars)

	2016 budget (appropriation)[a]					
Current year:	*Original biennium*	*Final biennium*	*Original 2016 annual*	*Final 2016 annual*	*Actual 2016 expenditure (budget basis)*	*2016 difference[b] (percentage)*
Mechanism						
Chambers	6 153	6 438	3 076	3 219	1 819	(43.5)
Office of the Prosecutor	19 636	19 342	9 818	9 671	9 694	0.2
Registry	101 200	99 724	50 600	49 862	38 541	(22.7)
Records management and archives	6 895	6 823	3 447	3 411	3 319	(2.7)
Liabilities for payment of pensions of retired ICTR judges and ASHI for former ICTR staff	3 520	3 421	1 760	1 710	1 209	(29.3)
Transfer of overexpenditure from ICTR	–	–	–	–	2 373	–
Total	**137 404**	**135 748**	**68 701**	**67 873**	**56 955**	**(16.1)**

Abbreviations: ASHI, after-service health insurance; ICTR, International Criminal Tribunal for Rwanda.

[a] The original budget for the biennium 2016-2017 is the appropriation approved by the General Assembly for the biennium in its resolution 70/243. The final budget for the biennium reflects the original budget plus any adjustments reflected in the revised appropriation approved by the Assembly in its resolution 71/269. The original annual budget is the portion of the revised appropriation allocated to 2016. The final annual budget reflects the original budget plus any adjustments reflected in the final appropriation. The relevant element of assessed contributions is recognized as revenue at the beginning of each year of the biennium.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 6.

(Thousands of United States dollars)

	2015 budget (appropriation)[a]					
Prior year comparative:	*Original biennium*	*Final biennium*	*Original annual*	*Final annual*	*Actual 2015 expenditure (budget basis)*	*2015 difference[b] (percentage)*
Mechanism						
Chambers	4 289	422	4 090	(1 648)	211	–
Office of the Prosecutor	18 791	12 165	12 759	3 040	6 439	112.0
Registry	86 356	50 168	66 973	7 529	31 075	312.6
Records management and archives	10 861	8 834	7 511	3 882	6 434	65.7
Total	**120 297**	**71 589**	**91 333**	**12 803**	**44 159**	**244.9**

[a] The original budget for the biennium 2014-2015 is the appropriation approved by the General Assembly for the biennium in its resolution 68/257. The final budget for the biennium reflects the original budget plus any adjustments reflected in the revised and final appropriations approved by the Assembly in its resolutions 69/256 and 70/243. The original annual budget is the portion of the revised appropriation allocated to 2015 plus any unencumbered balance at the end of 2014. The final annual budget reflects the original budget plus any adjustments reflected in the final appropriation. The relevant element of assessed contributions is recognized as revenue at the beginning of each year of the biennium and adjusted at the end of the biennium to match the final appropriation.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 5.

International Residual Mechanism for Criminal Tribunals Notes to the 2016 financial statements

Note 1 Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations, which was signed on 26 June 1945 and became effective on 24 October 1945, set out the primary objectives of the Organization, as follows:

(a) The maintenance of international peace and security;

(b) The promotion of international economic and social progress and development programmes;

(c) The universal observance of human rights;

(d) The administration of international justice and law.

2. These objectives are implemented through the United Nations major organs, as follows:

(a) The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations;

(b) The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs, and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations, headquartered in New York, has major offices in Geneva, Nairobi and Vienna, and peacekeeping and political missions, economic commissions, tribunals, training institutes and other centres around the world.

Reporting entity

4. The present financial statements relate to the International Residual Mechanism for Criminal Tribunals, a separate financial reporting entity of the United Nations. The Mechanism was established by the Security Council in its resolution 1966 (2010) to carry out a number of essential functions of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia after the completion of their respective mandates. The Mechanism comprises two branches:

(a) One that inherited functions from the International Criminal Tribunal for Rwanda (which commenced operations on 1 July 2012) and is located in Arusha, United Republic of Tanzania;

(b) One that inherited functions from the International Tribunal for the Former Yugoslavia (which commenced operations on 1 July 2013) and is located in The Hague, Netherlands.

5. In accordance with Security Council resolution 1966 (2010), the Mechanism consists of three organs:

(a) The Chambers, comprising a Trial Chamber for each branch of the Mechanism and an Appeals Chamber common to both branches of the Mechanism. The Mechanism has a roster of 25 independent judges, not more than 2 of whom are nationals of the same State. Each Trial Chamber is composed of three judges from the roster. In the event of an appeal against a decision by a Trial Chamber, the Appeals Chamber shall be composed of five judges;

(b) The Office of the Prosecutor, common to both branches of the Mechanism, is responsible for the investigation and prosecution of persons responsible for serious violations of international humanitarian law committed in the territory of the former Yugoslavia since 1991, and serious violations of international humanitarian law committed in the territory of Rwanda and Rwandan citizens responsible for such violations committed in the territory of neighbouring States between 1 January and 31 December 1994. The Prosecutor acts independently as a separate organ of the Mechanism;

(c) The Registry, common to both branches of the Mechanism, is responsible for the administration and servicing of the Mechanism, including the Chambers and the Office of the Prosecutor.

6. The Mechanism is regarded as an autonomous financial reporting entity which neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and budgetary process of each of the United Nations reporting entities, the Mechanism is not deemed to be subject to common control. Therefore, these financial statements include only the operations of the Mechanism.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

7. In accordance with the Financial Regulations and Rules of the United Nations, the present financial statements are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS). In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the Mechanism, comprise the following:

(a) Statement of financial position (statement I);

(b) Statement of financial performance (statement II);

(c) Statement of changes in net assets (statement III);

(d) Statement of cash flows (using the indirect method) (statement IV);

(e) Statement of comparison of budget and actual amounts (statement V);

(f) Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.

8. The present financial statements have been prepared on a going concern basis and the accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the statements. The going concern assertion is based on the positive historical trend of collection of assessed

contributions, the net assets position and the approval by the General Assembly of the budget requirements for the biennium 2016-2017, which occurred in December 2016.

Authorization for issue

9. The present financial statements are certified by the Controller, and approved by the Secretary-General of the United Nations. In accordance with financial regulation 6.2, the Secretary-General transmits these financial statements as at 31 December 2016 to the Board of Auditors. As agreed with the Board of Auditors, the financial statements for the year ended 31 December 2016 are submitted by the deadline of 31 March 2017. In accordance with financial regulation 7.12, the reports of the Board of Auditors, together with the audited financial statements, shall be transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions and authorized for issue on 30 July 2017.

Measurement basis

10. The financial statements, which are for the year 1 January to 31 December, are prepared using the historic cost convention, except for certain assets, as stated in note 3.

Functional and presentation currency

11. The functional currency and the presentation currency of the Mechanism is the United States dollar. The financial statements are expressed in thousands of United States dollars unless otherwise stated.

12. Foreign currency transactions are translated into United States dollars at the United Nations Operational Rates of Exchange at the date of the transaction. The United Nations Operational Rates of Exchange approximate the spot rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies, those currencies other than the functional currency, are translated at the year-end operational rate of exchange. Non-monetary foreign currency items measured at historical cost or fair value are translated at the operational rate of exchange prevailing at the date of the transaction or when the fair value was determined.

13. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

14. Materiality is central to the preparation and presentation of the Mechanism's financial statements, and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would impact the conclusions or decisions of the users of the financial statements.

15. Preparing financial statements in accordance with IPSAS requires use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses.

16. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are

revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; assumptions in measurement of judges' honorariums and allowances; selection of useful lives and the depreciation and amortization method for property, plant and equipment and intangible assets; impairment of assets; classification of financial instruments; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets and liabilities.

International Public Sector Accounting Standards transitional provisions

17. IPSAS 17: Property, plant and equipment, allows a transitional period of up to five years for the full recognition of capitalized property, plant and equipment. The Organization invoked the transitional provision and has not recognized assets where reliable data are in the process of being collected.

Future accounting pronouncements

18. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Mechanism's financial statements continues to be monitored:

(a) Public sector-specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of IPSAS 28: Financial instruments: presentation; IPSAS 29, Financial instruments: recognition and measurement; and IPSAS 30, Financial instruments: disclosures;

(b) Heritage assets: the objective of the project is to develop accounting requirements for heritage assets;

(c) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(d) Revenue: the scope of the project encompasses development of new standard-level requirements and guidance on revenue to amend or supersede what is currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(e) Consequential amendments arising from chapters 1 to 4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: this project's objective is to make revisions to IPSAS standards that reflect concepts from these chapters, in particular on the objectives of financial reporting and the qualitative characteristics of and constraints on information;

(f) Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standards (IFRS). The project will result in a new IPSAS which will replace IPSAS 13. Approval of a new IPSAS on leases is projected for June 2018 with publication in July 2018.

Future requirements of IPSAS

19. On 30 January 2015, the Board of IPSAS published five new standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. Initial

application of these standards is required for periods beginning on or after 1 January 2017. These standards do not impact the Mechanism's financial statements, as the Mechanism's activities do not come under the scope of these standards.

20. In July 2016, the IPSAS Board issued IPSAS 39, repealing IPSAS 25: Employee benefits, to align it with the underlying International Accounting Standard (IAS) 19: Employee benefits; and on 31 January 2017, the IPSAS Board published IPSAS 40: Public sector combinations, which prescribes the accounting treatment for public sector combinations and sets out the classification and measurement of public sector combinations, i.e., transactions or other events that bring two or more separate operations into a single public sector entity.

21. At present, IPSAS 39 will not have any impact on the Residual Mechanism since the "corridor method" for actuarial gains or losses, which is being eliminated, was never applied following IPSAS adoption in 2014. The Mechanism does not have any plan assets; therefore, there is no impact from application of the net interest approach prescribed by the standard. Further analysis will be carried out in the future should the Mechanism procure plan assets. IPSAS 40 is relevant to the Mechanism, given that the International Criminal Tribunal for Rwanda was amalgamated into the Mechanism on 1 January 2017. As of the amalgamation date, the Residual Mechanism shall recognize and consolidate identifiable remaining assets and liabilities of the Tribunal in the Mechanism's financial statements at their carrying amount.

Note 3
Significant accounting policies

Financial assets: classification

22. The Mechanism classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date. Classification of financial assets primarily depends on the purpose for which the financial assets are acquired. The categories of financial assets are as follows:

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in the main cash pool
Loans and receivables	Cash and cash equivalents and receivables

23. All financial assets are initially measured at fair value. The Mechanism initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which the Mechanism becomes party to the contractual provisions of the instrument.

24. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations Operational Rates of Exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

25. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. Such assets are measured at fair value at each reporting date, and any gains or losses arising from

changes in the fair value are presented in the statement of financial performance in the year in which they arise.

26. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method for the respective financial asset.

27. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year they arise.

28. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Mechanism has transferred substantially all risks and rewards of the financial asset.

29. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in the main cash pool

30. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

31. The Mechanism’s investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity of the investments.

Financial assets: cash and cash equivalents

32. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables from non-exchange transactions — contributions

33. Contributions receivable represent uncollected revenue from assessed contributions committed to the Mechanism by Member States and non-Member States. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables. For assessed contributions receivable, the allowance for doubtful receivables is calculated as follows:

(a) Receivables of Member States that are subject to the General Assembly voting rights restriction set forth in Article 19 of the Charter of the United Nations owing to arrears equalling or exceeding the amount of the contributions due from it for the preceding two full years and that are past due in excess of two years: 100 per cent allowance;

(b) Receivables that are past due in excess of two years for which the General Assembly has granted special treatment as regards payment: 100 per cent allowance;

(c) Receivables that are past due in excess of two years for which Member States have specifically contested the balance: 100 per cent allowance;

(d) For receivables with approved payment plans, no allowance for doubtful debt will be established; rather, disclosures will be made in the notes to the financial statements.

Financial assets: receivables from exchange transactions — other receivables

34. Other receivables primarily include amounts receivable for goods or services provided to other entities and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Material balances of other receivables are subject to specific review and an allowance for doubtful receivables assessed on the basis of recoverability and ageing.

Other assets

35. Other assets include education grant advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Heritage assets

36. Heritage assets are not recognized in the financial statements, but significant heritage assets are disclosed in the notes to the financial statements.

Property, plant and equipment

37. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies, such as vehicles; temporary and mobile buildings; communications and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (building, infrastructure and assets under construction). Recognition of property, plant and equipment is as follows:

(a) Property, plant and equipment are capitalized when their cost per unit is greater than or equal to the threshold of $5,000 or $100,000 for buildings, leasehold improvements, infrastructure assets and self-constructed assets;

(b) All property, plant and equipment other than real estate assets is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price, any costs directly attributable to bringing the asset to its location and condition and the initial estimate of dismantling and site restoration costs;

(c) Owing to the absence of historical cost information, real estate assets are initially recognized at fair value using a depreciated replacement cost methodology. Baseline costs per baseline quantity have been calculated by collecting construction cost data, utilizing in-house cost data (where it existed) or using external cost estimators for each catalogue of real estate assets. The baseline costs per baseline quantity adjusted for price escalation factor, size factor and location factor are applied to value the real estate asset and determine the replacement cost;

(d) For property, plant and equipment acquired at nil or nominal cost, such as donated assets, the fair value at the date of acquisition is deemed to be the cost of acquiring equivalent assets.

38. Property, plant and equipment are depreciated over their estimated useful life using the straight-line method up to their residual value, except for land and assets under construction, which are not subject to depreciation. Significant components of major owned buildings with different useful life are depreciated using the components approach. Depreciation commences in the month when the Mechanism gains control over an asset in accordance with international commercial terms and no depreciation is charged in the month of retirement or disposal. Given the expected pattern of usage of property, plant and equipment, the residual value is nil unless residual value is likely to be significant. The estimated useful lives of property, plant and equipment classes are as follows:

Class	*Subclass*	*Estimated useful life (years)*
Communications and information technology equipment	Information technology equipment	4
	Communications and audiovisual equipment	7
Vehicles	Light-wheeled vehicles	6
	Heavy-wheeled and engineering support vehicles	12
	Specialized vehicles, trailers and attachments	6-12
Machinery and equipment	Light engineering and construction equipment	5
	Medical equipment	
	Security and safety equipment	
	Water treatment and fuel distribution equipment	7
	Transportation equipment	
	Heavy engineering and construction equipment	12
	Printing and publishing equipment	20
Furniture and fixtures	Library reference material	3
	Office equipment	4
	Fixtures and fittings	7
	Furniture	10
Buildings	Temporary and mobile buildings	7
	Fixed buildings	Up to 50
	Finance lease or donated right-to-use buildings	Shorter of term of arrangement or life of building
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation and landscaping	Up to 50
Leasehold improvements	Fixtures, fittings and minor construction work	Shorter of term of lease or 5 years

39. Where there is a material cost value of fully depreciated assets that are still in use, adjustments to accumulated depreciation are incorporated in the financial statements to reflect a residual value of 10 per cent of historical cost based on an analysis of the classes and useful lives of the fully depreciated assets, which revealed that the majority of such assets had relatively short useful lives of 10 years or less.

40. The Mechanism elected the cost model for measurement of property, plant and equipment after initial recognition instead of the revaluation model. Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the Mechanism and the subsequent cost exceeds the threshold for initial recognition. Repairs and maintenance are expensed in the statement of financial performance in the year in which they are incurred.

41. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying amount. Those gains or losses are recognized in the statement of financial performance within other revenue or other expenses.

42. Impairment assessments are conducted during annual physical verification procedures and when events or changes in circumstance indicate that carrying amounts may not be recoverable. Land, buildings and infrastructure assets with a year-end net book value greater than $500,000 are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000.

Intangible assets

43. Intangible assets are carried at cost less accumulated amortization and accumulated impairment loss. For intangible assets acquired at nil or nominal cost, including donated assets, the fair value at the date of acquisition is deemed to be the cost to acquire. The threshold for recognition is $100,000 for internally generated intangible assets and $5,000 per unit for externally acquired intangible assets.

44. Acquired computer software licences are capitalized based on costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by the Mechanism are capitalized as an intangible asset. Directly associated costs include software development employee costs, consultants costs and other applicable overhead costs.

45. Intangible assets with definite useful life are amortized on a straight-line method over their estimated useful lives starting from the month of acquisition or when the intangible assets become operational. The useful lives of major classes of intangible assets have been estimated as follows:

Class	*Range of estimated useful life (years)*
Software acquired externally	3-10
Software and websites internally developed	3-10
Licences and rights	2-6 (period of licence/right)
Copyrights	3-10
Assets under development	Not amortized

46. Annual impairment reviews of intangible assets are conducted where assets are under development or have an indefinite useful life. Other intangible assets are subject to impairment review only when their indicators of impairment are identified.

Financial liabilities: classification

47. Financial liabilities are classified as "other financial liabilities". They include accounts payable, judges' benefits liabilities, unspent funds held for future refunds and other liabilities, such as balances payable to other United Nations system entities. Financial liabilities classified as other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Mechanism re-evaluates classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

48. Accounts payable and accrued expenses arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoiced amounts, less discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months.

Advance receipts and other liabilities

49. Other liabilities consist of advance receipts relating to contributions or payments received in advance, liabilities for conditional funding arrangements, assessed contributions received for future years and other deferred revenue. Advance receipts are recognized as revenue at the start of the relevant financial year or based on the Mechanism's revenue recognition policies.

Leases: the Mechanism as lessee

50. Leases of property, plant and equipment, where the Mechanism has substantially all of the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the start of the lease at the lower of fair value or the present value of the minimum lease payments. The rental obligation, net of finance charges, is reported as a liability in the statement of financial position. Assets acquired under finance leases are depreciated in accordance with property, plant and equipment policies. The interest element of the lease payment is charged to the statement of financial performance as an expense over the lease term based on the effective interest rate method.

51. Leases where all of the risks and rewards of ownership are not substantially transferred to the Mechanism are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Donated rights to use

52. The Mechanism occupies land and buildings and uses infrastructure assets, machinery and equipment through donated right-to-use agreements granted primarily by host Governments at nil or nominal cost. Based on the term of the agreement and the clauses on transfer of control and termination contained in the agreement, the donated right-to-use arrangement is accounted for as an operating lease or finance lease.

53. In the case of operating leases, an expense and a corresponding revenue equal to the annual market rent of similar property is recognized in the financial statements. In the case of finance leases (principally with a lease term of over 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property and the term of the arrangement. In addition, a liability for the same amount is recognized, which is progressively recognized as revenue over the term period.

54. Long-term donated rights to use building and land arrangements are accounted for as operating leases where the Mechanism does not have exclusive control over the building and title to the land is not granted.

55. The threshold for the recognition of revenue and expense is yearly rental value equivalent to $5,000 per donated rights to use premises, land, infrastructure, machinery and equipment.

Employee benefits

56. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations established by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified as short-term, long-term, post-employment or termination benefits.

Short-term employee benefits

57. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave and maternity/ paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees based on services rendered. All such benefits which are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

58. Post-employment benefits comprise after-service health insurance, end-of-service repatriation benefits and annual leave that are accounted for as defined benefit plans in addition to the United Nations Joint Staff Pension Fund.

Defined benefit plans

59. Defined benefit plans are those where the obligation of the Mechanism is to provide agreed benefits and where it therefore bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The Mechanism has elected to recognize changes in the liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. At year end, the Mechanism did not hold any plan assets as defined by IPSAS 25: Employee benefits.

60. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates

of high-quality corporate bonds with maturity dates approximating those of the individual plans.

61. After-service health insurance: This insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007, and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the Mechanism's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor to be considered in the after-service health insurance valuation is contributions by all plan participants in determining the Mechanism's residual liability. Contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the Mechanism's residual liability in accordance with cost-sharing ratios authorized by the General Assembly.

62. Repatriation benefits: Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant which is based upon length of service, and to travel and removal expenses. A liability is recognized from when the staff member joins the Mechanism and is measured as the present value of the estimated liability for settling these entitlements.

63. Annual leave: The liabilities for annual leave represent unused accumulating compensated absence up to a maximum of 60 days, whereby an employee is entitled to monetary settlement of this balance upon separation from service. Therefore, the Mechanism recognizes as a liability the actuarial value of the total accumulated leave days of all staff members as of the date of the statement of financial position. Annual leave benefits are considered to be a post-employment defined benefit and, as such, are recognized on the same actuarial basis as other defined benefit plans.

Pension plan: United Nations Joint Staff Pension Fund

64. The Mechanism is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

65. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the Fund. The Mechanism, in line with other participating organizations, is not in a position to identify the Mechanism's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the Mechanism has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Mechanism's contributions to the Pension Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

66. Termination benefits are recognized as an expense only when the Mechanism is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

67. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service.

Provisions

68. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Mechanism has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation.

69. Uncommitted balances of the appropriations at the end of the budget period and expired balances of appropriations retained from prior periods are to be reported as provisions for credits to Member States. These provisions will remain until the General Assembly decides the manner of their disposal.

Contingent liabilities

70. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Mechanism; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or because the amount of the obligations cannot be reliably measured.

Contingent assets

71. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the effective control of the Mechanism.

Commitments

72. Commitments are future expenses to be incurred by the Mechanism on contracts entered into by the reporting date; the Mechanism has minimal, if any, discretion to avoid those commitments in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply

of goods and services that will be delivered to the Mechanism in future years, non-cancellable minimum lease payments and other non-cancellable commitments.

Non-exchange revenue: assessed contributions

73. Assessed contributions for the Mechanism are assessed and approved for a two-year budget period. The relevant portion of assessed contributions is recognized as revenue at the beginning of the year. Assessed contributions include the amounts assessed to the Member States to finance the activities of the Mechanism in accordance with the scale of assessments determined by the General Assembly. Revenue from assessed contributions from Member States and from non-Member States is presented in the statement of financial performance.

Non-exchange revenue: other

74. In-kind contributions of goods, above the recognition threshold of $5,000 per discrete contribution, are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the Mechanism and the fair value of those assets can be measured reliably. Contributions in kind are initially measured at their fair value at the date of receipt determined by reference to observable market values or by independent appraisals. The Mechanism has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of service above the threshold of $5,000 in the notes to the financial statements.

Exchange revenue

75. Exchange transactions are those in which the Mechanism sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met.

76. Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to Governments, United Nations entities or other partners is recognized when the service is performed. Exchange revenue also includes income from the rental of premises, the sale of used or surplus property and service to visitors from guided tours, and income from net gains resulting from currency exchange adjustments.

Investment revenue

77. Investment revenue includes the Mechanism's share of net main pool income and other interest income. The net main pool income includes any gains and losses on the sale of investments, which are calculated as the difference between the sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against income and the net income is distributed proportionately to all main pool participants based on their daily balances. The main pool income also includes unrealized market gains and losses on securities, which are distributed proportionately to participants based on their year-end balances.

Expenses

78. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

79. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, assignment, repatriation, hardship and other allowances.

80. Contractual services include non-employee compensation such as consultant fees and related allowances and benefits. Other operating expenses include any maintenance, utilities, training, security services, shared services, rental, insurance, allowance for bad debt and write-off expenses.

Note 4
Segment reporting

81. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

82. These financial statements represent the activities of the Mechanism, that is, one activity that was established under a single Security Council resolution. While the budgetary process reflects a breakdown of the organizational structure into the Chambers, the Prosecutor and the Registry, none of these organs meet the definition of a segment, as none of them encompass different activities for which financial information is reported separately in order to evaluate past performance in achieving its objectives and for making decisions about the future allocation of resources. Therefore, for reporting purposes, the Mechanism has one segment.

Note 5
Prior period restatement

83. The Mechanism has identified one error relating to 2015 financial statements. It relates to the non-recognition of income for contributions of $1.50 million included in the final appropriation for 2012-2013 but excluded from the assessment for that biennium by General Assembly resolution 67/244 A. The amount was included in the final assessment for 2014-2015 but revenue for the 2015 financial statements included only the appropriation for that biennium and omitted this assessment from the previous biennium.

84. Several presentation changes have also been made in accordance with the IPSAS policy framework to enhance comparability with other United Nations reporting entities.

85. The main presentation changes concern the statement of financial performance, as follows:

(a) In the 2015 certified financial statements, contractual services included consultants and contracted services. In 2016, contractual services include only consultants and all other contracted services are included in the category Other operating expenses. Accordingly, $2.82 million has been reclassified from Contractual services to Other operating expenses;

(b) In the 2015 certified financial statements, supplies and consumables of $1.12 million was shown as part of Other operating expenses. In the 2015 restated financial statements, this amount is shown on a separate line of the statement of financial performance;

(c) Expenses to employees in the amount of $0.18 million were reclassified from Other operating expenses to Employee salaries allowances and benefits.

86. The presentation changes in the statement of financial position are as follows:

(a) Reclassification of amounts payable to staff members of $0.16 million from Accounts payable and accrued liabilities to Employee benefits liabilities;

(b) Reclassification of $0.01 million of credit balances from Other assets to Other liabilities.

87. The statement of cash flows also includes a reclassification of property, plant and equipment items transferred from the International Criminal Tribunal for Rwanda. In 2015, this transfer was classified under investing activities. In 2016, such transfers are classified as non-cash movements under operating activities.

(i) Statement of financial position

(Thousands of United States dollars)

	Note	*31 December 2015*	*Adjustment*	*Presentation changes*	*31 December 2015 (restated)*
Assets					
Current assets					
Assessed contributions receivable	7, 8	757	1 500	–	2 257
Other assets	9	1 656	–	(12)	1 644
Total current assets		**42 201**	**1 500**	**(12)**	**43 689**
Total non-current assets		**26 338**		**–**	**26 338**
Total assets		**68 539**	**1 500**	**(12)**	**70 027**
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	12	7 197	–	(157)	7 040
Employee benefits liabilities	14	1 219	–	157	1 376
Other liabilities		12	–	(12)	–
Total current liabilities		**49 883**		**(12)**	**49 871**
Employee benefits liabilities	14	13 316	–	–	13 316
Total non-current liabilities		**13 316**	**–**	**–**	**13 316**
Total liabilities		**63 199**	**–**	**(12)**	**63 187**
Net of total assets and total liabilities		**5 340**	**1 500**	**–**	**6 840**
Net assets					
Accumulated surpluses/(deficits) — unrestricted	17	394	1 500	–	1 894
Total net assets		**5 340**	**1 500**	**–**	**6 840**

(ii) Statement of financial performance

(Thousands of United States dollars)

	Note	*31 December 2015*	*Adjustment*	*Presentation changes*	*31 December 2015 (restated)*
Revenue					
Revenue	18	9 940	1 500	–	11 440
Total revenue		**10 428**	**1 500**	**–**	**11 928**

	Note	31 December 2015	Adjustment	Presentation changes	31 December 2015 (restated)
Expenses					
Employee salaries allowances and benefits	19	25 854	–	177	26 031
Judges' honorariums and allowances	19	160	–	1	161
Contractual services	19	3 189	–	(2 817)	372
Supplies and consumables	19	–	–	1 118	1 118
Other operating expenses	19	4 612	–	1 521	6 133
Total expenses		**35 506**	**–**	**–**	**35 506**
Surplus/(deficit) for the year		**(25 078)**	**1 500**	**–**	**(23 578)**

(iii) Statement of changes in net assets

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) Unrestricted	Accumulated surpluses/(deficits) Restricted	Total
Net assets as at 1 January 2015	25 658	5 568	31 226
Change in net assets			
Actuarial gain/(loss)	(814)	6	(808)
Surplus/(deficit) for the year (restated)	(22 950)	(628)	(23 578)
Net assets as at 31 December 2015 (restated)	**1 894**	**4 946**	**6 840**

(iv) Statement of cash flows

(Thousands of United States dollars)

	Note	31 December 2015	Adjustment	Presentation changes	31 December 2015 (restated)
Cash flows from operating activities					
Surplus for the year		(25 078)	1 500	–	(23 578)
Non-cash movements					
Depreciation and amortization		587	–	1 558	2 145
Transfers and donated property, plant and equipment and intangibles		–	–	(175)	(175)
Contributions in kind		175	–	(175)	-
Changes in assets					
Decrease in assessed contributions receivable		2 230	(1 500)	–	730
Increase in other assets		(1 361)	–	11	(1 350)
Changes in liabilities					
Increase in accounts payable other		5 300	–	(157)	5 143
Increase in employee benefits payable		2 339	–	157	2 496
Decrease in other liabilities		(4 820)	–	(12)	(4 832)
Net cash flows used in operating activities		**19 058**	**–**	**1 207**	**20 265**

	Note	31 December 2015	Adjustment	Presentation changes	31 December 2015 (restated)
Contributions in kind		(175)	–	175	–
Acquisition of property, plant and equipment		(3 788)	–	(1 382)	(5 170)
Net cash flows from investing activities		**(19 330)**	**–**	**(1 207)**	**(20 537)**
Net cash flows from financing activities		**–**	**–**	**–**	**–**
Net increase in cash and cash equivalents		**(272)**	**–**	**–**	**(272)**
Cash and cash equivalents: beginning of year		9 902	–	–	9 902
Cash and cash equivalents: end of year	**7**	**9 630**	**–**	**–**	**9 630**

Note 6
Comparison to budget

88. Statement V: The statement of comparison of budget and actual amounts presents the difference between budget amounts, which are prepared on a modified cash basis, and actual expenditure on a comparable basis.

89. Approved budgets are those that authorize expenses to be incurred and are approved by the General Assembly. In its resolutions 70/243 and 71/269, the Assembly approved the Mechanism's budget appropriations for the biennium 2016-2017. Annual budget apportionments are funded by assessments to Member States, 50 per cent in accordance with the scale of assessments applicable to the United Nations regular budget and 50 per cent in accordance with the scale of assessments applicable to peacekeeping operations.

90. The original annual budget is the portion of the revised appropriation allocated to 2016. The final annual budget reflects the original budget and any adjustments reflected in the final appropriation. Explanations for material differences (i.e., those greater than 10 per cent) between (a) the original and final budget amounts and (b) the final budget amounts and actual expenditure on a modified cash basis, are considered in the following table.

	Material differences greater than 10 per cent	
Budget area	*Original versus final budget*	*Final budget versus actual expenses on a budget basis*
Chambers	Variance of less than 10 per cent	The decreased requirements are due to a lower-than-anticipated level of judicial activity in 2016 owing to the non-arrest of fugitives in the Arusha branch, which in turn brought about a reduction in requirements under judges' honorariums
Office of the Prosecutor	Variance of less than 10 per cent	Variance of less than 10 per cent
Registry	Variance of less than 10 per cent	The decreased requirements relate to the lower-than-anticipated level of judicial activity at the Arusha branch, owing mainly to the non-arrest of fugitives, which resulted in lower-than-budgeted requirements under posts and general temporary assistance
Records management and archives	Variance of less than 10 per cent	Variance of less than 10 per cent

	Material differences greater than 10 per cent	
Budget area	*Original versus final budget*	*Final budget versus actual expenses on a budget basis*
Liabilities for payment of pensions of retired ICTR judges and ASHI for former ICTR staff	Variance of less than 10 per cent	The variance is due to lower-than projected requirements for ASHI of former ICTR staff
Transfer of expenditure from ICTR	Not included in original or final budget	As approved by the General Assembly in resolution 71/267. The figure of $2.37 million in statement V includes both the grant of $2.1 million related to expenditure booked in the Tribunal for Rwanda legal entity (note 19) and a further $0.27 million of expenditure booked directly by the Mechanism as part of the progressive amalgamation of the Tribunal's activities

Abbreviations: ASHI, after-service health insurance; ICTR, International Criminal Tribunal for Rwanda.

Reconciliation between actual amounts on a comparable basis and the statement of cash flows

91. The reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is as follows:

Reconciliation of actual amounts on a comparable basis to the statement of cash flows

(Thousands of United States dollars)

Current year: 2016	*Operating*	*Investing*	*Financing*	*Total*
Actual amounts on a comparable basis (statement V)	**(48 848)**	**(8 107)**	**–**	**(56 955)**
Basis differences	(47 249)	–	–	(47 249)
Presentation differences	68 305	32 829	–	101 134
Actual amounts in the statement of cash flows (statement IV)	**(27 792)**	**24 722**	**–**	**(3 070)**

Prior year comparative: 2015	*Operating*	*Investing*	*Financing*	*Total*
Actual amounts on a comparable basis (statement V)	**(42 944)**	**(1 215)**	**–**	**(44 159)**
Basis differences	51 593	(4 214)	–	47 379
Presentation differences	11 616	(15 108)	–	(3 492)
Actual amounts in the statement of cash flows (statement IV)	**20 265**	**(20 537)**	**–**	**(272)**

92. Basis differences comprise the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the modified-cash elements, such as unliquidated obligations, which are commitments against budget but do not represent a cash flow, outstanding assessed contributions and payments against prior-year obligations which do not apply to the current year, must be eliminated. Similarly, IPSAS-specific differences,

such as cash flows relating to acquisition of property, plant and equipment or intangibles, and indirect cash flows relating to changes in receivables due to movements in the allowance for doubtful receivables and accrued liabilities, are included as basis differences to be reconciled to the statement of cash flows.

93. Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which include the latter not presenting income and the net changes in main pool balances. Other presentation differences are the non-segregation of the amounts included in the statement of comparison of budget and actual amounts into the operating, investing and financing activities.

Status of appropriations

94. In accordance with General Assembly resolutions 70/243 and 71/269, gross appropriations for the Mechanism for the biennium 2016-2017 and gross assessments for each year are as follows:

(Thousands of United States dollars)

	Gross appropriation
Mechanism	
Initial appropriation for the biennium 2016-2017 (resolution 70/243)	137 404
First performance report for the biennium 2016-2017 (A/71/579)	(1 656)
Total final appropriation for the biennium 2016-2017	**135 748**
Assessment for 2016 (resolution 70/243)	(68 702)

Note 7
Financial instruments

(Thousands of United States dollars)

Financial instruments	*31 December 2016*	*31 December 2015 (restated)*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments — main pool	11 605	29 685
Long-term investments — main pool	5 588	19 918
Total	**17 193**	**49 603**
Loans and receivables		
Cash and cash equivalents — main pool	6 555	9 626
Cash and cash equivalents — other	5	4
Subtotal total cash and cash equivalents	**6 560**	**9 630**
Assessed contributions receivable	2 379	2 257
Other accounts receivable (note 8)	63 794	473
Other assets (note 9)	892	1 644
Total loans and receivables	**73 625**	**14 004**
Total carrying amount of financial assets	**90 818**	**63 607**

Financial instruments	*31 December 2016*	*31 December 2015 (restated)*
Of which relates to financial assets held in the main pool	23 748	59 229
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (note 12)	6 390	7 040
Total carrying amount of financial liabilities	**6 390**	**7 040**
Summary of net income from financial assets		
Share of main pool net interest and gains	419	313
Total	**419**	**313**

Note 8
Accounts receivable

Assessed contributions receivable

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (restated)*
Assessed contributions	2 381	2 259
Allowance for doubtful receivables — assessed	(2)	(2)
Total assessed contributions receivable	**2 379**	**2 257**

Other accounts receivable

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Current other receivables		
Member States	1 506	473
Receivables from other United Nations entities	62 288	–
Total other receivables (current)	**63 794**	**473**

95. Receivables from other United Nations entities includes a balance of $55.93 million due from the International Criminal Tribunal for Rwanda to the Mechanism. It results from the transfer of a balance of $21.07 million in respect of judges' benefits liabilities and a balance of $34.86 in respect of employee benefits liabilities from that Tribunal to the Mechanism as of 1 January 2016, in accordance with General Assembly resolution 70/243.

96. Receivables from other United Nations entities also includes a balance of $6.23 million due from the International Tribunal for the Former Yugoslavia in respect of employee benefits liabilities transferred from that Tribunal, as part of the transition of its remaining functions.

Note 9
Other assets

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (restated)*
Advances to staff	326	279
Advances to military and other personnel	2	7
Deferred charges	556	1 039
Other	8	319
Total	**892**	**1 644**

Note 10
Property, plant and equipment

97. As at the reporting date, the Mechanism had not identified any impairments. The Mechanism had no significant heritage assets as at the reporting date.

Property, plant and equipment

(Thousands of United States dollars)

Current year: 2016	*Infrastructure*	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost								
As at 1 January 2016	–	–	82	5 424	535	653	2 140	8 834
Additions	–	–	35	687	145	249	6 596	7 712
Disposals	–	–	–	(29)	–	–	–	(29)
Completed assets under construction	1 458	7 278	–	–	–	–	(8 736)	–
Transfers	–	108	50	2 070	395	511	–	3 134
As at 31 December 2016	**1 458**	**7 386**	**167**	**8 152**	**1 075**	**1 413**	**–**	**19 651**
Accumulated depreciation and impairment								
As at 1 January 2016	–	–	74	1 919	388	546	–	2 927
Depreciation	5	13	4	1 050	68	58	–	1 198
Disposals	–	–	–	(29)	–	–	–	(29)
Transfers	–	108	33	1 926	284	397	–	2 748
As at 31 December 2016	**5**	**121**	**111**	**4 866**	**740**	**1 001**	**–**	**6 844**
Net carrying amount								
As at 1 January 2016	–	–	8	3 505	147	107	2 140	5 907
As at 31 December 2016	**1 453**	**7 265**	**56**	**3 286**	**335**	**412**	**–**	**12 807**

Prior year comparative: 2015	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost						
As at 1 January 2015	5	2 379	258	98	748	3 488
Additions	77	3 045	277	555	1 392	5 346
As at 31 December 2015	**82**	**5 424**	**535**	**653**	**2 140**	**8 834**
Accumulated depreciation and impairment						
As at 1 January 2015	5	594	145	71	–	815
Depreciation	(8)	571	12	(21)	–	554
Other depreciation adjustments	77	754	231	496	–	1 558
As at 31 December 2015	**74**	**1 919**	**388**	**546**	**–**	**2 927**
Net carrying amount						
As at 1 January 2015	–	1 785	113	27	748	2 673
As at 31 December 2015	**8**	**3 505**	**147**	**107**	**2 140**	**5 907**

Note 11
Intangibles

(Thousands of United States dollars)

Current year: 2016	*Software internally developed*	*Software acquired externally*	*Total*
Cost			
As at 1 January	468	82	550
Additions	–	395	395
As at 31 December	**468**	**477**	**945**
Accumulated amortization and impairment			
As at 1 January	23	14	37
Amortization	94	26	120
As at 31 December	**117**	**40**	**157**
Net carrying amount			
As at 1 January	445	68	513
As at 31 December	**351**	**437**	**788**

Prior year comparative: 2015	*Software internally developed*	*Software acquired externally*	*Total*
Cost			
As at 1 January	264	26	290
Additions	204	56	260
As at 31 December	**468**	**82**	**550**

Prior year comparative: 2015	Software internally developed	Software acquired externally	Total
Accumulated amortization and impairment			
As at 1 January 2015	–	4	4
Amortization	23	10	33
As at 31 December	**23**	**14**	**37**
Net carrying amount			
As at 1 January	264	22	286
As at 31 December	**445**	**68**	**513**

Note 12
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Vendor payables (accounts payable)	572	3 109
Payables to other United Nations entities	2 450	704
Accruals for goods and services	3 169	2 425
Accounts payable — other	198	802
Payables to Member States	1	–
Total accounts payable and accrued liabilities (current)	**6 390**	**7 040**

98. Payables to other United Nations entities includes the grant of $2.10 million related to expenditure booked in the International Criminal Tribunal for Rwanda legal entity. This payable to the Tribunal was cleared on 1 January 2017 through the amalgamation of the remaining assets and liabilities of the Tribunal into the Mechanism (note 19).

Note 13
Advance receipts

99. Advance receipts represent contributions or payments received in advance; these amounted to $0.02 million in 2016 (2015: $0.03 million).

Note 14
Employee benefits liabilities

(Thousands of United States dollars)

Year ended 31 December 2016	Current	Non-current	Total
After-service health insurance	984	50 531	51 515
Annual leave	370	3 754	4 124
Repatriation benefits	610	4 648	5 258
Subtotal: defined benefits liabilities	**1 964**	**58 933**	**60 897**
Accrued salaries and allowances	906	–	906
Total employee benefits liabilities	**2 870**	**58 933**	**61 803**

Year ended 31 December 2015 (restated)	*Current*	*Non-current*	*Total*
After-service health insurance	37	9 141	9 178
Annual leave	155	1 689	1 844
Repatriation benefits	415	2 486	2 901
Subtotal: defined benefits liabilities	**607**	**13 316**	**13 923**
Accrued salaries and allowances	769	–	769
Total employee benefits liabilities	**1 376**	**13 316**	**14 692**

100. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. The most recent actuarial valuation was conducted as at 31 December 2016.

Actuarial valuation — assumptions

101. The Mechanism reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations in the 31 December 2016 full valuation are as follows:

Principal actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates: 31 December 2015	4.52	3.79	3.83
Discount rates: 31 December 2016	4.08	3.68	3.69
Inflation: 31 December 2015	4.00-6.40	2.25	–
Inflation: 31 December 2016	4.00-6.00	2.25	–

102. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (EY eurozone corporate yield curve) and Swiss francs (Swiss corporate yield curve). The slightly lower discount rates were assumed for the 31 December 2016 valuation owing to a slight variation in the inflation rates from 31 December 2015.

103. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan cost increases and the economic environment. Medical cost trend rate assumptions that were used for the valuation as at 31 December 2016 reflected the current short-term expectations of the after-service health insurance plan cost increases and the economic environment through a benchmark of market expectations. As at 31 December 2016, there were flat health-care yearly escalation rates of 4.0 per cent (2015: 4.0 per cent) for non-United States medical plans and 6.0 per cent (2015: 6.4 per cent) for all other medical plans, grading down to 4.5 per cent over eight years. This excludes the United States Medicare plan with a rate of 5.7 per cent (2015: 5.9 per cent) and the United States dental plan with a rate of 4.9 per cent (2015: 5.0 per cent)).

104. With regard to the valuation of repatriation benefits as at 31 December 2016, inflation in travel costs was assumed at 2.25 per cent, based on the projected United States inflation rate over the next 10 years.

105. Annual leave balances were assumed to increase at the following annual rates during the staff members' projected years of service: one to three years — 9.1 per cent; four to eight years — 1.0 per cent; and nine years and over — 0.1 per cent.

106. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. The current mortality rates underlying the values of the liabilities for after-service health insurance and repatriation calculations are as follows:

Mortality rate — active employees	*At age 20*	*At age 69*
Male	0.00065	0.00906
Female	0.00034	0.00645

Mortality rate — retired employees	*At age 20*	*At age 70*
Male	0.00072	0.01176
Female	0.00037	0.00860

Movement in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	After-service health insurance	*Repatriation grant*	*Annual leave*	*Total*
Net defined benefit obligation as at 31 December 2015	**9 178**	**2 901**	**1 844**	**13 923**
Service cost	604	443	178	1 225
Interest on obligation	1 803	102	67	1 972
Transfers from other agencies	3 130	1 109	613	4 852
Total cost recognized in the statement of financial performance	**5 537**	**1 654**	**858**	**8 049**
Benefits paid	(929)	(431)	(161)	(1 521)
Transfer from ICTR/ICTY	39 362	844	923	41 129
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	(1 633)	290	660	(683)
Net defined benefit liability as at 31 December 2016	**51 515**	**5 258**	**4 124**	**60 897**

	After-service health insurance	*Repatriation grant*	*Annual leave*	*Total*
Net defined benefit obligation as at 31 December 2014	**7 798**	**1 959**	**1 870**	**11 627**
Service cost	868	361	221	1 450
Interest on obligation	321	65	65	451
Total cost recognized in the statement of financial performance	**1 189**	**426**	**286**	**1 901**

	After-service health insurance	*Repatriation grant*	*Annual leave*	*Total*
Benefits paid	(9)	(252)	(151)	(412)
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	200	768	(161)	807
Net defined benefit liability at 31 December 2015	**9 178**	**2 901**	**1 844**	**13 923**

Abbreviations: ICTR, International Criminal Tribunal for Rwanda; ICTY, International Tribunal for the Former Yugoslavia.

107. The General Assembly, in section II of its resolution 70/243, authorized the Secretary-General to establish a sub-account within the Mechanism and decided in that regard to appropriate for the biennium 2016-2017 additional amounts, under the budget of the Mechanism, corresponding to the requirement for the pensions of retired judges, and their surviving spouses, of the International Criminal Tribunal for Rwanda and for the after-service health insurance benefits to former staff of the Tribunal, on a pay-as-you-go basis. Pursuant to that resolution, the balance of employee benefits liabilities as at 1 January 2016 has been transferred to the Mechanism.

Discount rate sensitivity analysis

108. The changes in discount rates are driven by the discount curve, which is calculated based on corporate and government bonds. The bond markets vary over the reporting year and the volatility impacts the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as follows:

Impact on obligations of changes in discount rate

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
31 December 2016:			
Increase of discount rate by 1 per cent	(8 383)	(508)	(387)
Decrease of discount rate by 1 per cent	11 034	582	455
31 December 2015:			
Increase of discount rate by 1 per cent	(2 031)	(276)	(177)
Decrease of discount rate by 1 per cent	2 542	314	207

Medical costs sensitivity analysis

109. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis examines the change in liability owing to changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 1 per cent, it would impact the measurement of the defined benefit obligations as follows:

A movement of 1 per cent in the assumed medical costs trend rates

(Thousands of United States dollars)

	Increase	*Decrease*
31 December 2016:		
Effect on the defined benefit obligation	11 597	(8 934)
Effect on the aggregate of the current service cost and interest cost	927	(686)
31 December 2015:		
Effect on the defined benefit obligation	2 730	(2 018)
Effect on the aggregate of the current service cost and interest cost	345	(249)

Other defined benefit plan information

110. The General Assembly, in section A.4 of its resolution 67/257 of 12 April 2013, endorsed the decision of the International Civil Service Commission (ICSC), as contained in its report (A/67/9), to support the recommendation of the United Nations Joint Staff Pension Board to raise the mandatory age of separation to 65 years for new staff of member organizations of the United Nations Joint Staff Pension Fund, effective no later than 1 January 2014. Actuaries determined that this increase in the normal age of retirement would not have a material effect on the valuation of post-employment liabilities.

Accrued salaries and allowances

111. Accrued salaries and allowances as at year end consist of accruals for home leave ($0.54 million (2015: $0.34 million)); accruals for outstanding payments for staff members separated in December 2016 ($0.06 million (2015: $0.11 million)); accrual for repatriation grant to be paid to former staff members ($0.07 million) (2015: $0.09 million)); and other miscellaneous accrual for staff entitlements ($0.24 million (2015: $0.23 million)). The Mechanism recognized no termination benefits in the year.

United Nations Joint Staff Pension Fund

112. The Regulations of the Pension Fund state that the United Nations Joint Staff Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

113. The Mechanism's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.90 per cent for participants and 15.80 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

114. The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of

pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2017. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

115. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time the present report was submitted, the General Assembly had not invoked the provision of article 26.

116. During 2016, the Mechanism's contributions paid to the United Nations Joint Staff Pension Fund amounted to $7.09 million (2015: $3.40 million).

117. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund website at www.unjspf.org.

Impact of General Assembly resolutions on staff benefits

118. On 23 December 2015, the General Assembly adopted resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. The details of some of the changes that may affect the calculation of other long-term and end-of-service employee benefits liabilities are set out directly below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff that joined the United Nations on or after 1 January 2014 is 65 and for those that joined before 1 January 2014, that age is 60 or 62. The General Assembly decided to raise the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. Once implemented on 1 January 2018 for the United Nations Secretariat, this change is expected to affect future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as of 31 December 2016 are based on single or dependency rates. These rates affect the staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale which resulted in the elimination of single and dependency rates as of 1 January 2017. The dependency rate will be replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations of the United Nations and Staff Rules. A revised staff assessment scale and pensionable remuneration scale was implemented along with the unified salary structure. The implementation of the unified salary scale is not designed to result in

Change	*Details*
	reduced payments for staff members. However, it is expected that once implemented, it will affect the calculation and valuation of the repatriation benefit and commuted annual leave benefit. Currently, the repatriation benefit is calculated based on gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated based on gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change is expected to affect future calculations of employee benefits liabilities.

119. The impact of the changes will be fully reflected in the actuarial valuation to be conducted in 2017.

Note 15
Judges' honorariums and allowances liabilities

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Judges' pension benefits (defined benefit valuation)	20 417	–
Judges' relocation allowances	86	–
Total	**20 503**	**–**
Current	1 316	–
Non-current	19 187	–
Total	**20 503**	**–**

120. The key assumption for the valuation of judges' pension benefits liabilities is the discount rate of 3.50 per cent as of 31 December 2016. No inflation assumption was applied to judges' relocation allowances in view of the low materiality of the allowances.

121. As noted above, the General Assembly, in its resolution 70/243, authorized the Secretary-General to establish a sub-account within the Mechanism and in that regard decided to appropriate for the biennium 2016-2017 additional amounts under the budget of the Mechanism corresponding to the requirement for the pensions of retired judges, and their surviving spouses, of the International Criminal Tribunal for Rwanda and for after-service health insurance benefits to former staff of the Tribunal, on a pay-as-you-go basis. Pursuant to that resolution, the balance of judges' benefits liabilities as at 1 January 2016 has been transferred to the Mechanism.

Movement in judges' benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	2016	*2015*
Net defined benefit liability transferred from International Tribunal for the Former Yugoslavia as at 1 January (note 8)	21 071	–
Interest cost recognized in the statement of financial performance	758	–
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	(98)	–
Benefits paid	(1 314)	–
Net recognized liability as at 31 December	**20 417**	**–**

Note 16
Provisions

(Thousands of United States dollars)

	Credits to Member States
Provisions as at 1 January 2015	–
Additional provisions made	41 426
Provisions as at 31 December 2015 (current)	**41 426**
Change in provisions	
Additional provisions made	829
Amounts used	(41 426)
Provisions as at 31 December 2016 (current)	**829**

122. Pursuant to its consideration of the second performance report on the budget of the Mechanism for the biennium 2014-2015 (A/70/558), the General Assembly, in section I, paragraph 3, of its resolution 70/243, approved a reduction of $43.93 million gross in the final appropriation for that biennium. This amount reflected lower-than-budgeted trial activity, resulting from lower-than-anticipated numbers of suspects that had been brought to trial. The reduction of the final appropriation for 2014-2015 was deducted from the assessments of the 2015-2016 appropriation issued in 2016. However, since it related to the biennium 2014-2015, the reduction was reflected by reducing revenue in the statement of financial performance for 2015, where it was offset partially against assessed contributions receivable still due from Member States for the same biennium; the remaining balance was then shown in 2015 as a provision to be returned to Member States in 2016. The provision was used in 2016.

123. In its resolution 71/269 of 23 December 2016, the General Assembly revised the initial appropriation for the biennium 2016-2017 of $137.4 million to $135.7 million. The 2016 initial assessment of $68.7 million, corresponding to half of the initial appropriation, was reduced, resulting in a new provision relating to credits to be returned to Member States. The amount of $0.8 million represents the difference between the annual initial and annual revised appropriation.

Note 17
Changes in net assets for the year ended

124. Net assets comprise the accumulated surpluses/deficits, which represent the residual interest in the assets of the Mechanism after deducting all its liabilities. The restricted balances represent the fund balance earmarked to the project of construction of new facilities in Arusha for the archives of the Mechanism.

Note 18
Revenue

Assessed contributions

125. Assessed contributions of $67.8 million (2015: $9.9 million) have been recorded for the Mechanism in accordance with the Financial Regulations and Rules of the United Nations, the relevant resolutions of the General Assembly and the policies of the United Nations.

(Thousands of United States dollars)

	2016
Assessment for 2016 (resolution 70/243)	68 702
Add: share of revised appropriations for the biennium attributable to resolution 71/269 of 23 December 2016	(828)
Revenue from assessed contributions	**67 874**

Other transfers and allocations

126. Other transfers and allocations comprises contributions in kind from the International Criminal Tribunal for Rwanda for transfer of used equipment.

Other revenue

127. Other revenue includes foreign exchange gains of $0.06 million and other miscellaneous revenue of $0.02 million.

Note 19
Expenses

Employee salaries, allowances and benefits and judges' honorariums and allowances

128. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. Allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances, as set out below.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Salary and wages	31 611	21 487
Pension and insurance benefits	10 044	709
Other benefits	2 433	3 835
Total employee salaries, allowances and benefits	**44 088**	**26 031**
Judges' honorariums and allowances	**1 544**	**161**

Contractual services

129. Contractual services expenses consist of consultant fees.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Consultants	354	372
Total contingent contracted services	**354**	**372**

Grant and other transfers

130. In its resolution 71/267, the General Assembly approved the final appropriation for the International Criminal Tribunal for Rwanda for the biennium 2016-2017 in the amount of $2.09 million gross. In addition, the Assembly approved the transfer and charge of $3.73 million as part of the estimated final expenditure, and further expenditures, if any, in excess of the approved appropriation for that purpose, against the 2016-2017 budget of the Mechanism.

131. For the year ended 31 December 2016, the final expenditure of the Tribunal is $5.49 million, which exceeds the final appropriation by $3.40 million. With due consideration given to the fact that the Tribunal ceased to exist in 2016, management has approved the use of prior year savings in the financial reporting period ($1.21 million) and of miscellaneous income ($0.09 million) to partially offset the overexpenditure, leaving a net balance of $2.10 million to be charged against the budget of the Mechanism under General Assembly resolution 71/267.

132. Given that the excess expenditure was incurred and paid for by the legal entity of the Tribunal, in order to carry out the requirements under General Assembly resolution 71/267, the Mechanism has recorded a grant out to the Tribunal as an expenditure against the 2016-2017 budget of the Mechanism. The Tribunal has recorded a grant in as revenue, which funds the overexpenditure. The payable to the Tribunal of $2.10 million was cleared on 1 January 2017, through the amalgamation of the remaining assets and liabilities of the Tribunal into the Mechanism.

Supplies and consumables

133. Supplies and consumables include consumables, spare parts and fuel as shown below.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Fuel and lubricants	98	32
Rations	102	–
Spare parts	156	3
Consumables	92	1 083
Total	**448**	**1 118**

Travel

134. Travel expenses include all staff and non-staff travel which is not considered to be an employee allowance/benefit.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Staff travel	1 367	1 081
Representative travel	153	23
Total	**1 520**	**1 104**

Other operating expenses

135. Other operating expenses include other contracted services, maintenance, utilities, training, security services, shared services, rental, insurance, allowance for bad debt, write-off expenses, hospitality and official functions, foreign exchange losses, losses on sale of property, plant and equipment and donation/transfer of assets.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Contracted services	6 589	4 488
Acquisition of goods	667	119
Acquisition of intangible assets	97	77
Rent — offices and premises	2 287	1 312
Rental — equipment	207	39
Maintenance and repair	200	19
Bad debt expense	17	2
Net foreign exchange losses	–	53
Other/miscellaneous operating expenses	75	24
Total	**10 139**	**6 133**

136. Contracted services include air and ground transport, communications and information technology, facilities, security services, legal audit, training, utilities, freight and other contracted services such as translation and verbatim reporting.

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Air transport	12	
Ground transport	7	20
Communications and information technology	1 281	562
Facilities	1 328	806
Security services	635	24
Legal service defence counsel	1 201	114
Legal service detention service	1 323	2 234
Other legal	38	(12)

	31 December 2016	31 December 2015
Training	16	262
Utilities	329	248
Freight	49	9
Other	370	221
Total	**6 589**	**4 488**

Note 20
Financial instruments and financial risk management

Main pool

137. In addition to directly holding cash and cash equivalents and investments, the Mechanism participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

138. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and through the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

139. As at 31 December 2016, the Mechanism participated in the main pool which held total assets of $9,033.6 million (2015: $7,783.9 million), of which $23.7 million was due to the Organization (2015: $59.2 million), and its share of revenue from the main pool was $0.4 million (2015: $0.3 million).

Summary of assets and liabilities in the main pool as at 31 December 2016

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Fair value through the surplus or deficit		
Short-term investments	4 389 616	3 888 712
Long-term investments	2 125 718	2 617 626
Total	**6 515 334**	**6 506 338**
Loans and receivables		
Cash and cash equivalents, main pool	2 493 332	1 265 068
Accrued investment revenue	24 961	12 462
Total loans and receivables	**2 518 293**	**1 277 530**
Total carrying amount of financial assets	**9 033 627**	**7 783 868**
Main pool liabilities		
Payable to the Mechanism	23 748	59 230
Payable to other cash pool participants	9 009 879	7 724 638
Total carrying amount of financial liabilities	**9 033 627**	**7 783 868**
Main pool net assets	–	–

Summary of net income and expenses of the main pool for the year ended 31 December 2016

	31 December 2016	*31 December 2015*
Investment revenue	73 903	51 944
Unrealized losses	(13 474)	(10 824)
Investment revenue from main pool	**60 429**	**41 120**
Foreign exchange losses	(5 105)	(11 720)
Bank fees	(646)	(525)
Operating expenses from main pool	**(5 751)**	**(12 245)**
Revenue and expenses from main pool	**54 678**	**28 875**

140. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market-rate-of-return component of the objectives.

141. An investment committee periodically evaluates investment performance and assesses compliance with the Investment Management Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

142. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

143. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

144. The credit ratings used for the main pool are those determined by major credit-rating agencies: Standard & Poor's, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year end, the credit ratings were as shown below.

Credit risk: assessed contributions

145. The ageing of assessed contributions receivable and the associated allowance is as follows:

Ageing of assessed contributions receivable

(Thousands of United States dollars)

	31 December 2016		*31 December 2015*	
	Gross receivable	*Allowance*	*Gross receivable*	*Allowance*
Less than one year	1 501	–		–
One to two years	536	–		–
More than two years	344	2	760	(3)
Total	**2 381**	**2**	**760**	**(3)**

146. Countries subject to Article 19 of the Charter of the United Nations are considered to be those with regard to which the General Assembly has decided that failure to pay the minimum amount under that Article was due to conditions beyond their control. Those countries are therefore permitted to vote despite their accumulated arrears (see Assembly resolutions 69/4 and 70/2). In accordance with past practice, it is considered that there are no Member States with valid multi-year payment plans.

Credit risk: cash and cash equivalents

147. The Mechanism held cash and cash equivalents of $6.56 million at 31 December 2016 (2015: $9.63 million), which is the maximum credit exposure on these assets.

Investments of the cash pool by credit ratings as at 31 December 2016

(Percentage)

Main pool	*Ratings as at 31 December 2016*				*Ratings as at 31 December 2015*			
Bonds (long-term ratings)								
	AAA	**AA+/AA/AA-**	**BBB**	**NR**		**AAA**	**AA+/AA/AA-**	**NR**
Standard & Poor's	33.6	55.1	5.6	5.7	Standard & Poor's	37.7	54.2	8.1
Fitch	62.4	28.3		9.3	Fitch	61.9	26.5	11.6
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**	
Moody's	50.3	49.7			Moody's	65.8	34.2	
Commercial papers (short-term ratings)								
	A-1					**A-1+/A-1**		
Standard & Poor's	100.0				Standard & Poor's	100.0		
	F1					**F1+**		
Fitch	100.0				Fitch	100.0		
	P-1					**P-1**		
Moody's	100.0				Moody's	100.0		
Reverse repurchase agreement (short-term ratings)								
	A-1+					**A-1+**		
Standard & Poor's	100.0				Standard & Poor's	100.0		
	F1+					**F1+**		
Fitch	100.0				Fitch	100.0		
	P-1					**P-1**		
Moody's	100.0				Moody's	100.0		
Term deposits (Fitch viability ratings)								
	aaa	**aa/aa-**	**a+/a**			**aaa**	**aa/aa-**	**a+/a**
Fitch	–	48.1	51.9		Fitch	–	53.6	46.4

148. The United Nations Treasury actively monitors credit ratings and, because the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for impaired investments.

Financial risk management: liquidity risk

149. The main pool is exposed to liquidity risk associated with the requirement that participants make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. Main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

150. Through participation in the main pool, the Organization has its main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being the interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2015: five years). The average duration of the main pool was 0.71 years (2015: 0.86 years), which is considered to be an indicator of low risk.

Main pool interest rate risk sensitivity analysis

151. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. With the investments being accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Main pool interest rate risk sensitivity analysis as at 31 December 2016

(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**124.35**	**93.26**	**62.17**	**31.08**	**–**	**(31.08)**	**(62.14)**	**(93.21)**	**(124.27)**

Main pool interest rate risk sensitivity analysis as at 31 December 2015

(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**128.99**	**96.74**	**64.48**	**32.24**	**–**	**(32.23)**	**(64.46)**	**(96.69)**	**(128.91)**

Other market price risk

152. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

153. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

154. The levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, as derived from prices)
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs)

155. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

156. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

157. The following fair value hierarchy presents the main pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: main pool

(Thousands of United States dollars)

	31 December 2016			*31 December 2015*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporates	697 676	–	697 676	149 682	–	149 682
Bonds — non-United States agencies	1 903 557	–	1 903 557	2 190 965	–	2 190 965
Bonds — non-United States sovereigns	124 854	–	124 854	124 612	–	124 612
Bonds — supranational	213 224	–	213 224	139 828	–	139 828
Bonds — United States treasuries	586 739	–	586 739	1 092 139	–	1 092 139
Main pool — commercial papers	149 284	–	149 284	949 112	–	949 112
Main pool — term deposits	–	2 840 000	2 840 000	–	1 860 000	1 860 000
Main pool total	**3 675 334**	**2 840 000**	**6 515 334**	**4 646 338**	**1 860 000**	**6 506 338**

Movement in the allowance for doubtful receivables

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Opening allowance for doubtful receivables	3	–
Amounts written off	(17)	–
Doubtful receivables adjustment for current year	16	3
Closing allowance for doubtful receivables	**2**	**3**

Note 21
Related parties

Key management personnel

158. Key management personnel are those with the ability to exert significant influence over financial and operating decisions. For the Mechanism, such personnel are the President at the Under-Secretary-General level; and the Prosecutor and the Registrar (both contracted by the International Tribunal for the Former Yugoslavia) at the Assistant Secretary-General level (who together constitute the Coordination Council of the Mechanism). These persons have the relevant authority and responsibility for planning, directing and controlling the Mechanism's activities.

159. The aggregate remuneration paid to the key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. In 2016, such remuneration was paid by the contracting agency of the International Tribunal for the Former Yugoslavia rather than by the Mechanism in accordance with the double-hatting arrangement, except for the President's remuneration.

Key management personnel

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Monetary benefits	255	46
Total remuneration for the period	**255**	**46**

160. No close family members of key management personnel were employed by the Mechanism at the management level. Advances made to key management personnel are those made against entitlements in accordance with staff rules and regulations; any such advances against entitlements are widely available to all staff of the Mechanism.

Related entity transactions

161. In the ordinary course of business, to achieve economies in executing transactions, financial transactions are often executed by one financial reporting entity on behalf of another and then subsequently settled.

Balances reflected in the Tax Equalization Fund

162. The present financial statements report employee benefit expenses on a net-of-tax basis. The tax liabilities relating to operations are reported separately as part of the Tax Equalization Fund in the financial statements of the United Nations, Volume I, which also has a financial reporting date of 31 December.

163. The Tax Equalization Fund was established under the provisions of General Assembly resolution 973 (X) of 15 December 1955 to equalize the net pay of all staff members whatever their national tax obligations. The Fund operationally reports as income staff assessment with respect to staff members financed under the regular budget, assessed peacekeeping operations, the international tribunals for Rwanda and the Former Yugoslavia and the International Residual Mechanism for Criminal Tribunals.

164. The Fund includes, as expenditure, credits against the assessments by the regular budget, peacekeeping, the Mechanism and the international tribunals of

Member States that do not levy taxes on the United Nations income of their nationals. Member States that do levy income taxes on their nationals working for the Organization do not receive this credit in full. Instead, their share is utilized in the first instance to reimburse staff members financed by the regular budget, peacekeeping, the Mechanism and the international tribunals for taxes paid on their United Nations income. Such reimbursements for taxes paid are reported as expenditure by the Tax Equalization Fund. Staff members financed by extrabudgetary funds who are required to pay income tax are reimbursed directly from the resources of those funds. Since the Organization acts as an agent in this arrangement, net of the related revenue and expenses is reported as a payable in these financial statements.

165. The cumulative surplus accumulated in the Tax Equalization Fund as at 31 December 2016 is $46.9 million (2015: $67.6 million), consisting of a payable to the United States of America at year end of $13.1 million (2015: $30.4 million) and a payable to other Member States of $33.8 million (2015: $37.2 million). Overall payable of the Fund is $74.8 million (2015: $96.0 million) which includes an estimated tax liability of $27.9 million relating to the 2016 and prior tax years (2015: $28.4 million), of which approximately $15.1 million was disbursed in January 2017 and approximately $12.8 million is expected to be settled in April 2017.

Note 22
Leases and commitments

Operating leases

166. During 2016, the Arusha branch of the Mechanism entered into operating leases for the use of premises and equipment in 2016 while the branch of The Hague used the premises and equipment of the International Tribunal for the Former Yugoslavia on a 50 per cent cost sharing basis. The total operating lease payments recognized in expenditure for 2016 were $3.59 million for premises and $0.2 million for equipment. Future minimum lease payments under non-cancellable arrangements are set out below.

Obligations for operating leases: minimum lease payments

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Due in less than one year	150	–
Due in one to five years	–	–
Total minimum operating lease obligations	**150**	**–**

167. On 5 February 2014, the Government of the United Republic of Tanzania granted the United Nations a 99-year exclusive right of occupancy to a parcel of land in Arusha, measuring approximately 6.549 hectares at nominal cost. The land is to be used for the premises of the Arusha branch of the Mechanism and may be transferred, assigned or sublet, in whole or in part, to other United Nations entities.

Contractual commitments

168. At the reporting date, the commitments for property, plant and equipment, and goods and services contracted but not delivered were as follows:

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Property, plant and equipment	538	8 320
Goods and services	2 928	1 821
Total	**3 466**	**10 141**

169. The decrease of contractual commitments for property, plant and equipment between 2015 and 2016 results from the completion of the Arusha facility in December 2016.

Note 23
Contingent liabilities and contingent assets

170. In the normal course of operations, the Mechanism is subject to claims which can be categorized as corporate and commercial; administrative law; and other, such as guarantees. At the reporting date, there were no contingent liabilities.

171. In accordance with IPSAS 19, the Mechanism discloses contingent assets where an event gives rise to a probable inflow of economic benefits or service potential to the Mechanism and there is sufficient information to assess the probability of that inflow. As at 31 December 2016, the Mechanism had identified one contingent asset relating to the delay damages for the new Arusha facility.

172. Following the timely completion of the pre-construction phase, construction began on 27 February 2015 and was scheduled to last 12 months. Owing to technical difficulties on site, construction was completed on 1 December 2016. The contractor officially handed over the site to the United Nations on 4 December 2016, and staff members reported for work at the new premises on Monday, 5 December 2016. With substantial completion, the construction phase of the project concluded and the project entered into the post-occupancy/defect and liability phase. This is a 12-month period starting from 1 December 2016, during which the contractor must complete any minor outstanding works or remedy any defective works, as notified by or on behalf of the United Nations. A punch list of existing defective items and minor outstanding works that the contractor must rectify or complete was generated as part of the substantial completion inspection.

173. The Mechanism, in close coordination with the Office of Legal Affairs, the Procurement Division of the Office of Central Support Services and the Office of Internal Oversight Services, commenced examining the options for the appropriate recovery of direct and indirect costs arising out of delays which may be attributable to the Mechanism's contractual partners, where economically feasible, pursuant to paragraph 7 of General Assembly resolution 70/258 of 1 April 2016. The outcome will be reported in future reports on the budget of the Mechanism.

174. In January 2017, the United Nations notified the contractor that payment for substantial completion would be withheld, pending assessment by the United Nations of any delay damages and additional fees payable by the United Nations to its consultants in connection with the delay. At the time of preparation of the present report, discussions between the United Nations and the contractor were ongoing.

Note 24
Future operations

175. By its resolution 1966 (2010), the Security Council decided to establish the International Residual Mechanism for Criminal Tribunals, with two branches, in

order to carry out a number of essential functions, such as the trial of fugitives, after the closure of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia. The branch in Arusha commenced operations on 1 July 2012 and the branch in The Hague commenced operations on 1 July 2013, for an initial period of four years. During the initial period of the Mechanism's work, there has been a temporary overlap with that of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia, as those institutions complete remaining work on any trial or appeal proceedings that are pending as at the commencement dates of the operations of the respective branches of the Mechanism.

176. In accordance with its mandate, and as set forth below, the Mechanism has assumed responsibility for a number of functions of both Tribunals, including with regard to a range of judicial activities, the enforcement of sentences, the resettlement of acquitted and released persons, the protection of victims and witnesses and the management of archives.

177. The President of the International Criminal Tribunal for Rwanda sent a letter dated 17 November 2015 (S/2015/884) to the President of the Security Council transmitting the final report of that Tribunal on the completion of its mandate. Moreover, the President of the International Tribunal for the Former Yugoslavia sent a letter dated 17 November 2016 (S/2016/976) to the President of the Council transmitting the assessments by the President and the Prosecutor of that Tribunal of the implementation of the completion strategy for the Tribunal, support for the Mechanism and the completion of the trials and appeals procedures.

178. By its resolutions 2193 (2014) and 2194 (2014), the Security Council requested the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda, respectively, to complete their work and facilitate the closure of the Tribunals as expeditiously as possible, with the aim of completing the transition to the Mechanism.

179. Upon the conclusion of the mandate of the liquidation team for the International Criminal Tribunal for Rwanda, on 31 July 2016, the Mechanism assumed full responsibility for the remaining liquidation tasks. While the International Tribunal for the Former Yugoslavia proceeds with the finalization of its work, drawing on the lessons learned from the liquidation of the former Tribunal, the Mechanism continues to work closely with the principal officers and staff of the International Tribunal to ensure the smooth transition of its remaining functions and services, consistent with its projected closure timeline.

Note 25
Events after the reporting date

180. There were no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on those statements.

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