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United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

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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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Contents

Letters of transmittal

Letter dated 29 May 2015 from the Executive Director of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2014. These statements have been prepared and signed by the Comptroller.

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

(*Signed*) Anthony **Lake**
Executive Director

Letter dated 30 June 2015 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 financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2014, which were submitted by the Executive Director of UNICEF. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above-mentioned accounts, including the audit opinion thereon.

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

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2014, which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV), the statement of comparison of budget to actual amounts (statement V) and the notes to the financial statements.

Management's responsibility for the financial statements

The Comptroller of UNICEF is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS), and for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, which require that we 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers such internal control as is relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2014 and its financial performance and cash flows for the period then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNICEF 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 UNICEF Financial Regulations and Rules and its legislative authority.

In accordance with article XIV of the UNICEF Financial Regulations and Rules and the related annex, we have also issued a long-form report on our audit of UNICEF.

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the United Kingdom
of Great Britain and Northern Ireland

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2014. The audit was carried out through field visits to six UNICEF country offices along with three regional offices, as well as through a review of the Fund's financial transactions and operations at its headquarters in New York, Geneva and Copenhagen.

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

During the period under review, UNICEF continued its efforts to address the concerns raised by the Board in its previous reports and improve financial management and overall governance structures. There was, however, a significant decrease in the rate of implementation of previous recommendations of the Board from 73 per cent in 2012 to 42 per cent in 2013. While this may partly be attributable to the fact that many of the issues raised are ongoing activities or are being dealt with as part of the harmonized approach to cash transfers strategy plan over two to three years, the extent of decrease in the rate of implementation points to the need for more concerted efforts to address the Board's recommendations.

With total revenue of $5.17 billion and expenses and losses of $4.60 billion during 2014, the financial statements depicted a net surplus of $0.57 billion. The overall financial position of UNICEF continued to be sound as at 31 December 2014, though there was a decreasing trend in the primary liquidity ratios from 2012 to 2014.

While acknowledging the steps initiated by UNICEF, the Board identified a number of areas in budget and cash management, reserves policies of national committees, programme management, inventory, procurement and contract management that essentially highlighted the need for greater internal control and monitoring of activities in the country and regional offices, as well as greater adherence and attention to the manual provisions, particularly those relating to contractual safeguards in order to protect the interests of the Organization.

Key findings

Budget management

The Board noted 2,626 cases of grant extensions, some of which were extended more than once during 2014. Even after excluding cases where extensions are axiomatic since payment is released based on the implementation of projects, there were 1,778 grant extensions (68 per cent) during 2014 for which no specific reasons for extensions were recorded. The extension of grants may indicate delay in the implementation of programmes, which would adversely impact the timely achievement of grant objectives.

The Board also noted that $2.93 million had been overspent in respect of 618 grants that had expired by 31 December 2014. The Board considers this to be a significant issue of internal control, as the validity of the grants had expired and the excess expenditure over the amount of grant received may have to be recouped from regular resources in case UNICEF is not able to obtain the excess amount from the donors.

The Financial Regulations and Rules define the expenses that can be met from the programme budget and the institutional budget and maintains a distinction between the two. The Board noted that funds from the programme budget were used for meeting the expenses of office rent and salaries of those staff members that should have been paid from the institutional budget. Utilization of the programme budget for administrative and operations cost is both contrary to the Financial Regulations and Rules and detrimental to the achievement of the programme objectives. There was an evident need for a clear definition of "direct inputs" to ensure proper allocation of costs so that projects are not unduly burdened with costs that are not directly attributable to it.

Cash management through the harmonized approach to cash transfers

The UNICEF Financial and Administrative Policy stipulates timely reporting of direct cash transfers, which is to be monitored on a monthly basis. The Board noted that excluding the amount outstanding for less than three months, the total direct cash transfers advance awaiting liquidation across all the regional offices was $252.71 million, which constituted 33 per cent of the outstanding direct cash transfers advance of $759.75 million as at 31 December 2014. Of that amount, direct cash transfers advances outstanding for more than six months were $49.50 million. The Board is concerned that outstanding direct cash transfers heighten the risk of non-liquidation of direct cash transfers and misuse of funds, particularly given the unstable and challenging environments in which these programmes are implemented. There was a need for greater emphasis on risk assessment and assurance activities in accordance with the harmonized approach to cash transfers guidelines.

National Committees

The Board had highlighted in its report for the financial year ended 31 December 2013 (A/69/5/Add.3) issues relating to the oversight of National Committees by UNICEF and had noted an improvement in the overall retention rate of reserve funds from 28 per cent in 2012 to 24 per cent in 2013. The retention rate remained static at 24 per cent for 2014. The Board highlighted the need for UNICEF to continue to engage with the National Committees to establish reserves policies and practices that were in conformity with its reserves guidance for National Committees, taking into account national legislation, the Committees' statutes and the need to ensure that reserve levels are reasonable, taking into account the requirement of funds to be transferred for the support of UNICEF activities and programmes. Retention of reserves by National Committees in excess of the benchmark stipulated in the guidance may deprive UNICEF of funds that were raised in its name and which could be utilized for implementation of its programmes and projects.

Inventory management

The UNICEF Supply Manual states that supplies that have been held for over two years should be reviewed and their retention in stock justified. The Board noted that the total value of stock lying in various UNICEF warehouses as at 31 December 2014 was $168.27 million. The value of the stock held for over two years was $13.26 million (8 per cent). That stock has been in the warehouses for periods ranging from 731 days to 1,096 days. Of that stock, emergency programme supplies accounted for $5.70 million (3.4 per cent). The Board also noted that the life of stock valuing $3.34 million lying in the warehouses had expired as at 31 December 2014. Taking full cognizance of the need to maintain stockpiles of certain items to meet emergency situations and contingencies, the Board noted that there remained scope for improvement in inventory management in terms of closer monitoring of stock levels, monitoring of goods nearing life expiry and effective investigation of items being depicted as being in transit for unduly long periods. Life expiry of items without their utilization or ensuring "turn over" could result in avoidable wasteful expenditure.

Procurement and contract management

The UNICEF Supply Manual provides the necessary guidance for undertaking procurement of items and services required by the organization. It provides for contractual stipulations and securities to ensure vendor performance, keeping in view timely delivery of relief efforts and implementation of programmes for which the procurement is being effected and to safeguard the interests of the organization. The Board's review of procurement activities revealed instances of deviations from the prescriptions in the manual that had the potential of hampering timely implementation of activities and projects, as well as exposing the organization to the risk of financial loss.

A review of 41 purchase orders with a value of $47.5 million under six long-term agreements revealed that a provision for performance security was not included in any of them. The Supply Manual states that performance securities are "used in complex procurements where the costs of putting contracts together are high and the impact of non-performance by the supplier could inflict serious damage to UNICEF". The majority of the procurements are through long-term agreements for procuring products or services over an extended period of time. These are complex procurements that take time to finalize and they govern procurement over an extended period of time. Any non-performance by vendor of his obligations under such long-term agreements would thus adversely impact UNICEF in terms of both timely delivery and costs and have a debilitating effect on the ability of the organization to provide the required services and relief.

There were cases of delay in the processing and the delivery of goods across the regional and country offices reviewed during the course of audit. The delays ranged from a few days to more than a year. There was no clause for liquidated damages in any of 49 long-term agreements for procurement of vaccines of $1.03 billion under Global Alliance for Vaccines and Immunization. There were delayed supplies in 6,038 delivery lines out of 12,718 delivery lines (47 per cent). The delay in these cases ranged up to 378 days. However, UNICEF imposed liquidated damage in only 22 cases, which was a mere 0.36 per cent of total cases of delayed supplies. In the remaining 6,016 cases, no liquidated damages were deducted on account of delayed supply. While delay in some cases was owing to processing within the country or regional offices after receipt of the requirement from the programme sections concerned, delay in others was attributable to the vendor. In the case of the latter, there was inconsistency in both availability of provision of liquidated damages in the purchase orders and agreements or in its imposition. Given the extent of delays across the regional and country offices reviewed by the Board, the need for a consistent inclusion and application of liquidated damages clause is self-evident.

The Board also noted a case where UNICEF failed to invoke contractual remedies against a vendor for supply of infested food products though the infestation, according to surveyor reports, was attributable to the suppliers' manufacturing process and poor hygiene management. UNICEF sought to recover its losses through insurance claims rather than seek compensation from the vendor in accordance with the contractual terms. The loss was also facilitated by the inadequacy of pre-delivery inspections to detect the poor quality of supply and poor packaging. The loss amounted to $10.71 million.

Recommendations

The Board has made a number of recommendations on the basis of its audit. The main recommendations are that UNICEF:

(a) **Analyse the reasons for grant extensions and take effective steps to achieve grant objectives in the stipulated time frame;**

(b) **Exercise appropriate internal controls to ensure that expenditure is limited to the agreement amounts and not exceeded;**

(c) **Establish clear guidelines and define direct costs that could be attributable to programmes and projects so as to enhance adherence to the distinction between programme budget and the institutional budget as envisaged in the Financial Regulations and Rules;**

(d) **Strengthen the mechanisms in the regional and country offices to monitor and liquidate outstanding direct cash transfers to implementing partners, closely monitor the status of risk assessment and assurance plans by the country offices in compliance with the harmonized approach to cash transfers framework;**

(e) **Continue to engage with the National Committees for early establishment of reserve policies that are in accordance with the reserves guidance for National Committees and to ensure that the level of reserves are relevant for the environment in which they operate taking into account the benchmarks in the reserves guidance;**

(f) **Monitor inventory levels more closely to adhere to the stipulations in the manual relating to stock held for over two years to ensure rotation of stocks and prevent obsolescence;**

(g) **Streamline its processes of placing of purchase orders to eliminate undue delay after requirement is projected by the programme sections, monitor execution of purchase orders to ensure timely delivery of supplies and in event of delays attributable to vendors, take appropriate action under the contract agreement, including invoking liquidated damages in a consistent manner;**

(h) **Consider including a provision for performance security and for the levy of liquidated damages in all long-term agreements to safeguard the interest of the organization, and ensure that remedies available under the terms of contracts are enforced, where required, to ensure vendor responsibility and performance.**

Key facts

$5.17 billion:	**Revenue**
$4.60 billion:	**Expenses and losses**
$0.57 billion:	**Surplus for the year**
$8.77 billion:	**Assets**
$4.30 billion:	**Liabilities**
$4.47 billion:	**Fund balances and reserves**

A. Mandate, scope and methodology

1. The United Nations Children's Fund (UNICEF) was established to provide long-term humanitarian and developmental assistance to children and mothers in developing countries. It advocates the protection of children's rights and expansion of opportunities to enable them to reach their full potential. UNICEF had staff strength of 12,270 as at 31 December 2014.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2014, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article XIV of the UNICEF Financial Regulations and Rules, as well as with the International Standards on Auditing.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of UNICEF as at 31 December 2014 and its financial performance and cash flows for the financial period then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body. The audit included a general review of financial systems and internal controls, and an examination of the accounting records and other supporting evidences to the extent that the Board considered necessary to form an opinion on the financial statements.

4. The Board coordinated with the UNICEF Office of Internal Audit and Investigations in the planning of its audits in order to avoid duplication of effort and to determine the extent to which the Board could rely on the latter's work.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's conclusions were discussed with the administration, whose views are appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations of the Board

6. Of the 24 outstanding recommendations from the Board of Auditors reports for the years 2012 and 2013, 10 (42 per cent) had been fully implemented, 11 recommendations (46 per cent) were under implementation, 1 recommendation (4 per cent) had not been implemented and 2 recommendations (8 per cent) were overtaken by events. The percentage of recommendations fully implemented declined from 73 per cent during the previous year to 42 per cent during 2014. While this may be partly attributable to the fact that many of the issues raised are related to ongoing activities or are being dealt with as part of the harmonized approach to cash transfers strategy plan over two to three years, the extent of decrease in the rate of implementation points to the need for greater efforts by the management to address the concerns raised by the Board in its reports. Details regarding actions taken in relation to recommendations during the year 2014 are summarized in the annex.

2. Financial statements and financial reporting

7. The total revenue in 2014 amounted to $5.17 billion, which was mainly from voluntary contributions from Governments, private organizations and individuals. The expenses and losses amounted to $4.60 billion, comprising mainly of cash assistance ($1.51 billion), the transfer of programme supplies ($0.85 billion) and employee benefit expenses ($1.13 billion). This resulted in a net surplus of $0.57 billion.

8. As at 31 December 2014, UNICEF total assets amounted to $8.77 billion, of which $4.43 billion, or 51 per cent, comprised cash and investments (see table II.1).

Table II.1
Cash and investments as at 31 December 2014
(Millions of United States dollars)

Cash and cash equivalents	1 586.78
Current investments	1 630.49
Non-current investments	1 211.14
Total	**4 428.41**

Source: Financial statements of UNICEF.

9. The ratios set out in table II.2 show that the overall financial position of UNICEF is sound. Current assets are slightly lower than three times the current liabilities and total assets are more than two times the total liabilities. However, all the ratios show a decreasing trend over a period of the last three years, indicating mainly the decreasing level of liquidity.

Table II.2
Financial ratios

Description of ratio	*2014*	*2013 (Restated)*	*2012*
Current ratio[a]			
Current assets: current liabilities	2.79	3.18	4.03
Total assets: total liabilities[b]			
Assets: liabilities	2.04	2.05	2.20
Cash ratio[c]			
(Cash + short-term investments): current liabilities	1.33	1.73	2.55
Quick ratio[d]			
(Cash + short-term investments + accounts receivable): current liabilities	2.01	2.53	3.18

Source: UNICEF 2014 and 2013 financial statements.

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

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

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] 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.

10. In accordance with paragraphs 39 and 42 of IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets), an entity shall not recognize a contingent asset. However, it shall be disclosed where an inflow of economic benefits or service potential is probable. The financial statements of UNICEF for the year 2014 initially estimated the contingent assets (note 33) at $103.18 million. These include pledges relating to future contributions and contribution agreements that require parliamentary approval before the funds are received. The Board found that the Netherlands pledged an amount of $21.50 million to UNICEF during the United Nations pledging conference in November 2014, which was not disclosed as contingent assets. The amount disclosed in note 33 (Contingent assets) was thus understated by $21.54 million. This contingent asset was subsequently revised to $124.68 million in the financial statements.

11. In accordance with IPSAS 14 (Events after the Reporting Date), UNICEF disclosed (note 36, para. 3) the total amounts pledged by various donors during the UNICEF pledging conference held in February 2015 (which was subsequent to the statement of financial position date but prior to the signing of the financial statements) as $593 million, whereas the Board found that the pledges made during the February 2015 UNICEF pledging conference was only $48 million. The pledges therefore reported in note 36, paragraph 3 (Subsequent events) were incorrectly overstated by $545 million. Since these were only pledges, they did not impact the financial statements. UNICEF agreed with the audit finding and revised the contingent assets (note 33) and the subsequent events (note 36, para. 3) in the financial statements.

3. Budget management

Grant extensions

12. In accordance with UNICEF Financial and Administrative Policy-3: Revenue Management, Supplement 1 — Recording and Managing Voluntary Cash Contributions, a grant can be amended or extended for various reasons. The Board noted 2,626 cases of grant extensions, some of which were extended more than once during 2014. Grants from some specific donors like the United States Agency for International Development and the European Commission/European Commissions Humanitarian Aid and Civil Protection Department are extended regularly since these donors do not provide the entire amount of grant upfront and payment is received based on implementation of the projects. The Board noted that even after excluding such donors, there were 1,778 grant extensions (68 per cent) during 2014 where no specific reasons for grant extensions were recorded. Extension of grants may indicate delay in implementation of programmes that would adversely impact the timely achievement of the grant objectives. Hence, it is important that extensions are granted after due diligence is exercised to ascertain the causes for delay and remedial action as may be necessary taken to minimize the delay.

13. **UNICEF agreed with the Board's recommendation to (a) record the reasons for extensions in every case in the database; and (b) analyse the reasons of grant extensions and take effective steps to achieve grant objectives in the stipulated time frame.**

Overspent contributions

14. UNICEF Financial and Administrative Policy-3: Revenue Management, Supplement 1 — Recording and Managing Voluntary Cash Contributions states that UNICEF shall make every effort to avoid spending in excess of commitments.

15. The Board noted that an amount of $2.93 million had been overspent in respect of 618 grants that had expired by 31 December 2014. There were no contributions outstanding in respect of these expired grants. This included an overexpenditure of $0.62 million in respect of 301 grants that had expired by December 2013. The overspend is from available resources.

16. The Board considers this to be a significant issue of internal control as the validity of the grants had expired and the excess expenditure over the amount of grant received may have to be recouped from regular resources in case UNICEF is not able to obtain the excess amount from the donors.

17. UNICEF stated that system validity checks were in place and only few specific types of transactions like foreign exchange losses/gains are allowed to bypass the grant limit within the system. The Board observed that if system validity checks were indeed in place, overspending of grants would have been detected and disallowed.

18. **The Board recommends that appropriate internal controls be exercised to ensure that expenditure is limited to the agreement amounts and not exceeded.**

Expiry of grants

19. In accordance with the UNICEF Programme Policy and Procedure Manual (February 2007), the office should establish performance standards for full

utilization of funds before the programme budget allotment expiration date, monitor office performance in relation to those standards and address instances of slow utilization. The regional office monitors utilization of grants by the country offices and reallocates funds from one country office with underutilization to another country office that is able to absorb the funds quickly in order to ensure maximum spending of the funds allocated to the region. UNICEF headquarters advised all offices that any unspent balances will reflect poorly on the ability of UNICEF to implement planned programmes for which these funds were provided and its credibility in mobilizing funds based on needs.

20. Despite such guidance being in place, the Board found unspent balances of $411,052 from six grants, $169,250 from 16 grants and $151,710 from 3 grants in Ethiopia, Somalia and Egypt country offices, respectively, during 2014. The Board also noted unutilized balance of three grants amounting to $305,076 as returnable to donors by the Eastern and Southern Africa Regional Office. One of these was a result of the donor not agreeing to extension of a project that started late. The large number of grants with unspent balances indicates the need for enhanced focus on improving the utilization of grants to ensure achievement of programme objectives.

21. UNICEF stated that monitoring and oversight mechanism will be strengthened by implementing monthly monitoring of grant implementation and follow-up with country offices in situations where expiring grants had uncommitted funds.

Funding administration and operational costs from programme budget

22. Regulation 1.2 (f) (i) of the UNICEF Financial Regulations and Rules state that programme activities are those activities that correspond to specific programme components or projects and that contribute to the delivery of development results contained in country, regional or global programme documents or other programming arrangements. The cost of these activities is met from the programme budget.

23. Under Regulation 1.2 (h), the institutional budget shall cover the costs of development effectiveness activities, United Nations development coordination activities, management activities and special purpose activities, as set out in article IX. "Development effectiveness activities" means activities of a policy and technical-advisory nature that are needed for achievement of the programme objectives and projects in the focus areas of UNICEF and that contribute to the effective achievement of specified development results. "Management activities" mean activities that are aimed at promoting the identity, the direction and the well-being of UNICEF, including executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources.

24. The Board noted that the programme budget was used for meeting expenses that should have been met from the institutional budget. In Philippines and Cambodia country offices, the institutional budget covered only the salaries and related non-staff costs of the Representative, the Deputy Representative, the Chief of Operations and the communications staff. The staff cost of the other operation-related functions such as finance, administration and operation was funded by the programme budget. As at the date of audit (5 November 2014), the Philippines country office had 187 staff members, of whom 172 (92 per cent) were

funded by the programme budget and the remaining 15 were funded from the institutional budget. Out of the 172 staff members funded by the programme budget, 33 (19 per cent) were performing functions such as administration, accounting, budget and finance. The total gross salary of these 33 staff members in 2014 (up to October 2014) amounted to $724,804. The Board further noted that an amount of $655,000 from the programme budget was used to supplement the office management costs (primarily office rent). Similarly, the Cambodia country office had a total number of 109 staff members, of whom 87 (80 per cent) were funded by the programme budget and 22 were funded from the institutional budget. Out of the 87 staff members funded from the programme budget, 7 were performing operation-related functions such as planning, administration and communications. The total payroll budget of these seven staff members in 2014 amounted to $280,674, out of which $220,235 had been utilized up to October 2014.

25. UNICEF stated that expenses that directly relate to programmes are being charged to the programme budget. In some cases the solution is to increase the institutional budget, but in most cases it is appropriate to charge the relevant portion of "operational" expenses to programme. They added that the current approach is consistent with Financial Regulation 8.6 and the decisions of the Executive Board and the General Assembly regarding full cost recovery to avoid charging the direct costs of programme implementation to the institutional budget, which is primarily funded from core resources. UNICEF added that additional operations positions in the Philippines were necessitated owing to Typhoon Haiyan, and these were direct inputs to the emergency programme.

26. The Board observed that Regulation 8.6 states that the cost of programme activities for a programme period is the sum of commitments and disbursements made against the allocation of the period in respect of direct inputs needed to achieve the objectives of the programme. There thus needs to be a clear definition of "direct inputs" to ensure proper allocation of costs that would ensure that a project is not unduly burdened with costs that are not directly attributable to it. A significant number of staff working on purely administrative functions (19 per cent in the Philippines country office and 8 per cent in the Cambodia country office) was being charged to the programme budget. It cannot be said that their functions related directly and solely to the specific programmes to which they were being charged. The Board considers that utilization of the programme budget to meet administrative and operations costs that should appropriately be met from the institutional budget is both contrary to the Financial Regulations and Rules and detrimental to the achievement of the programme objectives. In the same vein, the Board had previously recommended in paragraph 86 of its report for the year 2012 (A/68/5/Add.2) that UNICEF should analyse the parameters for determining the appropriate level of operational posts at the country offices and monitor and control country offices' use of the programme budget to cover operational expenditures not associated with specific programmes or projects. This recommendation is stated to be under implementation, as the management is developing an action plan to determine and monitor the appropriate level of operational posts at country offices in successive budget preparation in conjunction with the formation of the Global Shared Services Centre, which is planned to be established in phases from 2015 onwards. While awaiting the action plan, the management could define "direct inputs" and establish clear parameters for what constitutes direct costs attributable

to programme budget and make efforts to identify institutional posts being charged to the programme budget and minimize the impact on the programme budget.

27. **The Board reiterates its recommendation made in its report for the year 2012 cited above and adds that management establish clear guidelines and define direct costs that could be attributable to programmes and projects so as to enhance adherence to the distinction between the programme budget and the institutional budget as envisaged in the Financial Regulations and Rules.**

4. Cash management through the harmonized approach to cash transfers

Outstanding direct cash transfer to implementing partners

28. UNICEF Financial and Administrative Policy-5: Cash Disbursements Supplement 3 — Harmonized Approach to Cash Transfers defines procedures and accountabilities for managing cash transfers. Paragraph 35 of the policy states that monitoring of timely liquidation of direct cash transfers or the status of outstanding direct cash transfers is facilitated through the enterprise resource planning system (VISION). The status of outstanding direct cash transfers will be monitored on a monthly basis. Paragraph 36 states that the Representative of the country office must ensure that there is a clear mechanism for timely reporting by and follow-up with implementing partners.

29. The position of outstanding direct cash transfer advances across all the regions is depicted in table II.3:

Table II.3
Outstanding direct cash transfer
(Millions of United States dollars)

	0-3 months		*3-6 months*		*6-9 months*		*Over 9 months*		*Outstanding DCT*
Region	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*
CEE-CIS	10.90	64.54	5.81	34.40	0.15	0.89	0.03	0.18	16.89
EAPR	36.93	58.90	19.91	31.75	4.37	6.97	1.49	2.38	62.70
ESAR	134.31	66.63	51.40	25.50	9.56	4.74	6.32	3.14	201.59
HQ	1.09	77.86	0.30	21.43	0.00	0.00	0.00	0.00	1.39
LACR	16.96	66.67	7.14	28.07	0.96	3.77	0.38	1.49	25.44
MENA	114.82	71.32	40.94	25.43	4.68	2.91	0.56	0.35	161.00
ROSA	49.89	66.92	19.19	25.74	3.48	4.67	1.99	2.67	74.55
WACR	142.14	65.74	58.52	27.07	12.30	5.69	3.23	1.49	216.19
Total	**507.04**	**66.74**	**203.21**	**26.75**	**35.50**	**4.67**	**14.00**	**1.84**	**759.75**

Source: UNICEF headquarters.
Abbreviations: CEE-CIS, Central and Eastern Europe and the Commonwealth of Independent States; EAPR, East Asia and Pacific Region; ESAR, Eastern and Southern Africa Region; HQ, headquarters; LACR, Latin America and Caribbean Region; MENA, Middle East and North Africa; ROSA, Regional Office for South Asia; WACR, West and Central Africa Region.

30. Excluding the amount outstanding for less than three months, the total direct cash transfer advance awaiting liquidation was $252.71 million, which constituted

33 per cent of the outstanding direct cash transfer advance of $759.75 million as at 31 December 2014.

31. The Board also conducted a detailed review of two regions, namely, East Asia and Pacific Region and Eastern and Southern Africa Region, and noted that the direct cash transfer advances awaiting liquidation for over six months was $4.77 million (20 per cent) in Philippines and $5.81 million (22 per cent) in the Somalia country office.

32. The Board is concerned that the direct cash transfer outstanding for more than six months heightens the risk of non-liquidation of direct cash transfer and misuse of funds, particularly given the unstable and challenging environments in which these programmes are implemented.

33. UNICEF stated that it will continue to ensure rigorous pursuit towards the settlement of long outstanding cash transfers. It added that the regional offices will strengthen the monitoring and oversight of direct cash transfer by ensuring that the head of country offices submit an explanatory memorandum and action plans on a quarterly basis regarding direct cash transfers outstanding for more than six months.

Risk assessment and assurance plans

34. UNICEF adopted the revised harmonized approach to cash transfers framework in February 2014 to ensure effective management of risks associated with cash transfers. The UNICEF harmonized approach to cash transfers policy dated August 2014 aimed at instituting:

(a) Cost-effective assurance systems to ensure funds entrusted to UNICEF by donors are utilized as intended;

(b) Transparent processes and oversight of cash transfers at country, regional and global levels;

(c) Reduced transaction costs for implementing partners through simplified and harmonized procedures for cash transfers among adopting agencies;

(d) Strengthened national capacities for the management and accountability of cash transferred.

35. In accordance with paragraph 9 of UNICEF Financial and Administrative Policy-5: Cash Disbursements, Supplement 3 — Cash Transfers (HACT), the harmonized approach to cash transfers is based on an assessment of the risks associated with transferring cash to implementing partners, including the risk that cash transferred to implementing partners may not be used or reported in accordance with agreements between the agency providing the cash resources and the implementing partner. This risk is to be managed by carrying out microassessment of the implementing partners' financial management capacity applying appropriate procedures for modality of cash transfer to the implementing partners and carrying out assurance activities like programmatic visits, spot checks, scheduled audits and special audits to maintain adequate awareness of the implementing partners' internal controls. In addition, macroassessment of the general public financial environment in the country is to be carried out once during the programme cycle.

36. During the year 2014, UNICEF transferred $1.5 billion cash assistance to implementing partners as input to country programmes. The Board reviewed the implementation of the harmonized approach to cash transfers policy by UNICEF during 2014 and observed the following:

(a) Out of the 127 country offices, only 64 country offices (50 per cent) had carried out a macroassessment of the general public financial environment in the country as at 31 December 2014; microassessment of the financial management capacity of implementing partners, required once per programme cycle for partners receiving more than $100,000 was assessed by only 73 country offices (57 per cent);

(b) According to the inSight dashboard of UNICEF, while 68 per cent of country offices had carried out microassessments and prepared assurance plans during 2014, 16 per cent had not prepared any plans relating to assurance activities, and UNICEF does not have details relating to 8 per cent of the country offices. Where the risk analysis was carried out, 16 per cent of the implementing partners had been rated as “High Risk”;

(c) While the harmonized approach to cash transfers procedure stipulated that microassessments are to be undertaken at least once per programme cycle on implementing partners who were expected to receive $100,000 or more per year, there were 918 implementing partners who had received over $100,000 during the last 12 months but had not been assessed over a period of 5 years. The total amount advanced to these implementing partners was $393 million as at 21 April 2015.

37. The Board reviewed in detail the position in two regional offices of the East Asia and Pacific Region and Eastern and Southern Africa Region. In the East Asia and Pacific Region, the Board found that 14 implementing partners that were transferred direct cash transfer advances ranging between $100,000 and $300,000 were not assessed.

38. In the Eastern and Southern Africa Region, the status of implementation of assurance activities is depicted in table II.4:

Table II.4
Implementation of assurance activities in the Eastern and Southern Africa Regional Office

Assurance activity	*Number of country offices undertaking assurance activities*	*Planned*	*Completed*	*Percentage*
Microassessment	21*	458	421	92
Onsite review (spot checks)	20	1 081	407	38
Programmatic visits (site visits)	20	4 759	4 442	93
Scheduled audits	16	200	148	74

Source: Eastern and Southern Africa Regional Office.
* Include Eastern and Southern Africa Regional Office.

39. The completion of each assurance activity in the Eastern and Southern Africa Regional Office fell short of what was planned in the range of 7 to 62 per cent, though some of the country offices conducted more assurance activities than were scheduled. The Board is concerned that non-adherence to the requirements on

conducting of assurance activity may render UNICEF resources vulnerable to misutilization. The Board also observed that in the absence of risk assessment and assurance plans as envisaged in the harmonized approach to cash transfers instructions, UNICEF exposes itself to the risk of providing cash assistance to implementing partners that do not demonstrate adequate level of financial capacity to absorb the funds or lack internal controls to utilize the funds for the purpose intended by the donors.

40. UNICEF stated that offices might have completed the required microassessments in previous years or that they might have chosen not to conduct microassessments where the operation risk is not high. Globally for 2014, country offices had completed 86 per cent of the planned microassessments, 124 per cent of the planned programmatic visits and 51 per cent of the planned spot checks. UNICEF added that the data on the inSight dashboard regarding microassessment was incorrect, as the date field is not mandatory in VISION and some offices had not completed it. There are ongoing efforts to build capacity along priorities defined in the global harmonized approach to cash transfers strategy, which include a new mandatory harmonized approach to cash transfers e-course, harmonized approach to cash transfers support missions to focus countries across all regions, dedicated resources for harmonized approach to cash transfers in complex/high-risk environments and a site with harmonized approach to cash transfers resources.

41. The Board observed that its findings, based on the audit of the two regional offices and their country offices taken together with the overall position as ascertained at the UNICEF headquarters office, highlights the need for greater emphasis on risk assessment and assurance activities. Further, the inSight dashboard was developed as a reporting system to provide key inputs to the management for decision-making. The integrity of the information in the dashboard is ensured by accurate data feed from supporting backend systems. The information visible on the dashboard is also used by the country offices and UNICEF headquarters. The information and reports on which the audit findings are based were specifically provided to audit by UNICEF. Hence, the lack of integrity of the information in the dashboard and the inconsistency with the data provided to audit provides no assurance as to the effectiveness of risk assessments and assurance plans being undertaken by the country offices under the harmonized approach to cash transfers and only enhances the risk.

Non-liquidation of direct cash transfer advances even where expenditure statements are received

42. In accordance with UNICEF’s Financial and Administrative Policy-5: Cash Disbursements, Supplement 3 — Cash Transfers (HACT), paragraph 86, direct cash transfers are accounted for as advances when transfer is made (given that the direct cash transfer is for programmatic activities that have yet to take place and must be returned to the extent that these activities do not take place as agreed) and as expenses when advance is liquidated based on reporting on utilization. Division of Finance and Administrative Management closure instructions and guidance for 2014 accounts for UNICEF offices relating to review of outstanding direct cash transfers requires offices to review the balances and liquidate direct cash transfer advances where the Funding Authorization and Certification of Expenditure forms were received on or before 31 December 2014. Such liquidation of direct cash transfers

with a 2014 posting date was allowed until 15 January 2015, when books of accounts for 2014 were closed.

43. The financial statements of UNICEF for the year 2014 depict $679.26 million as "Advances of cash assistance" as at 31 December 2014, which included downward adjustment of cash advances to the implementing partners to the extent of $80.93 million (note 8 to the financial statements 2014). This provision was based on "advances of cash assistance outstanding at year-end which have been adjusted downwards to consider timing differences where implementing partners have submitted expense reports to UNICEF that have not yet been assessed or processed by UNICEF at year-end" (note 3, para. 7, the financial statements 2014).

44. Considering that the 2014 accounts closure instructions/guidance of the Division of Finance and Administrative Management clearly stated that Funding Authorization and Certification of Expenditure forms received on or before 31 December 2014 have to be liquidated up to 15 January 2015, UNICEF should have liquidated all the direct cash transfers received through those forms as at 31 December 2014, rather than providing for downward adjustment of cash advances to implementing partners based on weighted average monthly liquidation trend over the previous three-year period.

45. **The Board recommends that UNICEF (a) strengthen the mechanisms in the regional and country offices to monitor and liquidate outstanding direct cash transfers to implementing partners; (b) address issues relating to reporting inconsistencies within its monitoring systems to provide assurance as to the accuracy and reliability of the management information system; (c) closely monitor the status of risk assessment of implementing partners by the country offices and operationalize assurance plans in compliance with the harmonized approach to cash transfers framework; and (d) ensure that all Funding Authorization and Certification of Expenditure and forms received for the year are liquidated and accounted for before the accounts closing date so as to reflect the correct position of liquidation amounts of cash transfers.**

5. Donor reporting

46. According to UNICEF's Financial and Administrative Policy-3: Revenue Management, Supplement 1 — Recording and Managing Voluntary Cash Contributions, UNICEF offices spending against other resources grants must monitor implementation to ensure that the grants are fully spent. UNICEF submits an annual interim certified statement of account to the donors by the end of June every year and a final certified statement of account within six months of financial closure.

47. The Board noted as follows:

(a) UNICEF sent 5,245 reports pertaining to utilization of funds and progress of the work to the donors during 2014. Of these, 3,659 reports (70 per cent) were sent on time and 1,123 reports (21 per cent) were sent late;

(b) In the Eastern and Southern Africa Region, 8 of the 956 donor reports were overdue and 60 were sent late. The last quality assurance assessment (review) of donor reports for the Eastern and Southern Africa Regional Office was conducted in 2012 for the donor reports of 2011. No such review has been conducted during the last two years.

48. UNICEF stated that only 14 out of the approximately 3,000 certified reports prepared in 2014 were submitted late.

49. The Board noted that the UNICEF response was at gross variance with the status of donor reporting reflected in the "Donor Report Schedule Analysis cube" in the inSight dashboard of UNICEF for the year 2014. This again raises doubts as to the integrity of the information that forms the basis for decision-making and monitoring at UNICEF headquarters, since management reviews the status of various indicators primarily through the dashboard. Further, reporting to the donors is a contractual obligation since it forms part of the agreements with the donors and a high number of delayed and overdue reports put the credibility of UNICEF at risk and could affect sustained future funding.

50. **The Board recommends that UNICEF management monitor the issue of reports to donors and ensure the accuracy and reliability of information in the dashboard to provide assurance as to the basis of management assertions.**

6. Oversight of National Committees by the United Nations Children's Fund

51. National Committees have been established in some countries to partner with UNICEF for the purpose of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. The Board had highlighted in its report for the financial year ended 31 December 2013 (A/69/5/Add.3) certain issues relating to the oversight of National Committees by UNICEF and had noted an improvement in the overall retention rate of reserve funds from 28 per cent in 2012 to 24 per cent in 2013. UNICEF informed that the retention rate continued to be 24 per cent for 2014.

52. The reserves guidance for National Committees draws reference to cooperation agreements between UNICEF and the committees that provide that the National Committees shall adopt a reserves policy that is in accordance with national legislation and the Committees' statutes and that such reserve levels should be reasonable taking into account the requirement of funds to be transferred for the support of UNICEF activities and programmes. UNICEF shall be kept informed of the reserves policy and implementation. The reserves policy must include the level, management strategy and planned utilization of such funds.

National Committees without reserves policies

53. The Board noted that five National Committees did not have a board-approved reserves policy. While the approval of the reserve policy of some of the committees was stated to be expected shortly, three Committees had yet to develop such policies. Absence of a reserves policy is contrary to the cooperation agreements and detracts from the ability of UNICEF to ensure timely availability of non-earmarked and non-statutory reserves for UNICEF programmes.

National Committees without fully compliant reserves policies

54. The Board noted that 15 National Committees were advised by UNICEF in July 2014 to revise their reserve policies to ensure 100 per cent compliance with the reserves guidance for National Committees. Absence of a reserves policy that was compliant with the reserves guidance, including standard benchmark levels of

reserves (three months operating expenses) by the National Committees, may result in retention of excess funds by the National Committees.

National Committees with excess reserves

55. According to the reserves guidance for National Committees, in deciding the appropriate level for non-statutory reserves, the Committees should be clear as to what the purpose of the reserves was and having identified the need decide how much should be set aside to meet those needs. A standard benchmark for ensuring continued operations is three months of operating expenses, although this may vary. While examining the extent of reserves retained by the National Committees, the Board noted that some National Committees had retained reserves (excluding statutory reserves and earmarked or restricted non-statutory reserves) in excess of the benchmark of three months operating expenses as below:

Table II.5
Reserve retained in excess to benchmark reserve
(In millions of United States dollars)

National Committee	*Non-statutory/ unrestricted reserve*	*Benchmark reserve*	*Excess over benchmark reserve*
United States Fund	28.51	14.17	14.34
Hong Kong	3.73	0.86	2.87
Netherlands	8.91	6.30	2.61
Australia	2.43	1.45	0.98

Source: Private Fundraising and Partnerships Division, UNICEF.

56. Retention of reserves by National Committees in excess of the benchmark stipulated in the Guidance deprives UNICEF of funds that were raised in its name and that could be utilized for the implementation of its programmes and projects.

57. **The Board recommends that UNICEF (a) continue to persuade the National Committees of early establishment of reserves policies that are in accordance with the Reserves Guidance for National Committees; and (b) continue to engage with the National Committees to ensure that the level of reserves are relevant for the environment they operate in taking into account the benchmarks in the reserve policy.**

7. Programme management

Delayed implementation of the integrated monitoring and evaluation plan

58. According to section 3 of chapter 5 of the UNICEF Programme Policy and Procedure Manual, the integrated monitoring and evaluation plan is the principal tool that helps UNICEF country offices and national partners to manage their monitoring and evaluation responsibilities as established in the country programme action plan. It states that once completed, the multi-year and rolling integrated monitoring and evaluation plans serve as management tools to schedule when the country office and partners will get the critical information needed for results-based management.

59. The Board reviewed the integrated monitoring and evaluation plans at the East Asia and Pacific Regional Office, the Eastern and Southern Africa Regional Office and the Middle East and North Africa Regional Office, and noted as follows:

(a) The East Asia and Pacific Regional Office had scheduled 14 activities/ programmes for implementation during 2014. Of those, there was delay in the implementation of five programmes, which were scheduled for completion during the third and fourth quarters of 2014 with a combined budget of $225,000. The Office stated that one of the programmes was delayed owing to the transfer of the regional evaluation adviser, while all the other programmes would be completed by the end of this year or in the first quarter of 2015;

(b) In the Philippines country office, four out of eight activities (combined budget of $1,567,640) were delayed and one activity was postponed. The activities of Multiple Indicator Survey (Haiyan/Yolanda) and Adolescent Module Development for Multiple Indicator Survey, with a budget of $600,000 and $70,000, respectively, had not started at the time of audit (November 2014), though these were scheduled for completion in the third and fourth quarters of 2014. In three other cases, the activities were delayed. UNICEF stated that the Philippines country office was implementing measures to strengthen the monitoring of agreed upon activities to ensure better and realistic planning;

(c) In the Cambodia country office, there was delay in implementation of 5 of the 18 activities that were scheduled to be completed in the first to third quarters of 2014 with a combined budget of $250,000. Under the local government for child rights programme, two activities, namely “Evaluation of community pre-schools” and a study on “Equity and efficiency in public resources allocation and utilization and impact of social envelop at sub-national level” had not commenced, while a review of community pre-school organizations was cancelled. One study on consequence of internal and external migration on children and women left behind had not yet started, while under the child protection programme another study on a business model of residential care in Cambodia was postponed. UNICEF stated that delays were owing to quality assurance activities and donors having changed the focus of the evaluation that were all acceptable justifications for amendments to be made in the integrated monitoring and evaluation plan;

(d) In the Ethiopia country office, 4 out of 14 activities (29 per cent), with a combined budget of $498,000, had not yet started. Out of those four activities, two, “Knowledge, Attitude and Practices (KAP) Survey on Social Cohesion and Resilience in four regions of Ethiopia” (new) and the “Study on Peace Building Education through Early Childhood Development (ECD)” (rolled over from 2013), were scheduled to be completed by the fourth quarter of 2014. The remaining two were scheduled for completion by the end of the first and second quarters of 2015, respectively. Given the delay in commencement, it was unlikely that those scheduled dates of completion would be achieved. The country office stated that it had improved the implementation rate and efficiency of the integrated monitoring and evaluation plan;

(e) The Somalia country office planned 31 activities for completion during 2014. Two activities with a budget allocation of $120,000 were cancelled after incurring expenditure of $1,200 on training, as the same indicators were collected through the child protection rapid assessment, which was being done by the same agency. Further, 14 of the activities with a budget allocation of $995,000 were still in progress or at various stages of finalization and carried forward to 2015;

(f) In the Middle East and North Africa Regional Office, integrated monitoring and evaluation plan reports of 14 country offices depicted that 154 (76 per cent) out of 202 activities planned in 2014 could not be achieved by December 2014. This reflects achievement of between zero and 25 per cent in six country offices and between 26 and 50 per cent in eight country offices;

(g) At the Egypt country office, of six activities planned under external monitoring and evaluation events, launch studies and evaluations, only one was completed, while the remaining five did not even commence. Out of 15 activities planned under survey studies and evaluations, only two were completed and five were cancelled. Similarly, out of five activities planned under country programme monitoring systems, two were delayed. The Egypt country office stated that the implementation of its integrated monitoring and evaluation plan was affected by the instability in Egypt that disrupted field work, while the launch of studies and other external monitoring and evaluation events were delayed or postponed by the national partners.

60. UNICEF stated that the implementation of the integrated monitoring and evaluation plan would be monitored quarterly to ensure timely implementation.

61. While acknowledging the response given by the management, the Board remains concerned that the delay in realization of integrated monitoring and evaluation plans may affect the information collection relating to programme planning and weaken the efficiency of programme implementation.

Delay in submission and approval of annual workplans

62. The UNICEF Programme Policy and Procedure Manual states that annual workplans are to be prepared following a review of progress towards programme component results and management intermediate results occurring typically at the end of the year and signed by the competent government authorities before the beginning of the following year. The approved annual workplan is the document that government counterparts and other partners use as the basis for requesting agreed inputs from UNICEF. It is also the basis for any reservation of funds, the planning and the requisition of supplies, contracts, travel authorizations and cash inputs and disbursements (payments). All annual workplans should be confirmed in writing by the named agencies and, where required, by the coordinating counterpart government agency. This endorsement should be obtained latest by two months after the start date of the workplan to enable disbursements to begin.

63. The Programme Policy and Procedure Manual further stipulates that planning work should be done early in the year (latest by January) and since in most cases the start date of annual workplans is 1 January 2014, any late approval of annual workplans would delay the implementation of programmes taken up in the current year's annual workplans.

64. The Board observed delay in submission and approval of annual workplans as detailed below:

(a) The Cambodia country office had prepared 14 annual workplans for the year 2014, of which 12 were signed in March 2014 and two were approved in July and August 2014. Out of these 14 annual workplans, the time taken in releasing the funds to the implementing partner (first release) ranged from one to six months in 11 cases, while no disbursement to implementing partners was made in two cases, even after three to seven months of signing the approved annual workplans;

(b) The Somalia country office prepared 27 annual workplans for the works commencing on 1 January 2014. There were delays ranging from 10 to 82 days in 6 of the 27 cases. The country office attributed the delays to the extremely fluid governance realities in the host country;

(c) In the Ethiopia country office, three annual workplans were approved on 30 June 2014 and endorsed by implementing partners on the same date, but no disbursements had been made as at the end of 31 December 2014;

(d) In the Egypt country office, the delay ranged from over 2 months to over 15 months in signing 7 of 12 annual workplans. The country office stated that the preparation and signing of workplans for the year 2013 was seriously disrupted by political disturbances in the country.

65. While acknowledging that local security and political situations may impact the timeliness of finalization of annual workplans with the host Governments, the Board notes that that delay in approving annual workplans, coupled with delay in release of funds to implementing partners even where annual workplans are approved, adversely affects programme implementation.

Delay in preparation and implementation of annual management plans

66. In section 44 of chapter 4 of the Programme Policy and Procedure Manual it is stipulated that the Representative of the country office is accountable for the preparation or updating of the annual management plans, with the support of the country management team, by 15 February every year. Further, as part of the oversight function of the regional office, a copy of the annual management plan should be shared with the Regional Director, who may wish to use the occasion of the regional management team meeting to review performance of country offices based on the management indicators set out in the annual management plan.

67. The Board noted the following:

(a) In the East Asia and Pacific Regional Office, 7 out of the 14 country offices (50 per cent) did not share their annual management plans with the regional office within the stipulated time frame. The delay in sharing the annual management plan by the country offices ranged up to eight months. Further, the East Asia and Pacific Regional Office took more than two months in sending its comments on the annual management plans of 12 country offices, while the comments on the annual management plans of two country offices were yet to be issued at the time of audit (November 2014);

(b) The Philippines country office finalized the annual management plan for 2014 after a delay of 75 days from the target date fixed by the regional office and thereafter submitted the annual management plan to the regional office 164 days after its finalization;

(c) The Cambodia country office finalized its annual management plan for 2014 and shared it with the East Asia and Pacific Regional Office after more than one month from the date prescribed in the Programme Policy and Procedure Manual;

(d) In the Eastern and Southern Africa Regional Office, the annual management plans for 2014 were shared by the country offices after four to nine months after the stipulated date of 15 February;

(e) Out of 16 country offices in the Middle East and North Africa, only eight (50 per cent) prepared and shared annual management plans with the regional office in 2014. While two country offices achieved the due date of 15 February 2014, one country office prepared and shared the annual management plan in the month of June 2014 after a delay of four months.

68. The absence of or delays in submitting annual management plans limits the visibility of regional offices over their country offices thereby undermining the effectiveness of its monitoring. UNICEF stated that it would monitor the preparation and submission of annual management plans in country offices and would review the annual management plan timeline based on the feedback received from the field.

69. **The Board recommends that (a) steps be taken to improve the completion rate of activities under the integrated monitoring and evaluation plan; (b) the country offices continue their efforts to ensure timely finalization of annual workplans and follow up release of funds to implementing partners; and (c) the system and procedure for timely preparation and submission of annual management plans to the regional offices be strengthened to improve the governance of country offices.**

8. Inventory management

Slow-moving inventory

70. Paragraph 5.8.2 of the Supply Manual of UNICEF states that supplies that have been held for over two years should be reviewed and their retention in stock justified. Further, as specified in Financial and Administrative Policy-6: Inventory Accounting, slow-moving, obsolete and expired inventory should be identified annually as part of the impairment assessment.

71. The Board noted the following:

(a) The total value of stock lying in various warehouses of UNICEF as at 31 December 2014 was $168.27 million. The value of the stock held for over two years was $13.26 million (8 per cent). That stock had been in the warehouses for periods ranging from 731 days to 1,096 days. Of that stock, emergency programme supplies accounted for $5.70 million (3.4 per cent). Further, the life of stock valuing $3.34 million lying in the warehouses had expired as at 31 December 2014;

(b) Out of 9,219 items in transit as at 31 December 2014, over 1,083 items valuing $15.90 million were in transit for periods ranging from 200 to 1,107 days. These included vaccines and immunization items valuing $10.39 million for malaria and AIDS, where the goods have been in transit for periods ranging from 242 to 1,096 days. The Board was informed that while some of the items were stated to be due to systems errors, there were others that were awaiting acknowledgment from the implementing partners or had been short received or were held up in customs.

72. The Board's audit of selected regional and country offices revealed similar findings as set out below:

(a) In the Somalia country office, 1.7 million units of stock valued at $4.3 million were lying in different warehouses for more than two years. Out of these, 110,630 units (153 line items) valued at $1.32 million were pre-positioned goods for more than two years. In 35 cases, 928,444 items valued at $255,397 were shown as "goods-in-transit" for a period ranging from 219 days to 1,058 days;

(b) In the Ethiopia country office, 1.5 million stock items valued at $990,535 were lying in different warehouses for more than two years. In 13 cases, 39,002 items valued at $57,173 were shown as "goods-in-transit" for more than one year;

(c) In the Middle East and North Africa Regional Office, the value of inventory lying in warehouses was $7.38 million. Of these, 87 items valued at $3.94 million were lying for more than 400 days.

73. UNICEF stated that goods-in-transit in the Somalia country office were very old items and related to an issue with a report where duplicate items were showing. It added that in respect of the other items, the report on which the audit based its finding was not accurate and was being revised. UNICEF added that it has appropriate policies and procedures in place for planning and managing inventory and that there was active monitoring of the inventory levels that will be continued.

74. Taking full cognizance of the need to maintain stockpiles of certain items to meet emergency situations and contingencies, the Board noted that there remained scope for improvement in inventory management in terms of closer monitoring of stock levels, monitoring of goods nearing life expiry and effective investigation of items being depicted as being in transit for unduly long periods. Life expiry of items without their utilization or ensuring "turn over" could result in avoidable wasteful expenditure.

75. **The Board recommends that UNICEF (a) monitor its stock levels more closely to adhere to the extant stipulations relating to stock held for over two years; (b) closely follow up items that are in transit for prolonged periods; and (c) ensure accuracy in reporting of items that have been processed in the system as received.**

9. Procurement and contract management

76. The UNICEF Supply Manual provides the necessary guidance for undertaking the procurement of items and services required by the organization. The stated objective of procurement activities is the timely acquisition of goods, works and services while addressing (i) the mandate of UNICEF; (ii) fairness, integrity and transparency through competition; (iii) economy and effectiveness; and (iv) best value for money. The manual also provides for contractual stipulations and securities to ensure vendor performance, keeping in view timely delivery of relief efforts and implementation of programmes for which the procurement is being effected and to safeguard the interests of the organization. The Board's review of procurement activities revealed instances of deviations from the prescriptions in the manual that had the potential of hampering timely implementation of activities and projects, as well as exposing the organization to the risk of financial loss.

Non-inclusion of provision for performance security

77. The UNICEF Supply Manual provides for performance securities in contracts to ensure due performance of contractual obligations by suppliers and vendors. Performance security has been defined as a written financial instrument issued by a bank or an insurance company in favour of UNICEF to assure fulfilment of the supplier's obligations; an example is performance bonds. Performance securities are typically set at 10 per cent of the value of the contracts.

78. We reviewed 41 purchase orders with a value of $47.5 million under six long-term agreements and noted that a provision for performance security was not included in any of them. The management stated that prior to establishing each long-term agreement, its Supplier Evaluation Unit assessed the vendors, including their financials and ability to deliver on the contracts. The decision to include a particular security instrument and whether a contract is to be reviewed by the Contracts Review Committee are made as a part of the procurement process. The management added that the risk of non-performance is considered minimal in the case of long-term agreements where non-performance from supplier can also result in the termination of a long-term contract with UNICEF.

79. The Board observed that the Supply Manual provides for inclusion of a requirement for performance security to mitigate the risk of non-performance by a supplier. It adds that performance securities are "used in complex procurements where the cost of putting contracts together are high and the impact of non-performance by the supplier could inflict serious damage to UNICEF". The majority of the procurements are through long-term agreements for procuring products or services over an extended period of time. These are complex procurements that take time to finalize and they govern procurement over an extended period of time. Any non-performance by vendor of his obligations under such long-term agreements would thus adversely impact UNICEF in terms of both disruption of supplies and possible costs. Given the emergency nature of the activities of UNICEF in providing timely relief to people and children in distressed circumstances or in conflict zones, the impact of non-performance by a supplier could have a debilitating effect on the ability of the organization to provide the required services and relief.

Delay in delivery of goods and non-levy of liquidated damages

80. The UNICEF Supply Manual provides for levy of liquidated damages for non-performance or delay in performance by the vendor. The standard long-term agreement clause on rights of UNICEF provides that in cases of delayed supplies or supplies that do not meet UNICEF specifications and are rejected by UNICEF, liquidated damages are to be claimed from the contractor at the rate of 0.5 per cent of the value of the goods per additional day of delay up to a maximum of 10 per cent of the value of the purchase order.

81. The Board noted cases of delay in processing as well as delivery of goods as set out below:

(a) In the East Asia and Pacific Regional Office, out of 85 purchase orders issued during the period from 1 January to 31 October 2014, there was delay in delivery of the goods in respect of 38 purchase orders (45 per cent). The delay ranged from 1 to 14 days in respect of 19 purchase orders, 15 to 30 days in respect of

8 purchase orders, 30 to 60 days in respect of 10 purchase orders and more, and more than 60 days in respect of 1 purchase order;

(b) In the Philippines country office, there was delay in 27 out of 839 purchase orders placed during 2014. The delay ranged from 10 to 93 days (calculated until 10 November 2014) and the total purchase order value for these 27 purchase orders was $262,138;

(c) In the Middle East and North Africa Regional Office, supply was yet to be received in 57 out of 288 items valued at $5.73 million, although the supply orders were raised by the programme sections concerned 200 to 369 days back. Further, in the case of 31 items valued at $2.39 million, it took 200 to 341 days for the items to reach either the warehouses or the implementing partners;

(d) In the Jordan country office, delivery was yet to be done for 179 items from 60 purchase orders to either the warehouse or the implementing partner. In case of 46 items worth $1.36 million, there was a delay of 200 days to 387 days in the delivery of the items;

(e) There was no liquidated damage clause in any of the 49 long-term agreements for the procurement of vaccines of $1.03 billion under the Global Alliance for Vaccines and Immunization. In order to assess the timeliness of deliveries, we requested purchase order delivery data for 2014. In 12,718 delivery lines, we observed that there were delayed supplies in 6,038 cases (47 per cent). The delay ranged up to 378 days. However, the Supply Division imposed liquidated damage in only 22 cases, which was a mere 0.36 per cent of total cases of delayed supplies. In the remaining 6,016 cases, no liquidated damages were deducted on account of delayed supply. The Board was unable to quantify the exact amount of liquidated damage leviable in the absence of case details.

82. The East Asia and Pacific Regional Office stated that the delay in two cases was attributable to non-performance of the supplier and suitable action would be taken according to the terms and conditions of the purchase order. UNICEF added that a majority of the delays in the East Asia and Pacific Regional Office were due to port congestion and weather conditions that caused vessels to be diverted to other ports.

83. Regarding liquidated damages, UNICEF stated that the liquidated damage clause is part of standard contractual provisions for long-term agreements. However, its inclusion may be waived in exceptional cases. Procurement centres consider the applicability of liquidated damage on a case-to-case basis, taking into account the specific circumstances, such as the long-term relationship with suppliers and the overall procurement strategy in view of a competitive and healthy market.

84. The Board is concerned that such delay in the delivery of goods may have a negative impact on programme implementation of UNICEF. While delay in some cases was owing to processing within the country or regional offices after receipt of the requirement from the programme sections concerned, delay in others was owing to delay on the part of the vendor. In the case of the latter, there was inconsistency in both availability of provision of liquidated damages in the purchase orders/agreements or in its imposition. The Board considers that liquidated damage is a necessary safeguard to both deter deficient performance by vendors and provide a remedy to the management to mitigate damages arising from non-performance of the suppliers. Given the extent of delays across the regional and country offices reviewed by the

Board, including delays in over 47 per cent of the delivery lines under the Global Alliance for Vaccines and Immunization, the need for consistent inclusion and application of the liquidated damage clause is self-evident.

85. **The Board recommends that UNICEF (a) streamline its processes of placing of purchase orders after the requirements are projected by the programme sections; (b) monitor execution of purchase orders to ensure timely delivery of supplies; (c) identify cases where the delay in receipt of goods was due to the vendors and take appropriate action under the contract agreement, including invoking liquidated damages, in a consistent manner; and (d) consider including a provision for performance security and for levy of liquidated damages in all long-term agreements to safeguard the interest of the organization.**

Failure to invoke contractual remedies leading to non-recovery of losses

86. In 2011, the Somalia country office requested the Supply Division for supply of Corn Soya Blend Plus (CSB+), a food supplement, for drought-hit areas of Somalia. The total quantity of CSB+ procured for Somalia during 2011 was 38,526 metric tons (MT) for $26.64 million from four suppliers. Owing to internal disturbances in Somalia, some shipments were diverted between August and November 2011 to Mombasa, Kenya and Dubai, United Arab Emirates for storage. In February 2012, it was found that 9,603 MT of CSB+ valuing $7.96 million supplied in various consignments by two suppliers was unfit for human consumption owing to infestation and high levels of a toxin (aflatoxin).

87. Between May and July 2012, the Supply Division lodged insurance claims worth $10.71 million[1] with its insurance company. On 26 November 2012, the insurance broker rejected the claims on the basis of survey reports of four surveyors[2] that indicated that the infestation had occurred prior to final packaging at the manufacturer's facility and that the larvae/insects penetrated the bags during storage or transit owing to poor bagging since the inner liners of the bag were not heat-sealed, thereby facilitating infestation. On 21 November 2012, the insurance broker stated that the damages claimed could reasonably be attributed to the suppliers' manufacturing process and poor hygiene management and any damage resulting therefrom would not be recoverable from the insurers as they occurred prior to the insurance attaching. However, the Supply Division did not pursue the matter of recovery of loss of $10.71 million with the suppliers, but instead, in August 2013, again lodged a claim through its new insurance broker.[3]

88. The long-term agreement also provides that delivery shall occur only upon the arrival of the goods in accordance with instructions on a purchase order and verification by UNICEF personnel and/or its designated/authorized representatives that the goods are in satisfactory condition. Inspection and verification of the goods shall be made as soon as reasonably practicable after receipt, and UNICEF shall be entitled to reject and refuse acceptance of the goods not conforming to the long-term agreement.

[1] Including warehouse, survey, inspection and disposal expenses.

[2] M/s Baltic Control Services, M/s Joeda Consulting Company and M/s SGS (appointed by UNICEF), M/s Inchape Shipping Services (appointed by the insurance broker).

[3] The new insurance broker was appointed with effect from 1 July 2013.

89. The Board observed that:

(a) The long-term agreements provided (clause 20 of Rights of UNICEF) that in case of failure by the contractor to perform under its terms and conditions, UNICEF may, after giving the contractor reasonable notice to perform and without prejudice to any other rights or remedies, either procure the goods from other sources, in which event UNICEF may hold the contractor responsible for any excess cost occasioned thereby, refuse to accept delivery of all or part of goods, terminate the long-term agreement without any liability of termination charges or any other liability or claim liquidated damages up to a maximum of 10 per cent of the contract value for late delivery or for goods that do not meet UNICEF specifications. However, none of these remedies were explored or sought to be invoked by UNICEF, despite the surveyor's report attributing the loss to the supplier;

(b) The procedure for pre-delivery inspection as envisaged in the long-term agreement was not sufficiently carried out. UNICEF had carried out pre-delivery inspections for only four of nine purchase orders. The pre-delivery inspection was waived for two purchase orders, whereas there were no records for pre-delivery inspections against the other three purchase orders. The four pre-delivery inspections conducted, however, did not detect the poor quality of supply and poor packaging.

90. Hence, lack of proper pre-delivery inspections, coupled with the failure to invoke the contractual provisions for supply of defective goods, led to UNICEF not being able to recover the loss of $10.71 million.

91. UNICEF stated that taking into account the facts that any resolution with the suppliers directly was likely to be protracted and expensive and would most likely develop into some form of contested arbitration proceedings, the outcome of which could not be guaranteed, and that there appeared to be no extraneous considerations (such as the need to protect a continuing business relationship) that would be an incentive for either supplier to reach an accommodation with the organization, UNICEF made a business judgement that efforts at recovery would focus on the insurance claim. Accordingly, in January 2015, the Supply Division submitted a settlement recommendation for a negotiated settlement of between $3.5 million and $4.5 million. Once the insurance claim was finalized, it would explore other courses of action. UNICEF had blocked further procurement from the suppliers and stopped payment of their last seven invoices. UNICEF added that they had strengthened their pre-delivery inspection process by revising Division Procedure 096 — "Requesting Inspection Services" and the pre-delivery inspection had been made mandatory for all Corn Soya Blend orders with effect from 19 September 2013.

92. The Board noted that UNICEF was unable to recover partly or wholly the loss of $10.71 million, despite a lapse of over two years, since its occurrence, though there were clear legal remedies available in the long-term agreement and credible assessments of surveyors that the damage was attributable to the suppliers. Clause 12.1.2.1 of the long-term agreement specifically provides that the contractor should ensure that the packing is of a sturdy export quality, of virgin base materials and of a commercial standard that will provide adequate protection of the goods for carriage by air, sea and/or road to final destinations worldwide, including remote locations under adverse climatic and storage conditions and high humidity. The Supply Division should thus have invoked the remedies available to it under the long-term agreement as the first course of action on the basis of surveyors' reports that the packing was not

done properly. Not doing so amounts to allowing the vendor to escape responsibility for losses that were prima facie attributable to him according to the reports of the surveyors. The loss was enabled by the inadequacy of the pre-delivery inspections carried out that failed to detect the damaged supplies. Even if part settlement is made by the insurer, it will not recover the entire amount of loss.

Delay in closure of contracts

93. According to paragraph 5.7.5 of section 9, chapter 6 of the UNICEF Supply Manual, the last step in the contract management phase is the contract closure. In VISION, this is executed through acceptance by the requisitioner of the services and subsequent payment of final invoices by finance section. The Board noted cases of delay in closure of contracts, as set out below:

(a) The East Asia and Pacific Regional Office signed 66 institutional contracts during the period from 1 January to 31 October 2014. Of those contracts, 10 contracts with unspent balances of $84,621 had expired during the period but were kept open in VISION. We also noted that 25 out of 53 individual contracts reviewed by us valued at $443,055, which had expired during the period from 28 February to 20 November 2014, remained open in VISION. Of the 25 contracts, 8 remained with open balances of $103,171 as at the time of the audit (December 2014);

(b) In the Philippines country office, six institutional contracts with unspent balances of $309,677 expired during the period from 20 December 2013 to 5 September 2014, but were still open in VISION. Of these, three contracts had expired more than 10 months previously, while the other three had expired in the period of two to four months;

(c) In the Cambodia country office, out of 36 institutional contracts during the period from 1 January to 31 October 2014, the validity of 17 contracts valued at $250,561 had expired during the period from 23 January to 31 October 2014 but were still open in VISION. Of the 17 contracts, 7 had open balances of $64,885, while 10 had no balances as at the time of the audit;

(d) In the Private Fundraising and Partnership Division in November 2014, 28 out of 122 contracts for services entered into until the end of the audit (November 2014) had expired but were not closed. Of the 28 open contracts, 22 had unspent balances amounting to $136,923;

(e) In the Ethiopia country office, in 13 cases the works were completed and the contract validity period expired in 2014, but the contracts have not been closed in VISION, despite the lapse of two to nine months as at the time of audit (January 2015). The total value of contract for these cases is $790,920, with an open/unspent balance of $66,180;

(f) In the Eastern and Southern Africa Regional Office, we found that in 19 cases the contract validity period had expired in 2014 but the contract had not been closed (February 2015) in VISION, despite the lapse of 1 to 12 months.

94. The total amount of unused balances in the above instances cited by the audit amounted to $765,457. The Board is concerned that delay in closure of contracts could affect the effective monitoring of contractors and prevent the unused balances from being used on other activities.

Single-source procurement

95. According to paragraph 6.4.4 of chapter 6, section 7, of the Supply Manual, except for cases where there is an extraordinary need to resort to a single source, sufficient service providers should be invited to ensure the receipt of a minimum of three valid quotes, bids or proposals. Single-source procurements deny the management an opportunity to ensure competitive prices and value for money.

96. The Board noted that 9 out of 66 institutional contracts signed by the East Asia and Pacific Regional Office during the period from 1 January to 31 October 2014 valued at $506,635 were awarded through the single-source selection process without adopting the procedures established under Rule 112.29, which envisage invitation to bids through open advertisements and requests for proposals. In the Eastern and Southern Africa Regional Office, there were four purchase orders valued at $533,030 and in the Ethiopia country office 20 purchase orders worth $1.18 million that were issued resorting to the single-source selection process. These purchase orders were mostly for works like consultancy services and maintenance of vehicles that, according to normal circumstances, do not fall into the category of extraordinary need.

97. UNICEF agreed to adhere to the provisions of the Supply Manual to ensure transparency, fairness and competitiveness in the selection process.

98. **The Board recommends that UNICEF (a) ensure that remedies available under the terms of contracts are enforced, where required, to ensure vendor responsibility and performance; and (b) review all the cases where the contracts are kept open after the expiry of the validity period and ensure timely closure of the contracts.**

10. Hiring of consultants

99. UNICEF utilizes temporary assistance in order to respond quickly, flexibly and effectively to organizational priorities. UNICEF Administrative Instruction (CF/AI/2013-001, Amendment 1 dated 1 March 2013) sets the provisions for individual contracts that are issued for consultants and individual contractors. There were 9,739 hired consultants (individual and institutional) as at 31 December 2014. Some of these contracts were signed in earlier years, but the validity of all these contracts had been extended up to the end of 2014 and beyond.

100. The Board's review of the hiring of consultants revealed the following deviations from the extant administrative instructions:

(a) Paragraph 5.7 of the Administrative Instruction provides that the decision to opt for single-source selection shall be properly documented in a note for the record, duly approved by the Head of Office/Division Director with the delegated authority as detailed in section 4. Out of the total 9,739 cases, the consultants were hired, based on the single-source selection method in about 11 per cent of the cases. A sample audit review of 43 single-source selection cases pertaining to headquarters' divisions disclosed that in 11 cases (26 per cent), the reason for single-source selection was not documented either in VISION or in physical documents relating to the selection process;

(b) Section 3.7 of the Administrative Instruction provides for re-engagement of former and retired staff members subject to clearance by the Director, Division of Human Resources. There were 669 consultants globally who fall under the category of retired or former employees of UNICEF. However, only 56 per cent of them were hired after obtaining the written clearance of the Division of Human Resources. On a sample check of 17 cases of engagement of former employees at headquarters, the Board noted that clearance by the Division of Human Resources was not obtained in 11 cases (65 per cent);

(c) According to section 4.3 of the Administrative Instruction, an individual contract must not be approved by the appropriate approving authority prior to review by, and receipt of, a recommendation from the appropriate Contracts Review Committee, if the contract amount is equal to or exceeds the thresholds stipulated in UNICEF Financial and Administrative Policy-5, Supplement 6. According to the footnote under this provision, the thresholds are $100,000, if the contracting authority is in New York, Copenhagen, Geneva, Brussels, Tokyo or a regional office and $50,000 if the contracting authority is in a UNICEF country office. We noted from VISION data provided by the management that there were 675 contract cases where the meeting of the Contracts Review Committee should have taken place. However, on a sample review of 125 cases at headquarters where Contracts Review Committee approval was required, we noted 17 cases (14 per cent) where the Committee meeting did not take place and the contracts were awarded without its recommendation. UNICEF stated that it had Committee approvals for nine of the cases cited by the Board, while in three cases no additional Committee approval was required. The Board's findings are based on a scrutiny of the case files which should have contained the Committee approvals where they existed, documents provided by UNICEF itself and the details available in VISION. The assertions of management of the existence of the Committee approvals, albeit not in the relevant case files, would be verified at the time of next audit;

(d) According to paragraph 6.3 of the Administrative Instruction, consultants and individual contractors may not commence work or travel until the relevant individual contract has been duly approved, signed by both parties and returned to the responsible office/division, together with the required documents and certifications. We observed that out of 9,739 contracts provided by UNICEF, 11 per cent were not signed before work was assigned. A majority of these cases fall under the competitive selection method category, and hence there was not even an emergency situation to assign the work before signing the contract. A sample check of 164 cases at headquarters disclosed that in more than 15 per cent of cases, the contract was not signed before the date of commencement of the assignment. UNICEF stated that the contracts were signed before work commenced in 18 out of 19 contracts. It added that there could be a technical problem with the VISION report, which will be addressed. Again, the assertions of management will be verified at the time of the next audit;

(e) According to paragraph 6.34 of the Administrative Instruction, a formal output evaluation shall be conducted at the time of completion of assignment or at the end of the 11-month contracting period, as applicable, on a designated form. Section 6.35 further provided that in cases of contract periods longer than six months, interim evaluations may be undertaken by the direct supervisor. Further, according to section 6.19, "Payment of fees is subject to satisfactory completion of services and UNICEF's certification to that effect, at the appropriate milestones". An analysis of the data provided by UNICEF revealed that out of the 9,739 contracts, the validity of 7,150 contracts had expired by December 2014. However, in more than 65 per cent of these contracts, the evaluation form was not completed. The total invoiced amount in respect of these cases was $102.82 million. UNICEF stated that the global statistics generated from VISION was not complete and, therefore, the statistics did not necessarily reflect the actual situation. UNICEF added that the responsibility for the management of contracts is delegated to heads of offices and that it would issue a global guidance/instruction to all offices on their accountability of properly managing the contracts and addressing all concerns raised by the Board along with ensuring that all relevant documentation and data fields are properly entered in VISION.

101. **While acknowledging the issue of a global guidance to address the concerns raised as stated by UNICEF, the Board recommends that (a) UNICEF ensure transparency in hiring of consultants and comply with the procedure laid down with regard to their selection and evaluation; and (b) ensure that single-source selection is kept to a minimum and, where unavoidable, proper approvals are obtained and documented.**

C. Disclosures by management

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

102. UNICEF reported to the Board that losses in assets of $15.02 million ($9.6 million in 2013) had been written off during 2014, including programme inventory of $9.34 million, contributions receivables of $2.64 million, Private Fundraising and Partnerships inventory of $1.87 million and other receivables of $1.17 million. The written-off losses in property and equipment included $22,222.

2. Ex gratia payments

103. UNICEF reported to the Board four ex gratia payments amounting to $211,748 in 2014. The ex gratia payments comprised $197,410 paid to qualifying national staff in duty stations subject to danger pay and $14,338 to others.

3. Cases of fraud and presumptive fraud

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

105. 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 their attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Internal Oversight. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

106. UNICEF reported 32 cases of fraud or presumptive fraud to the Board during the period under review. The financial implications of the allegations amounted to $1.80 million, and the cases had resulted in estimated financial losses amounting to $728,553, of which UNICEF had recovered $47,170.

D. Acknowledgement

107. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of UNICEF during the conduct of audit.

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland

30 June 2015

Annex

Status of implementation of previous recommendations as at 31 December 2014

					Status after verification			
No.	*Paragraph reference in report (A/68/5/Add.2) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	55 2012	Strengthen monitoring of the National Committees' reserve policies to challenge high levels of reserves and ensure sufficient funds are available for UNICEF to fulfil its mandates.	The Private Fundraising and Partnerships Division has been working with National Committees to establish reserve policies for all committees that currently maintain reserves. It has provided additional guidance to National Committees to support the finalization of drafts. It is also engaging with relevant National Committee Boards to advocate that reserve policies are included on the Board agenda for approval. This is evidenced by the reserve policies received over the past year. There are still 7 National Committees with outstanding policies, and the Private Fundraising and Partnerships Division is aware of the reasons thereof, which primarily relate to vacancies in key posts at the National Committees. It will continue to dialogue with these National Committees until the policies are obtained. (This recommendation was raised again in paragraph 28 of the 2013 audit report)	This recommendation was raised again in paragraph 28 of the Board of Auditors report of 2013				X
2	59 2012	Continue to strengthen the monitoring of National Committee conversions of regular resources to other resources to maximize the amount of unrestricted funds for UNICEF.	The new revenue and expenditure reports that were used in 2013 allow UNICEF to determine the amounts of funds raised as regular resources which have been converted to other resources by National Committees allowing for monitoring. In addition, National Committees continue to consult and obtain agreement from UNICEF before carrying out any conversion of a material value.	Verified and agreed with management's action.	X			

No.	Paragraph reference in report (A/68/5/Add.2) and financial period	Summary of recommendations	Action reported by the management	Status after verification: Board assessment	Implemented	Under implementation	Not implemented	Overtaken by events
3	86 2012	(a) Analyse the parameters for determining the appropriate level of operational posts at country offices; and (b) monitor and control country offices' use of programme budget to cover operational expenditures not associated with specific programmes or projects.	An action plan is under development to address this recommendation. The plan includes determining and monitoring the appropriate level of operational posts at country offices in successive budget preparation processes in conjunction with the formation of the Global Shared Service Centre. The Global Shared Service Centre is to be established in phases from 2015 onward. Conclusion on the appropriate level of operational posts in country offices can only be made after the Centre is fully operational.	Verified. This recommendation is under implementation.		X		
4	100 2012	Continue to improve its performance reporting mechanism to the Executive Board by linking the utilization of institutional budget resources with the fulfilment of the expected results.	Decision 2013/20 was adopted by the Executive Board in support of this recommendation. This decision requires us to provide actual financial information in the format of the integrated resource plan and to assess performance against the integrated budget in the annual report to the Executive Board. (See decision 2013/20 (para. 10) at www.unicef.org/about/execboard/files/2013-22-Compendium_of_decisions-SRS2013-E.pdf.) UNICEF has presented updated financial estimates, applying the integrated resource plan format at the 2014 second regular session of the Executive Board (E/ICEF/2014/AB/L.5). The updated financial estimates are available at www.unicef.org/about/execboard/files/2014-ABL5-Strategic_Plan-financial_estimates-ODS-EN.pdf.	Verified and agreed with management's action.	X			

No.	Paragraph reference in report (A/68/5/Add.2) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
5	111 2012	UNICEF headquarters and regional offices continue to work with all country offices to ensure the implementation of capacity assessments and assurance activities in accordance with the Framework for Cash Transfers to Implementing Partners.	This recommendation is being addressed as part of the global harmonized approach to cash transfer strategy workplan, which is on track to be completed by the end of 2015. Performance indicators have been established and are being monitored to ensure the implementation of capacity assessments and assurance activities.	This recommendation was raised again in paragraph 40 of A/69/5/Add.3.				X

No.	*Paragraph reference in report (A/68/5/Add.2) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Status after verification*			
					Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
6	137 2012	Ensure that its Supply Division: (a) prepare and implement the quality control test plan on pharmaceutical and nutrition products, and prepare the summary report in a timely manner; and (b) continue to monitor the test results through yearly reports and include the test results in its performance monitoring of suppliers to ensure that only the products of the appropriate standards are provided to its customers.	(a) A summary report on the testing activities in 2013 was issued on 13 May 2014 and will be issued in the first quarter of each following year in a timely manner. (b) A procedure, DP 012, Sampling and testing of pharmaceuticals and nutrition products, was issued on 19 December 2013. Test results are included in the performance monitoring of suppliers in accordance with DP 069. The information is included in the scorecard and can either be entered by: (i) rating of a shipment in connection with goods receipt in the warehouse; (ii) rating in connection with a pre-delivery inspection of a specific purchase order (direct delivery); (iii) test results not directly linked to either a specific goods receipt or a pre-delivery inspection will be recorded in the complaint system and will then be included in the scorecard this way.	Verified and agreed with management's action.	X			
7	142 2012	Strictly comply with the requirements of the UNICEF consultants and individual contractors' policy relating to the selection of consultants and individual contractors.	UNICEF modified and reissued the respective policy to make single sourcing more restrictive. Offices were also informed of the competitive selection requirements and the Guide to Contracting consultants and Individual Contractors has been developed. As a result, the number of single-source contracts has dropped significantly, and those that were issued have well-documented reasons in accordance with policy.	Verified and not agreed with management remarks, as there were a substantial number of single source selections during 2014.			X	

No.	*Paragraph reference in report A/69/5/Add.3) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Status after verification*			
					Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
8	16 2013	Reassess the useful lives of assets to reflect economic realities and fair presentation.	UNICEF performs a high-level review of the useful lives of its assets annually and agrees to continue to carry these out.	Verified and agreed with management's action.	X			
9	24 2013	Collect donor agreements from all National Committees and ensure that all retentions of "other resources" by National Committees are informed to and approved by donors; and ascertain reasons for high retention rates, and take measures to maximize the regular resources from National Committees.	UNICEF will continue to collect donor agreements for contributions greater than $100,000 and all those relating to 2014 contributions will be received by the end of the first quarter of 2015 (6 National Committees outstanding to date). Donor agreements are established independently by National Committees based on standards and practices applicably locally and the terms are not governed by UNICEF. UNICEF will make a recommendation to National Committees to incorporate retention rates in discussions with major donors. In addition, as part of the Joint Strategic Planning Annual Review Process, which will also be completed by the end of the first quarter of 2015 (2 still to be reviewed), UNICEF will continue analysing the costs of National Committees' operations to identify potential areas of efficiencies.	Verified. This recommendation is under implementation.		X		

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Status after verification: Board assessment	Implemented	Under implementation	Not implemented	Overtaken by events
10	28 2013	Request relevant National Committees to develop or revise their reserve policies in accordance with the reserves guidance and the cooperation agreement, and strengthen its monitoring of the reserves of National Committees to continue to bring down reserves to reasonable levels.	The Private Fundraising and Partnerships Division has been working with National Committees to establish reserve policies for all committees that currently maintain reserves. It has provided additional guidance to National Committees to support the finalization of drafts. It is also engaging with relevant National Committee Boards to advocate that reserve policies are included on Board agenda for approval. This is evidenced by the reserve policies received over the past year and shared with the audit team. There are still seven outstanding policies, and the Private Fundraising and Partnerships Division is aware of the reasons thereof, which primarily relate to vacancies in key posts at the National Committees. The Private Fundraising and Partnerships Division will continue to dialogue with these National Committees until the policies are obtained. With regard to reserve monitoring, it reviews reserve levels in the second quarter of a given year (for the previous financial year), as this is the agreed timeline for National Committee audited financial statements to be shared with it. As a result of this monitoring and direct engagement of the Division with National Committees with high unrestricted reserve levels, several National Committees have agreed to reduce reserve balances. The Private Fundraising and Partnerships Division has noted that reserve policies are also increasingly adhering to UNICEF recommended benchmark levels. It has systems in place to monitor and engage with the committees and their Boards if levels go beyond what is approved in their policies.	Verified. This recommendation is under implementation.		X		

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
11	34 2013	Enhance the process of implementing partner selection, by establishing specified and workable criteria in the implementing partner mapping process.	Further guidance and tools for partnership mapping have been issued and form part of the revised procedure on working with civil society organizations. This guidance was finalized and issued in March 2015.	Verified and agreed with management's action.	X			
12	37 2013	Establish a global monitoring system to track the extent to which country offices plan and manage capacity assessment and assurance activities related to cash transfers.	UNICEF is currently designing an electronic system to provide offices with support to plan and monitor capacity assessments and assurance activities related to cash transfers. The system will also provide functionality for regional and global monitoring through dashboards. The functionalities for offices to report and for regional offices and headquarters to monitor performance of harmonized approach to cash transfer implementation have already been put in place using inSight. Key performance indicator data of country-level harmonized approach to cash transfer implementation is provided in dashboards. Phase 2 of the monitoring system, which will provide country office focused functionalities for harmonized approach to cash transfer planning, implementation and follow-up will be implemented by the end of the fourth quarter of 2015.	Verified. This recommendation is under implementation.		X		

					Status after verification			
No.	*Paragraph reference in report A/69/5/Add.3) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
13	40 2013	Provide technical support and strengthen monitoring to ensure that all country offices implement capacity assessments and assurance activities in accordance with the New Framework for Cash Transfers to Implementing Partners.	UNICEF has allocated funds for the 2014-17 period to strengthen the management of cash transfers. Specific planned activities to provide technical support and strengthen monitoring include: issuance of a UNICEF policy and detailed procedure for managing cash transfers; specialist staffing in headquarters and regional offices to provide technical support; online and classroom training tools for UNICEF staff; embedding review of the management of cash transfers in all regular planning and performance review processes; and implementing an electronic platform to support offices' plans and monitoring of capacity assessment and assurance activities. To date, the global harmonized approach to cash transfer strategy workplan implementation is on track to be complete by the end of 2015. It aims at strengthening sound management of cash transfers in accordance with harmonized approach to cash transfer at all levels of the organization, with the following expected results: (i) Effective capacity exists at the global, regional and country office levels to manage harmonized approach to cash transfer processes and results, supporting improved financial management and accountability at office and national levels; (ii) Efficient systems are in place in UNICEF to plan, monitor and report on harmonized approach to cash transfer processes and results, facilitating management action at country, regional and headquarters levels; (iii) Effective leadership is ensured at all levels within UNICEF in line with the new accountability framework for harmonized approach to cash transfer management.	Verified. This recommendation is under implementation.		X		

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Status after verification				
				Board assessment	Implemented	Under implementation	Not implemented	Overtaken by events
14	45 2013	Consider revising the control point of the relevant module of the VISION system to ensure that its country offices obtain prior authorizations for release of additional direct cash transfers to implementing partners with unreported cash utilization for more than six months.	UNICEF notes that a VISION system control is in place to prevent the approval of cash transfers to implementing partners with unreported cash utilization of more than six months where approval has not been obtained from the Regional Director or Comptroller, as applicable. Further, reports are available from the VISION system on approved cash transfers pending payment and which facilitate review by country and regional offices and by the Division of Financial and Administrative Management of any delays and issues relating to approval and payment of cash transfers. To further mitigate this risk that results from timing differences, the Division of Financial and Administrative Management is now monitoring and following up with country offices as part of the monthly closure the open-noted items not yet paid. Any noted items over seven days are highlighted in red for the country offices to cancel.	Verified and agreed with management's action.	X			
15	48 2013	Enhance capacities of implementing partners in programmatic areas, and coordinate with other agencies with financial expertise in strengthening the capacities of implementing partners in the area of financial management.	Development of UNICEF's approach to financial management capacity development with accompanying guidance and tools is a planned activity and output of the global harmonized approach to cash transfer strategy workplan. The Strategy workplan implementation and guidance and tools are on track to complete by the end of 2015.	Verified. This recommendation is under implementation.		X		

					Status after verification			
No.	*Paragraph reference in report A/69/5/Add.3) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
16	51 2013	Establish an organization-wide approach to assessing the results and performance of its partnerships.	UNICEF developed a simplified assessment tool to assist offices with reviewing partnership performance as part of the updated procedures on partnering with civil society organizations. These procedures were issued in March 2015.	Verified and agreed with management's action.	X			
17	57 2013	(a) Establish the means to collect cost category information relating to cash transfers to implementing partners; and (b) analyse the programme support and indirect costs of implementing partners to find opportunities for minimizing such costs and enhance the efficiency of cash transfers.	Guidance on programme cooperation agreement budget structure and formulation was strengthened to enhance efficiencies of cash transfers to implementing partners in the revised procedures on working with civil society organization implementing partners which were issued in the first quarter of 2015. UNICEF is currently assessing approaches to collecting cost category information related to cash transfers to implementing partners.	Verified. This recommendation is under implementation.		X		

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
18	63 2013	(a) Consider presenting and reporting the budget for private sector fundraising activities of its country offices in an integrated manner; and (b) continue analysing the costs of private sector fundraising activities of its country offices to enhance efficiency and effectiveness.	(a) UNICEF agrees with the recommendation to consider to prepare, present and report the budget for private sector fundraising activities of its country offices as part of the Private Fundraising and Partnerships Division budget, taking into account that the accountability and decision-making relating to these expenses reside at the country level. Following the Private Fundraising and Partnerships Division Global Programme Budget Review in September 2014, the management endorsed the proposal that the Private Fundraising and Partnerships Division should lead a working group comprising the Division, regional offices and headquarters divisions (finance, policy, field results). The workgroup convened in the first quarter of 2015 and is currently considering three options against agreed criteria. A final recommendation will be made by the workgroup by the end of the second quarter of 2015. The recommendation made by the group would then be implemented in 2016; (b) UNICEF will continue to monitor and analyse these costs through the annual Private Fundraising and Partnerships Division budgeting and reporting cycle to promote efficiencies and effectiveness. Tools and a process for more structured analysis and reporting of costs that include quarterly reviews has been put in place.	Verified. This recommendation is under implementation.		X		
19	69 2013	Require country offices to apply fully justified budget assumptions in preparation for the resource estimation for activities in the multi-year/rolling workplans.	Guidance on the preparation of multi-year/rolling workplans exists for country offices is being strengthened to include the development of budget assumptions being prepared. UNICEF will also continue strengthening the capacity of its country office's implementation of results-based management through training and guidance.	Verified. This recommendation is under implementation.		X		

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification			
					Implemented	Under implementation	Not implemented	Overtaken by events
20	73 2013	Establish baselines and targets for all indicators in the strategic plan in a timely manner, in accordance with results-based management good practice.	The establishment of baselines and targets is a priority to support the recording of progress against the implementation of the strategic plan. The strategic plan that was presented to the Executive Board at the annual session establishes baselines and targets for most indicators at the outcome and output levels.	Verified and agreed with management's action.	X			
21	76 2013	Enhance its programme planning mechanism for its next strategic plan to more directly link the results proposed in country programme documents to the proposed results in the strategic plan, in a manner that will enhance accountability.	UNICEF implemented this recommendation through the actions detailed below: (i) as an organizational priority and part of the continuing roll-out of the strategic plan, the alignment of country programme results with the strategic plan has been strengthened by a theory of change for the strategic plan which was presented to the Executive Board in June 2014; (ii) the revised programme information database coding guidance issued in December 2014 more strongly aligns country programmes results and activities with the strategic plan results framework; (iii) as part of the implementation and roll out of the strategic plan, the systems and mechanisms (such as the results assessment module) for country office reporting have been modified in line with the reporting requirements for the strategic plan, creating a direct link between reporting on results at the country and headquarters levels; (iv) parts of the country office annual report were also incorporated in the results assessment module in November 2014, providing opportunities to link country office results with the strategic plan results framework. In addition to the actions above, strengthening of alignment of country programme results and the strategic plan results will continue through monitoring and capacity development, and be considered for review in the planned midterm review of the strategic plan in 2016.	Verified and agreed with management's action.	X			

No.	Paragraph reference in report A/69/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Status after verification: Board assessment	Implemented	Under implementation	Not implemented	Overtaken by events
22	81 2013	Update the statement of progress and indicator status towards the achievement of programme results in the results assessment module in a timely manner.	Guidance will be revised and strengthened as part of the release of the second version of the results assessment module. Monitoring and oversight on the use of the results assessments module in a timely manner will also be strengthened.	Verified. This recommendation is under implementation.		X		
23	83 2013	Supply Division to work with country offices and Government counterparts to expand the brands of products accepted by the different countries to avoid the need to purchase items from blocked suppliers.	UNICEF is working with country office and Government counterparts to expand the brands of products accepted. For example, the Supply Division recently engaged the Ministries of Health of Zambia, Burundi, El Salvador and Ethiopia specifically on not entertaining brand specific procurement. The practice is now that when UNICEF's Supply Division receives Ministry of Health requests through country offices or partners such as the United Nations Development Programme, Supply Division screens and offers generics as alternatives and requests them to seek agreement with the Ministry of Health/Government. UNICEF is now also ensuring that the "brand name or equal" is included during the procurement process to allow different products with equal specifications to be purchased as normal practice. UNICEF is also encouraging its suppliers to register products to programme countries so that countries can have a range of quality products that are available for procurement through UNICEF. As product registration has a cost and most of the quantities procured are small, this might not be possible for all products but the Supply Division will continue to encourage registration when a country has requested large quantities of a particular product.	Verified and agreed with management's action.	X			

					Status after verification			
No.	*Paragraph reference in report A/69/5/Add.3) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
24	87 2013	Analyse the cause of delays in the closing of commitments for identified consultant and institutional contracts, and in future periods require offices to closely monitor the status and implementation of the contracts, and close all commitments that require no further activity or transactions in a timely manner.	Recently a report was developed that can be used by offices for monitoring the status of service contracts, including determining whether any commitments/funds remain open for expired contracts. Offices will be advised of this report. The Supply Manual will also be updated to include a recommendation for offices to run the monitoring report on a regular basis in order to enable timely closure of contracts.	Verified. This recommendation is under implementation.		X		
	Total	**24**			**10**	**11**	**1**	**2**
	Percentage	**100**			**42**	**46**	**4**	**8**

Chapter III
Certification of the financial statements

Letter dated 31 March 2015 from the Comptroller of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 113.5, I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in these financial statements.

I acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements;

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and include certain amounts that are based on management's best estimates and judgements;

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties;

United Nations Children's Fund (UNICEF) internal auditors continually review the accounting and control systems. The management provided the United Nations Board of Auditors and UNICEF internal auditors with full and free access to all accounting and financial records;

The recommendations of the United Nations Board of Auditors and UNICEF internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

(*Signed*) Thomas **Asare**
Comptroller
United Nations Children's Fund

Chapter IV
Financial overview

Introduction

1. Established by the General Assembly of the United Nations in 1946, the United Nations Children's Fund (UNICEF) has a presence in over 190 countries, territories and areas. UNICEF helps Governments and other partners overcome the obstacles that poverty, violence, disease and discrimination place in the path to realizing children's rights.

2. The activities of UNICEF are financed by voluntary contributions from Governments, private organizations and individuals. Some of these contributions are earmarked to specific programmes and projects, while others are given to UNICEF to allocate according to a Board-approved formula that favours countries where children are in greatest need.

3. An Executive Board comprising representatives from 36 States Members of the United Nations reviews UNICEF activities and approves its policies, programmes and budgets. UNICEF is led and managed by an Executive Director, who is accountable to the Executive Board for all aspects of the Fund's operations.

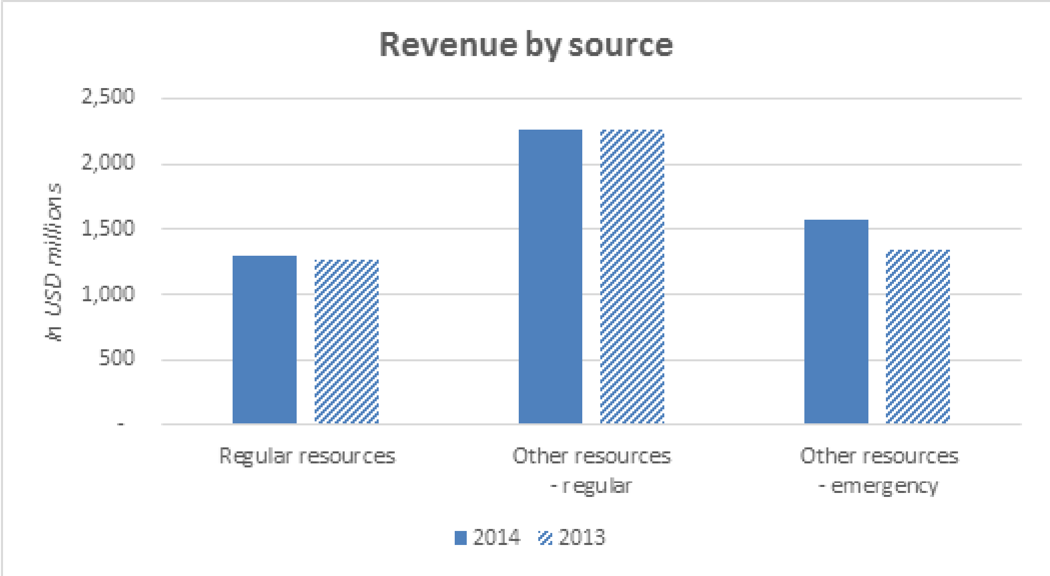
4. The financial management and activities of UNICEF are governed by a set of regulations and rules approved by the Executive Board. In order to carry out its operations in an orderly, ethical, efficient and effective way, in 2012 UNICEF adopted the internal control standards for the public sector developed by the International Organization of Supreme Audit Institutions.

5. The present financial statements have been prepared for the calendar year 2014 in accordance with UNICEF Financial Regulations and Rules and International Public Sector Accounting Standards (IPSAS).

Financial performance

Revenue

6. Total revenue in 2014 was $5.17 billion (2013: $4.85 billion), reflecting an increase of $316 million compared with the 2013 revenue. The main source of revenue continues to be voluntary contributions from Governments, private organizations and individuals, which accounted for 98 per cent (2013: 97 per cent) of total revenue. The remaining 2 per cent (2013: 3 per cent) of the revenue was generated by the sale of greeting cards and products for an amount of $43 million (2013: $70 million), interest amount of $30 million (2013: $29 million), procurement services for partners in amount of $46 million (2013: $46 million) and miscellaneous activities in the amount of $18 million (2013: $13 million).



7. Contributions to regular resources (unearmarked or "core" funds) were \$1.18 billion (2013: \$1.11 billion), which was an increase of \$83 million (7 per cent) in 2014 compared to 2013. Other resources (earmarked funds) total revenue including other revenue was \$3.85 billion (2013: \$3.59 billion) in total, which was a growth of \$261 million (7 per cent) compared to 2013. Other resources are categorized into other resources — regular and other resources — emergency. Other resources — regular voluntary contributions revenue during the year was \$2.26 billion (2013: \$2.25 billion) and other resources — emergency voluntary contributions revenue was \$1.58 billion, which was an increase of \$8 million and \$247 million, respectively.

8. In 2014, core resources, which include contributions to regular resources and other revenue of \$1.31 billion (2013: \$1.26 billion), accounted for 25 per cent (2013: 26 per cent) of total revenue. Private sector donations and other revenue constituted 49.5 per cent (2013: 54 per cent) of revenue for regular resources at \$646 million (2013: \$678 million), while contributions from Governments constituted 50.5 per cent (2013: 46 per cent) of revenue for regular resources at \$660 million (2013: \$587 million).

9. Contributions from the National Committees for UNICEF, which are non-governmental organizations that promote child rights in 35 industrialized countries and raise funds for UNICEF programmes worldwide, remained almost the same level, at \$1.40 billion (2013: \$1.44 billion), combined for both core and other resources.

Expenses

10. Total expenses increased by \$469 million, to a total of \$4.56 billion (2013: \$4.08 billion) in 2014. The major categories of expenses included cash assistance \$1.51 billion (2013: \$1.33 billion), transfer of programme supplies \$851 million (2013: \$695 million), employee benefit expenses \$1.13 billion (2013: \$1.08 billion).

11. Remaining expenses were concentrated in three categories: programme-related professional and expert services were at a total of $306 million (2013: $271 million); travel-related expenses for both programme activities and administrative activities were at a total of $145 million (2014: $135 million); and distribution costs for programme supplies were at a total of $115 million (2013: $121 million).

12. The total expenses related to the institutional budget were $777 million (2013: $794 million); expenses related to core (regular) resources were $860 million (2013: $808 million); expenses related to other resources — regular were $2.07 billion (2013: $1.77 billion); and expenses related to other resources — emergency were $1.20 billion (2013: $1.00 billion). Further breakdown of expenses by type is included within the segment report in note 35.

13. Overall, across all resource types, UNICEF outflows were concentrated in three major categories of its programme input: cash assistance, programme supplies (such as vaccines, medical supplies and educational materials) and technical support. Ten country programmes accounted for approximately one third of total expenses in 2014, at $1.45 billion (2013: $1.30 billion).

14. Approximately 33 per cent, or $1.51 billion (2013: 33 per cent, or $1.33 billion) of UNICEF expenses in 2014 was in the form of cash assistance to implementing partners — Governments and non-governmental organizations. In addition, UNICEF provided essential supplies targeting vulnerable communities, including those affected by the ongoing crisis in the Guinea, Iraq, Liberia, Sierra Leone and the Syrian Arab Republic at a total value of $851 million (2013: $695 million).

15. In addition to cash assistance and essential supplies, UNICEF provides technical support and policy advice to its partners. In 2014, employee, expert and consultancy expenses for programme-related activities totalled $1.30 billion (2013: $1.50 billion).

16. During 2014 UNICEF incurred net losses of $39 million (2013: $5 million), mainly relating to foreign exchange losses arising from the depreciation of the United States dollar against other currencies.

Financial position

Assets

17. At the end of 2014, UNICEF total assets were valued at $8.76 billion (2013 (restated): $8.02 billion). Cash and investments of $4.43 billion (2013: $4.04 billion) constituted a significant portion of the assets. The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects of $2.68 billion (2013: $2.39 billion) or held on behalf of third parties $477 million (2013: $535 million).

18. Cash reserves for long-term employee liabilities such as after-service health insurance and other Board-approved funds totalled $550 million (2013: $514 million). The regular resources cash balance as at 31 December 2014 was $724 million (2013: $700 million). Of that amount, $191 million (2013: $202 million) were either committed or due for payment at the year-end, leaving a

balance of approximately $534 million (2013: $500 million), which is equivalent to approximately three months of regular resources expenditure.

19. Total cash above includes non-current investments of $1.21 billion (2013: $450 million), an increase of $761 million compared to 2013, reflecting adjustments to the UNICEF investment portfolio, as a result of favourable interest rates on long-term investments in the fourth quarter of 2014.

20. The total value of UNICEF inventory worldwide was valued at $458 million (2013: $384 million) at the end of 2014. Inventory is held in 189 locations in 74 countries and in the supply hub in Copenhagen. The majority of UNICEF inventory, which includes items such as therapeutic food, medical supplies, children’s clothing and school supplies, is held for short periods, as it is intended to be used for programme implementation.

21. As at the end of 2014, UNICEF recognized contributions receivable of $2.14 billion (2013: $2.28 billion). This represents contributions to be received in 2014 and subsequent years. Deferred revenue of $1.53 billion (2013: $1.66 billion) was recorded as a liability and recognized as other resources contributions intended for use in programme implementation in future years.

22. Property controlled by the organization at year-end had a net book value of $173 million (2013: $169 million) and equipment a further $39 million (2013: $30 million) for total fixed assets of $212 million (2013: $199 million). This valuation does not include equipment purchased by country offices prior to 2012, as UNICEF elected to use the transitional provision allowed under IPSAS when IPSAS was first adopted.

23. Cash advances to implementing partners that had not been liquidated at year-end were valued at $679 million (2013: $561 million). During 2014, a write-off of $0.4 million (2013: $3 million) was recorded in relation to old cash advances that had not been fully accounted for. In addition, provision of $3 million (2013: $nil) was recorded for doubtful advances.

Liabilities

24. Total current and non-current liabilities stood at $4.30 billion (2013 (restated): $3.92 billion) at year-end, resulting in net assets of $4.47 billion (2013: $4.10 billion) and reflecting further strengthening of the financial position of UNICEF.

25. Deferred revenue of $1.53 billion (2013: $1.66 billion), employee benefits of $1.30 billion (2013: $1.02 billion) and funds held on behalf of third parties in the amount of $908 million (2013: $592 million) represented the bulk of UNICEF liabilities.

26. An actuarial study carried out by an external firm in February 2015 estimated UNICEF after-service health insurance liability at $1.081 billion (2013: $816 million) and other end-of-service entitlements at $113 million (2013: $105 million) as at the end of the year. To date, UNICEF has accumulated $539 million (2013: $506 million) in its after-service health insurance and separation reserves and continues to set aside additional funds, primarily through payroll surcharges.

27. As noted above, the outstanding liabilities as at 31 December 2014 included $908 million (2013: $592 million), representing funds held on behalf of third parties, primarily Governments and organizations that requested UNICEF to procure supplies for activities that benefit children and complement UNICEF programmes. The increase was mainly owing to a change in accounting policy recognizing balances held in escrow accounts in relation to procurement service activities from net to gross presentation. Notes 11 and 17 contain explanations of the impact of the change.

Restatement of prior year balances

28. Prior period adjustments were recorded in 2014 for a total $262 million for assets and $262 million for other liabilities, with a net impact of nil on net assets/equity. These relate to arrangements for procurement services. Notes 11, 17 and 37 contain further explanations on the impact of the restatement.

Budgetary performance

29. Statement V compares UNICEF budgets, which are approved by the Executive Board, to the actual amounts incurred against them. Unlike the other financial statements, which are prepared under the IPSAS full accrual basis, the budget to actual statement is prepared and presented on a modified cash basis. Note 5 in the financial statements contains the definitions of the various budget classifications.

Changes from original to final budget

30. Since UNICEF is voluntarily funded, the budgets approved by the Executive Board for the various programmes are subject to availability of funding. The original budget comprises the amounts for both regular resources and other resources originally allocated for the current year and any residual amounts that are carried forward from prior years. The final budget represents the contributions received against the Board-approved ceiling and planned for the 2014 calendar year. In 2014, the total final budget of $5.49 billion is 27 per cent lower than the total original budget of $7.52 billion. The difference is mainly resulting from unfunded emergency appeals.

31. The Executive Board approved the use of the Emergency Programme Fund to pre-finance urgent humanitarian actions when contributions have not yet been made by donors but are expected to be raised through emergency appeals. The Fund operates as a standing biennial authority for UNICEF to allot up to $75 million. The final budget of the Fund represents resource requirements for humanitarian actions for which contributions have not yet been raised.

32. Effective 2014, the institutional budget is funded from regular resources plus cost recovery, as well as directly from other resources — regular, which can fund development effectiveness results and activities. The difference between the original budget and the final budget is mainly driven by difference in other resources — regular contributions received to support development effectiveness results/ activities in comparison to the Board-approved other resources — regular ceiling, as well as changes resulting from deferring implementation of investment projects and multi-year management initiatives to the following year.

Budget utilization

33. The total budget utilized in 2014 was $4.87 billion, 89 per cent of final budget.

34. The utilized budget funded from regular resources was $807 million for country programmes and $41 million for global and regional programme, with final budget utilization of 95 per cent and 89 per cent, respectively.

35. The utilized budget funded from other regular resources is $1.98 billion for country programmes and $133 million for global and regional programmes, with final budget utilization of 86 per cent and 80 per cent, respectively. The utilized budget funded from other emergency resources was $1.31 billion, with final budget utilization of 88 per cent. Variances between the final budget and actual for other resources — regular and emergency are attributable to the fact that these contributions are largely intended for use over multi-year periods and that budgets associated with the related grants are issued throughout the year, as and when contributions are received from donors. In addition, actual expenditures vary in comparison to the final budget as a result of changes in planned activities that are impacted by the programming environment in which UNICEF operates. These factors contribute to variances between the final budget and the actual budget. Starting in 2014, UNICEF modified its information systems to provide country offices with the functionality to plan and phase the use of OR funds across multiple years within the validity period of the contribution.

36. Emergency Programme Fund budget utilization (actual) equals final budget allotments advanced from the Fund to support humanitarian actions for which contributions have not yet been made by donors. The 2014 utilized budget of $54 million will be fully reimbursable in 2015, when contributions become available. Once reimbursed, the funds can be reissued up to the Board-approved ceiling of $75 million.

37. The utilized institutional budget was $441 million, with final budget utilization of 92 per cent. This was mainly driven by deferred implementation of investment projects and long-term management initiatives and variance in budgeted and actual staff costs; for example, lower salary costs of staff in certain locations outside the United States of America arising from exchange rate movement of the United States dollar to local currency.

38. Ninety-three per cent of the final budget available for private sector fundraising and partnership was utilized, reflecting savings from staff costs owing to the fact that the Private Fundraising and Partnerships Division implemented a new organizational structure in 2014 and many of the posts were filled only in the second half of the year. The rest of the savings were driven by lower than expected card and products operating expenses such as promotional materials and freight out.

Chapter V
Financial statements for the year ended 31 December 2014

United Nations Children's Fund
I. Statement of financial position for the year ended 31 December
(Thousands of United States dollars)

	Note	*2014*	*2013 (restated)*
Current assets			
Cash and cash equivalents	6	1 586 784	1 651 955
Contributions receivable	7	1 588 160	1 612 175
Other receivables	7	46 667	47 980
Advances of cash assistance	8	679 256	560 540
Inventories	9	458 831	383 844
Investments	10	1 630 490	1 941 681
Other assets	11	758 635	408 012
Total current assets		**6 748 823**	**6 606 187**
Non-current assets			
Contributions receivables	7	551 576	667 680
Other receivables	7	1 046	947
Investments	10	1 211 143	449 917
Property and equipment	12	212 448	198 791
Intangible assets	13	7 885	6 345
Other assets	11	34 657	92 012
Total non-current assets		**2 018 755**	**1 415 692**
Total assets		**8 767 578**	**8 021 879**
Current liabilities			
Accounts payable and accrued liabilities	14	277 863	256 220
Deferred revenue	15	983 817	998 347
Funds held on behalf of third parties	16	908 018	592 206
Finance lease and other liabilities	17	109 047	105 365
Employee benefit liabilities	18	102 579	96 335
Provisions	19	35 244	28 171
Total current liabilities		**2 416 568**	**2 076 644**
Non-current liabilities			
Deferred revenue	15	550 896	667 000
Employee benefit liabilities	18	1 195 715	922 569
Finance lease and other liabilities	17	135 964	251 511
Total non-current liabilities		**1 882 575**	**1 841 080**
Total liabilities		**4 299 143**	**3 917 724**
Accumulated surpluses	20	4 008 649	3 472 609
Reserves	20	459 786	631 546
Net assets		**4 468 435**	**4 104 155**

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

United Nations Children's Fund
II. Statement of financial performance for the year ended 31 December
(Thousands of United States dollars)

	Note	*2014*	*2013*
Revenue			
Voluntary contributions	21	5 032 420	4 694 809
Revenue from greeting cards and products	22	42 696	69 621
Interest revenue	23	29 755	29 244
Other revenue	24	64 417	59 494
Total revenue		**5 169 288**	**4 853 168**
Expenses			
Cash assistance	26	1 512 034	1 330 550
Transfer of programme supplies	26	851 497	695 104
Employee benefits expenses	27	1 129 549	1 082 795
Depreciation and amortization	12, 13	18 597	13 491
Other expenses	28	1 042 992	963 283
Finance costs	23	3 547	3 740
Total expenses		**4 558 216**	**4 088 963**
Losses net	25	(38 514)	(4 635)
Net surplus		**572 558**	**759 570**

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

United Nations Children's Fund
III. Statement of changes in net assets for the year ended 31 December
(Thousands of United States dollars)

	2014	*2013*
Net assets as at 1 January	**4 104 155**	**3 124 114**
Actuarial (losses)/gains recognized directly in net assets	(206 689)	221 561
Changes in fair value of available-for-sale financial assets	(1 589)	(1 090)
Surplus for the period	572 558	759 570
Net assets as at 31 December	**4 468 435**	**4 104 155**

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

United Nations Children's Fund
IV. Statement of cash flows for the year ended 31 December

(Thousands of United States dollars)

	2014	*2013 (restated)*
Cash flows from (used in) operating activities		
Net surplus	572 558	759 570
Adjustments to reconcile surplus to net cash flows		
Depreciation and amortization	18 597	13 491
Gain on sale or disposal of property and equipment	(869)	(2 243)
Unrealized loss on foreign exchange	74 954	9 130
Impairments, write-offs	14 825	12 423
Interest received	(29 755)	(29 244)
Other adjustments	(300 816)	306 012
Changes in assets		
Increase in inventories	(74 986)	(113 636)
Decrease/(increase) in contributions receivable	140 119	(1 305 500)
Decrease in other receivables	1 214	10 676
Increase in advances from cash assistance	(118 716)	(3 879)
Increase in other assets	(293 267)	(270 637)
Changes in liabilities		
Increase in accounts payable	21 643	12 508
(Decrease)/increase in deferred revenue	(130 633)	1 129 634
Increase in funds held on behalf of third parties	315 812	22 053
Increase/(decrease) in employee benefit liabilities	279 389	(222 465)
Increase in provisions	7 073	8 490
(Decrease)/increase in other liabilities	(108 567)	272 473
Net cash from (used in) operating activities	**388 575**	**608 856**
Cash flows from (used in) investing activities		
Purchases of investments	(9 101 977)	(2 892 856)
Maturities and sale of investments	8 651 940	3 001 466
Interest received	23 912	23 427
Purchases of property and equipment	(30 948)	(29 638)
Proceeds on sale of property and equipment	1 809	1 400
Purchases of intangible assets	(3 543)	(3 882)
Net cash from (used in) investing activities	**(458 807)**	**99 917**
Cash flows used in financing activities		
Payment of finance lease liabilities	(6 734)	(6 730)
Net cash used in financing activities	**(6 734)**	**(6 730)**

	2014	*2013 (restated)*
Effect of exchange rate changes on cash and cash equivalents	11 795	117
Net (decrease)/increase in cash and cash equivalents	**(65 171)**	**702 160**
Cash and cash equivalents		
Beginning of year	1 651 955	949 795
End of year	1 586 784	1 651 955

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

United Nations Children's Fund
V. Comparison of budget to actual amount for the year ended 31 December

(Thousands of United States dollars)

	Note	*Original budget*	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Country programme budgets					
Regular resources	5	818 447	847 116	806 547	40 569
Other resources: regular	5	2 338 847	2 307 285	1 978 300	328 985
Total		**3 157 294**	**3 154 401**	**2 784 847**	**369 554**
Other resources: emergency	5	**3 501 322**	**1 483 445**	**1 311 522**	**171 923**
Emergency (regular resources)		**75 000**	**54 689**	**54 689**	**–**
Global and regional programmes					
Regular resources		45 000	46 442	41 227	5 215
Other resources: regular		128 100	165 026	132 731	32 295
Total		**173 100**	**211 468**	**173 958**	**37 510**
Institutional budget					
Development effectiveness		132 925	121 418	113 265	8 153
Management		345 757	331 349	309 102	22 247
Special purpose		13 750	18 623	10 642	7 981
United Nations development coordination		9 071	9 512	8 490	1 022
Total		**501 503**	**480 902**	**441 499**	**39 403**
Private fundraising and partnership budget		**109 000**	**109 000**	**101 577**	**7 423**
Grand total	5	**7 517 219**	**5 493 905**	**4 868 092**	**625 813**

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

United Nations Children's Fund
Notes to the 2014 financial statements

Note 1
Reporting entity

1. The United Nations Children's Fund (UNICEF) was established by the General Assembly in its resolution 57 (I), which mandated UNICEF to advocate for the protection of children's rights, to help meet their basic needs and to expand their opportunities to reach their full potential. The organization mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build their capacity to form appropriate policies and deliver services for children and their families.

2. The financial statements include only the operations of UNICEF. UNICEF has no subsidiaries or interests in associates or jointly controlled entities.

3. UNICEF is headquartered in New York and maintains a presence in 190 countries, territories and areas, including at other headquarters offices in Belgium, Denmark, Italy, Japan and Switzerland, as well as regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

Note 2
Statement approval of the Executive Director

The financial statements were certified by the Comptroller on 31 March 2015, as required by the UNICEF Regulations and Rules, and transmitted for issue by the Executive Director on 29 May 2015.

Note 3
Basis of preparation

A. Basis of measurement

1. The financial statements have been prepared on a full-accrual method of accounting under International Public Sector Accounting Standards (IPSAS). The accounting policies have been applied consistently throughout the reporting period. UNICEF applies the historical cost principle, except for the following material items, in its statement of financial position:

(a) Assets acquired through non-exchange transactions that are initially measured at fair value except where UNICEF applied the transitional provisions of IPSAS 17: Property, plant and equipment, where equipment and other temporary structures used as office, warehouse or accommodation space located at offices outside of headquarter locations have not been capitalized;

(b) Financial instruments that are measured at fair value through surplus or deficit and available-for-sale financial assets measured at fair value through reserves.

2. These financial statements are expressed in thousands of United States dollars unless otherwise indicated.

B. Foreign currency translation

Functional and presentation currency

3. Items included in the financial statements are measured using the currency of the primary economic environment in which an entity operates ("the functional currency"). The functional and presentation currency of UNICEF is the United States dollar.

Transactions and balances

4. Foreign currency transactions are translated into United States dollars at the prevailing United Nations operational rate of exchange at the time of the transaction. The United Nations rates approximate market rates. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the reporting date. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising upon revaluation are recognized in the statement of financial performance and included under gains and losses.

C. Use of estimates and critical judgements

5. The preparation of financial statements in accordance with IPSAS requires UNICEF management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Since uncertainty is inherent in the use of estimates and assumptions, actual results may differ significantly from management estimates.

6. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Examples of estimates include: loss contingencies; valuation and impairment of investments; useful lives of tangible and intangible assets; inventory valuation; collectability of receivables; provisions and adjustments of advances of cash assistance; and contingencies. Examples of assumptions include: determining when investment impairments are other-than-temporary; and discount and inflation rates applied to employee benefit liabilities.

7. Advances of cash assistance outstanding at year-end are adjusted downwards to consider timing differences where implementing partners have submitted expense reports to UNICEF that have not yet been assessed or processed by UNICEF at year-end. These expense reports received from implementing partners are used to determine whether an advance is liquidated or not. The adjustment is determined based on the weighted average monthly liquidation trend over the previous three-year period. The most significant assumptions are that the three-year monthly weighted average is representative of current liquidation trends; expenses in the reports are valid expenses; and implementing partners begin to implement their respective projects after the first month of receiving a cash advance.

8. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and that could have a significant risk of resulting in a material adjustment is included in the following notes:

(a) Note 7, Contributions receivable and other receivables, and note 21, Revenue from voluntary contributions: non-exchange transactions are defined in IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). Where non-exchange transactions are deemed to include conditions, IPSAS 23 requires that a liability be recognized until such time that the condition is satisfied, at which time revenue may be recorded. The determination of the existence of conditions for non-exchange transactions requires significant professional judgement. Many UNICEF contribution agreements with donors include general stipulations; for those that include condition, deferred revenue is recognized;

(b) Note 18, Employee benefit liabilities: UNICEF participates in a defined-benefit pension plan and other benefit plans. IPSAS requires that management measure the defined-benefit obligations and annual costs under such plans, using assumptions that are long-term in nature and reflect the best judgement and estimates of UNICEF. UNICEF reviews key assumptions on an annual basis with its independent actuaries using relevant experience, in conjunction with market-related data. The key assumptions include expected long-term rate of return on plan assets, rate of compensation increase, the discount rate and the longevity of plan members. The management assumption with the greatest potential impact on the organization's defined-benefit obligation is the discount rate. The discount rate is determined by reference to the yield of a portfolio of high-quality fixed income instruments (rated AA or higher), which has the same duration as the plan's defined-benefit obligation;

(c) Note 33, Contingencies: legal proceedings covering a wide range of matters are or may be pending or threatened in various jurisdictions against UNICEF. Provisions are recorded for pending matters when it is determined that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Owing to the inherently uncertain nature of the matters, the ultimate outcome or actual cost of settlement may materially vary from estimates.

D. Future accounting changes

9. The International Public Sector Accounting Standards Board had issued a number of new standards as at 31 January 2015. The new standards are 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. The new standards replace IPSAS 6: Consolidated and separate financial statements; IPSAS 7: Investments in associates; and IPSAS 8: Interests in joint ventures. The standards are effective for annual financial statements covering periods beginning on or after 1 January 2017. UNICEF does not expect any of the above standards to significantly impact UNICEF financial statements and currently has no plans to adopt the standards before their effective date. Detailed assessment of any impact will be carried out in 2015.

Note 4
Significant accounting policies

Financial assets

1. UNICEF classifies financial assets into the following categories: financial assets at fair value through surplus or deficit; loans and receivables; and available-

for-sale financial assets. The designation depends on the purpose for which the financial assets are acquired and is determined at initial recognition. UNICEF does not classify any financial assets as held to maturity.

Major financial asset type	*Classification*
Cash and cash equivalents (with original maturities of 3 months or less)	Loans and receivables
Traded bonds	Available for sale
Structured deposits	Fair value through surplus or deficit
Forward exchange contracts in gain	Held for trading (fair value through surplus or deficit)
Term deposits (with original maturities greater than 3 months)	Loans and receivables
Contributions receivables	Loans and receivables
Other receivables	Loans and receivables
Promissory notes	Loans and receivables

2. UNICEF initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNICEF becomes a party to the contractual provisions of the instrument. All financial assets are initially measured at fair value.

Financial assets at fair value through surplus or deficit

3. A financial asset is classified held for trading at fair value through surplus or deficit if it is designated as such upon initial recognition or is classified as (including forward exchange contracts in gain). Financial assets at fair value through surplus or deficit are measured at fair value on each reporting date, and changes therein are recognized as surplus or deficit in each period.

4. UNICEF regularly enters into contracts for structured deposits. A structured deposit is a hybrid financial instrument that has an embedded option along with a fixed-term deposit. The fixed-term deposit is deemed the host. These structured deposits include embedded derivatives. UNICEF designates such hybrid financial instruments at fair value through surplus or deficit in their entirety. As a result, UNICEF does not need to separate these embedded derivatives and account for them separately.

5. Furthermore, UNICEF holds foreign exchange forward contracts (freestanding derivatives) that are valued with reference to the prevailing United Nations operational rate of exchange. UNICEF uses derivatives only to manage foreign exchange risk. These derivatives are only contracted with creditworthy counterparties preapproved by the UNICEF Financial Advisory Committee, which renders advice to the Comptroller on matters of investments of funds not needed for immediate requirements of UNICEF.

6. UNICEF does not apply hedge accounting to its derivatives and its foreign exchange forward contracts are usually closed out at year-end. If they are not closed out, derivatives with a positive fair value are reported as derivative instruments within other current assets while derivatives with a negative fair value are reported as derivative instruments within other current liabilities in the statement of financial position. Gains and losses from changes in the fair value of derivatives are recognized in net gains and (losses) in the statement of financial performance. All financial assets at fair value through surplus or deficit are classified as current assets (see note 29, Financial instruments).

Loans and receivables

7. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

8. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. Such loans and receivables are classified as non-current assets.

9. Unused transfers of cash assistance due from implementing partners represent UNICEF claims to unused cash assistance funds remaining with implementing partners after the completion or termination of a project. These are recorded as Other Receivables and are recovered from Implementing Partners.

10. Prepayments are issued where agreements with UNICEF and the supplier or service provider requires up-front payment. Prepayments are recorded as a current asset until goods/services associated with the prepayments are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

11. UNICEF provides interest-free advances to staff for up to 12 months for specified purposes in accordance with the Staff Regulations and Staff Rules of the United Nations. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value.

Available-for-sale financial assets

12. Available-for-sale financial assets are non-derivative financial assets comprised of traded bonds. They are initially recorded at fair value plus transaction costs and subsequently are reported at fair value with any resultant fair value gains or losses recognized directly in net assets except for impairment losses, foreign currency exchange differences and interest calculated using the effective-interest method. When an available-for-sale financial asset is derecognized, the gain or deficit accumulated in net assets is reclassified to surplus or deficit.

13. Available-for-sale financial assets are included in non-current investments unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period (see note 10, Investments).

Impairment of financial assets — assets carried at amortized cost

14. At the end of each reporting period, UNICEF assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. UNICEF considers impairment of financial assets at a specific asset level.

15. A financial asset or a group of financial assets is impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. No collective impairment is made.

16. The amount of the loss is measured as the difference between the carrying amount of an asset and the estimated recoverable amount. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of financial performance and reflected in an allowance account in the statement of financial position.

17. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as receipt of funds), the reversal of the previously recognized impairment loss is recognized in the statement of financial performance.

18. UNICEF contributions receivable relate to contractual amounts agreed to be paid by Governments and intra-governmental organizations (such as the European Union) and other United Nations agencies. Therefore, impairments of contributions receivable are rare and are considered on a case-by-case basis.

Impairment of financial assets — assets classified as available for sale

19. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from accumulated surpluses (deficit) and recognized in the statement of financial performance.

20. Impairment losses on equity instruments recognized in the statement of financial performance are not reversed through the statement of financial performance. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in surplus (deficit), the impairment loss is reversed through the statement of financial performance.

Advances of cash assistance to implementing partners

21. Advances of cash assistance represent transfers of cash assistance where implementing partners have not yet met performance obligations as specified by UNICEF. UNICEF monitors the utilization of cash assistance by implementing partners and liquidates advances and recognizes expenses only when those funds have been used by implementing partners as specified by UNICEF.

22. Reporting by implementing partners on the utilization of cash assistance is due within up to six months. Where an implementing partner fails to report on the utilization of cash assistance or breaches the performance obligation, those amounts, as well as any unused funds, are reclassified from advances of cash assistance to other receivables (unused transfers of cash assistance due from implementing partners). The impairment of receivables is disclosed in note 7, Contributions receivable and other receivables.

23. Advances of cash assistance outstanding at year-end are adjusted downwards to consider timing differences where implementing partners have submitted expense reports to UNICEF that have not yet been assessed or processed by UNICEF at year-end. These expense reports received from implementing partners are used to determine whether an advance is liquidated or not.

Inventory

24. Inventory held for programme distribution, such as programme supplies, is stated at the lower of cost or current replacement cost. Inventory held for sale, such as greeting cards and products, are stated at the lower of cost or net realizable value. Cost is determined using a weighted average cost formula.

25. The cost of inventory includes costs incurred in acquiring the inventory and other costs incurred in bringing them to their existing location and condition (for example, freight costs). For inventory acquired through a non-exchange transaction (for example, contributions in kind), the fair value as at the date of acquisition is deemed to be its cost.

26. UNICEF regularly reviews inventory quantities on hand, inventory valuation and the estimated use of its inventory. If the review indicates estimated or actual losses arising from excess or obsolete inventory or a decline in the value of the inventory, the inventory is reduced to a new cost basis through a charge to impairment in the statement of financial performance. Reductions are determined by assessing replacement costs (see note 9, Inventories).

Property and equipment

27. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. This includes costs that are directly attributable to the acquisition of assets and the initial estimate of dismantling and site restoration costs. Where an asset is received as contribution in kind, the fair value as at the date of acquisition is deemed to be its cost.

28. Property and equipment includes right-to-use arrangements for property that meets the criteria for recognition. An equivalent liability is established if the arrangement has conditions attached to it. The liability is released to revenue at the same time as the value of the asset is consumed through depreciation or impairment.

29. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNICEF and the cost of the item can be measured reliably. Repairs and maintenance, which do not qualify for capitalization, are charged to surplus or deficit in the period during which they are incurred.

30. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method over the estimated useful lives. When parts of an item of property and equipment have different useful lives and are significant, they are accounted for as separate items (major components) of property and equipment.

31. Estimated useful lives are calculated as follows:

• Buildings	50 years
• Communications and information technology equipment	5 years
• Transportation equipment	5 years
• Furniture, fixtures and other equipment	10 years
• Leasehold and land improvements	Shorter of the lease term or remaining useful life of the asset

32. The gain or loss arising from the disposal or retirement of an item of property or equipment is the difference between the sale proceeds and the carrying amount of the asset, and is recognized in other income or expenses within surplus or deficit (see note 12, Property and equipment).

33. UNICEF capitalizes construction in progress where UNICEF is considered the owner during the construction period for accounting purposes.

Intangible assets

34. Separately acquired intangible assets (for example, software and rights) and internally developed software are stated at cost less accumulated amortization and accumulated impairment losses. UNICEF does not have any intangible assets with indefinite lives.

35. Amortization of intangible assets is recognized in surplus or deficit on a straight-line basis over the estimated useful lives of the related assets. Software is amortized over periods ranging from 3 to 10 years. Other rights and licences are amortized over the shorter of the licence or rights period and 2 to 6 years (see note 13, Intangible assets).

Impairment of non-cash generating assets

36. Property and equipment and intangible assets are reviewed for impairment at each reporting date. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of such assets should be assessed, including any significant decrease in market value. An impairment loss is recognized in other expenses within the statement of financial performance when the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount of an asset is the higher of an asset's fair value, less costs to sell and its value in use. In assessing value in use, UNICEF uses a variety of methodologies, depending on the availability of data and the nature of impairment, including a depreciated replacement cost approach, a restoration cost approach and a service units approach.

37. Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the impairment value has decreased or no longer exists. An impairment deficit from previous years is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed, net of depreciation or amortization, if no impairment deficit had been recognized (see note 12, Property and equipment).

Financial liabilities

38. Other financial liabilities are initially recognized at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method.

Major financial liability type	*Classification*
Accounts payable	Other financial liabilities
Finance leases and other liabilities	Other financial liabilities
Forward exchange contracts in loss	Held for trading (fair value through surplus or deficit)

39. Accounts payable and accruals arising from the purchase of goods and services are recognized when supplies are delivered or services consumed. Liabilities are stated at the invoice amounts less the payment discounts if eligible at the reporting date. Where invoices are not available at the reporting date, the liability is estimated and recorded. Financial liabilities measured at amortized cost, due within 12 months of the date of the statement of financial position, are classified as current liabilities. Otherwise, they are classified as non-current liabilities (see note 14, Accounts payable and accrued liabilities, note 16, Funds held on behalf of third parties and note 17, Finance lease and other liabilities.

40. Forward-exchange contracts in a loss position are classified as held-for-trading. Financial liabilities held-for-trading are initially recorded at fair value with any subsequent realized and unrealized gains or losses recognized in the statement of financial performance. Transaction costs are expensed as they are incurred. At year-end, the balance of forward-exchange contracts in loss is closed out.

Funds held on behalf of third parties

41. Funds held on behalf of third parties represent liabilities in respect of assets held in UNICEF under agency agreements.

42. Arrangements in which UNICEF is engaged on behalf of a third party, including procurement, administrative or custodial arrangements, are reviewed to determine whether they comprise agency arrangements. UNICEF is acting as an agent when UNICEF: (a) is not primarily responsible for providing any procured goods or services; (b) is not exposed to significant inventory risk; (c) has no significant discretion in establishing prices; and (d) has no significant exposure to a partner's credit risk. A liability is reported for any other assets held by UNICEF on behalf of third parties. The liability is reduced once cash is disbursed to a supplier or otherwise, in accordance with the terms of the arrangement.

43. A liability is not reported for goods held on behalf of a third party under supported deliveries arrangements where UNICEF provides logistical services (see note 16, Funds held on behalf of third parties).

Employee benefits

44. UNICEF recognizes the following categories of employee benefits:

- Short-term employee benefits;
- Post-employment benefits;
- Other long-term employee benefits;
- Termination benefits.

Short-term employee benefits

45. Short-term employee benefits are those that are due to be settled within 12 months after the end of the period during which employees have provided related services. These benefits include wages and salaries, compensated absences (such as paid leave and annual leave) and other benefits, including medical care and housing subsidies. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled as at the reporting date and represents the amount expected to be paid to settle the liability. Due to the short-term nature of such entitlements, the liability is not discounted for the time value of money.

Post-employment benefits

46. Post-employment benefits are those payable after completion of employment, excluding termination payments.

Defined contribution plan

47. UNICEF is a participating organization 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 Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Pension Fund, membership in the Pension Fund is open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

48. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension 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 plan. UNICEF, in line with the other participating organizations in the Pension Fund, is not in a position to identify its proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNICEF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25: Employee benefits. UNICEF contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Defined-benefit plans

49. Defined-benefit plans of UNICEF include after-service health insurance and certain end-of-service entitlements. UNICEF obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is discounted to determine its present value and stated at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The calculation is performed annually by a qualified independent actuary using the projected-unit credit method. The benefits expense for these plans principally represents the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

50. The discount rate is the yield at the reporting date on high-quality credit-rated corporate bonds that have maturity dates approximating the terms of the payment obligations.

51. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to actuarial gains and losses reserve in net assets during the period in which they arise (see note 20, Net assets). All other changes in the liability for such obligations are recognized in surplus or deficit in the period during which they arise.

Other long-term employee benefits

52. Other long-term employee benefit obligations are those that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits comprise home leave and compensation for death and injury attributable to the performance of duties. These obligations are valued periodically using a qualified actuary.

53. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to actuarial gains and losses reserve in net assets during the period in which they arise (see note 20, Net assets). All other changes in the liability for these obligations are recognized in surplus or deficit during the period in which they arise.

Termination benefits

54. Termination benefits are recognized as an expense only when UNICEF 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 to provide termination benefits as a result of an offer made in order to reduce redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid; otherwise they are reported at present value of the estimated future cash outflows.

Leases

55. UNICEF leases certain property and equipment. Leases of property and equipment where UNICEF substantially assumes all the risks and rewards of ownership are classified as finance leases. Initial recognition of a finance lease

results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments.

56. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their useful lives in accordance with the accounting policies for property and equipment.

57. Each finance lease payment is allocated between the finance lease liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense under other expenses in the statement of financial performance over the term of the lease in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in finance-lease and other obligations.

58. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of incentives received from the lessor, if any) are recognized on a straight-line basis under other expenses in the statement of financial performance over the period of the lease (see note 17, Finance lease and other liabilities).

Provisions

59. A provision is recognized if, as a result of a past event, UNICEF has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. Where the provision is expected to be settled beyond the next 12 months, the increase in the provision due to passage of time is recognized as interest expense. When an outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

60. A provision for the return of unused funds to donors is reported for unused balances related to grants that have expired at year-end where the donor agreement requires unused funds to be returned and where it is probable that funds will be returned as opposed to being reprogrammed. Where the donor has not disbursed all the cash to UNICEF, the receivable balance is written down to net realizable value. A provision for returns of unused funds is reported only if there are funds to be returned after the receivable has been fully written down. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis. The expense arising from reporting a provision (or reducing any receivable) for unused funds is presented in the statement of financial performance as a component of other expenses.

61. Other provisions include a provision for medical insurance for active employees among other provisions along with a return of unused funds provision (see note 8, Advances of cash assistance, and note 19, Provisions).

Revenue recognition

Voluntary contributions

62. Voluntary contributions are non-exchange transactions, which means that resources (such as cash, items of property and equipment, inventory or enforceable rights to such) are received by UNICEF with no or with nominal consideration provided directly in return to the donor. The resources are to be applied towards advancing the UNICEF mission.

63. Voluntary contributions are received from Governments, intergovernmental agencies, National Committees for UNICEF, other United Nations organizations, other non-governmental organizations and individuals.

64. Voluntary contributions may be subject to terms in a binding agreement imposed upon the use of the resource (termed earmarked funds or other resources) or may be free of specific terms allowing UNICEF to direct such resources according to its mandate (termed unearmarked funds or regular resources). Earmarked funds may be subject to conditions where terms not only restrict the use of resources, but also require the return of resources, if not used as specified.

65. With regard to unearmarked funds (regular resources) and earmarked funds (other resources) with no conditions attached, UNICEF recognizes an asset (cash or receivable) and revenue at the earlier of cash received or formal acknowledgement/agreement of the contribution to be provided unless the agreement specifies a later contribution start date. Funds received for future years are recorded as "contributions received in advance", while receivables related to future years are presented separately as "deferred revenue".

66. For earmarked contributions:

(a) Where the agreement has a legislative clause, the receivable and related revenue is not recorded until UNICEF is notified of the legislative approval;

(b) Where the agreement has a performance clause, the receivable and related revenue is not recorded until the obligation is met.

67. For earmarked contributions with a condition attached, UNICEF recognizes an asset (cash or receivable) and a liability (contributions received in advance or deferred revenue) at the earlier of cash received or formal written acknowledgement/agreement of the contribution to be provided (unless the contribution specifies a later start date). The liability is reduced and revenue is recognized only when conditions have been satisfied.

68. Contributions in kind received or receivable are initially measured at their fair value. Fair values of non-monetary assets are determined by reference to observable market values or by independent appraisal.

69. Revenue from voluntary contributions is shown net of:

(a) Returns of unused funds to donors, transfer of unused funds to regular resources, transfer of unused funds to other resources and write-downs of receivables that are no longer enforceable by UNICEF following the expiry or termination of contribution agreements;

(b) Realized gains and losses on foreign exchange as UNICEF does not assume the risk of foreign exchange on contribution revenue consistent with its Regulations and Rules (see note 21, Revenue from voluntary contributions).

Pledges

70. Pledges of donations to UNICEF are received in two annual pledging conferences. UNICEF does not recognize pledges as assets or revenue until they are enforceable at the earlier of written confirmation of the pledge or receipt of funds. Once enforceable, the asset and related revenue are recognized consistent with the revenue recognition policy for voluntary contributions above. Until such time, the pledges are disclosed as contingent assets in note 33, Contingencies.

Contributions in kind

71. UNICEF receives contributions of office space and other facilities from Member States. These contributions, as well as in-kind contributions of goods, are initially measured and recorded at their fair value at the date of receipt. The fair value of these non-monetary assets is determined by reference to observable market values or by independent appraisal. The revenue and the corresponding expense are recorded in the statement of financial performance as part of voluntary contributions.

72. UNICEF does not recognize contributions of services in kind as assets and revenue, with the exception of contributions of transportation of supplies. Many of these services cannot be measured reliably and many are not considered specialized professional skills or crafts that would otherwise be purchased by the organization.

Revenue from exchange transactions

73. Exchange transactions are transactions in which UNICEF sells goods or provides services. Revenue comprises the fair value of considerations received or receivable for the sale of goods and services. Revenue is shown net of returns and discounts.

74. 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 for each of the type of activities described below:

(a) Revenue from sales of greeting cards and products is recognized by UNICEF in the reporting year the sale has been made to a final customer. Where greeting cards and products are sold with volume discounts, revenue is stated net thereof;

(b) Revenue from the transfer of pre-positioned supplies at cost to fulfil a procurement services contract with a third party is recorded when goods are delivered to the freight forwarder;

(c) Revenue from commissions and fees for procurement, administrative, custodial and other services rendered to Governments, United Nations organizations and other partners is recognized when the right to receive payment is established;

(d) Interest revenue is recognized on a time-proportion basis, using the effective interest rate method with regard to the respective financial asset;

(e) Revenue from royalties is recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to UNICEF, and the amount of revenue can be measured reliably (see note 21, Revenue from voluntary contributions, to note 24, Other revenue).

Recognition of expenses

75. Expenses are recognized in the statement of financial performance in the period to which they relate.

Transfers of cash assistance and programme supplies

76. In fulfilling its mandate, UNICEF transfers cash and programme supplies to Governments, non-governmental organizations and other third parties ("implementing partners"). In the case of transferred supplies, an expense is recorded when the control of goods is transferred to an implementing partner. Transfers of cash assistance are initially reported as an advance on the statement of financial position where there are performance obligations imposed on the implementing partner, and are expensed when UNICEF is satisfied that those performance obligations are met. An accrual against advances is recorded at year-end for expenses incurred by implementing partners but not yet reported to UNICEF (see note 8, Advances of cash assistance, and note 26, Transfer of programme supplies and cash assistance).

Commitments

77. Commitments are future expenses and liabilities to be incurred on contracts outstanding at the reporting date for which UNICEF has little, if any, discretion to avoid in the ordinary course of operations, including:

(a) Capital commitments: represents the aggregate amount of capital expenditures contracted for but not recognized as paid or provided for at the period-end;

(b) Contracts for the supply of goods or services which UNICEF is expecting to be delivered in the ordinary course of operations;

(c) Cash transfers;

(d) Other non-cancellable commitments.

UNICEF does not have any non-cancellable lease agreements (see note 32, Commitments).

Contingencies

Contingent assets

78. A contingent asset is a possible asset that is not wholly within the control of the organization. Contingent assets are reviewed to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an asset is no longer contingent and the asset's value can be measured reliably, the asset is recognized during the period in which the change occurs (see note 33, Contingencies).

Contingent liabilities

79. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recorded during the period in which the change of probability occurs (see note 33, Contingencies).

Segment reporting

80. Operating segments are reported in a manner consistent with internal reporting on strategic decision-making on resource allocation and assessment of financial performance provided to the Executive Director of UNICEF. For UNICEF, the relevant segments are labelled institutional, regular resources, other resources — regular and other resources — emergency.

81. The operating segments represent fund types and enable the Executive Director to ensure that UNICEF accounts for financial resources in compliance with its Financial Regulations and Rules (see note 35, Segment information).

Budget

82. UNICEF budgets, which are approved by the Executive Board, permit expenditures to be incurred. UNICEF has classified its budgets as: (a) country programme budgets; (b) emergency appeal budgets; (c) global and regional programme budgets; (d) emergency programme fund; (e) institutional budget; and (f) Private Fundraising and Partnerships budget.

83. Programme budgets include activities such as programme formulation, implementation, monitoring and evaluation, and programme and technical policy advisory services, which are funded from country/regional/global programmes or other programming arrangements as direct costs. Examples include supplies and equipment, subcontracts, cash assistance, programme and technical advisers, monitoring and evaluation advisers, related direct support staff and operational costs.

84. The Private Fundraising and Partnerships budget consists of the annual level of estimated financial resources required for the best achievement of its objectives. The budget is provided from regular resources.

85. The institutional budget is also broken down by cost classification, which is comprised of the following categories as disclosed in statement V (statement of comparison of budget to actual amounts):

(a) **Development effectiveness**. This comprises the costs of activities of a policy advisory, technical and implementation nature that are needed for the achievement of the objectives of programmes and projects in the focus areas of the organization. These inputs are essential to the delivery of development results, and are not included in specific programme components or projects in country, regional or global programme documents;

(b) **Management**. This comprises activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources;

(c) **Special purpose**. This covers activities and associated costs of a cross-cutting nature that (i) are mandated by the General Assembly (that is, not within the direct management control of the organizations); (ii) involve material capital investments; or (iii) do not represent a cost related to the management activities of the organization;

(d) **United Nations development coordination**. This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.

86. The emergency appeals budgets, the Private Fundraising and Partnerships budget and Emergency Programme Fund budget were approved for the financial year 2014. The budgets for the global and regional programme and the institutional budget were approved for a four-year period comprising financial year 2014-2017. The country programme budgets are approved for varying multi-year cycles usually between three to five years. Whenever budgets are prepared for a multi-year period, UNICEF breaks them down into annual amounts in order to provide the budget-to-actual comparison.

87. While UNICEF financial statements are prepared under the IPSAS full-accrual basis, UNICEF budgets are prepared and managed on a modified cash basis. The most significant differences are as follows:

(a) Revenue: the budget does not include revenue. The difference pertaining to revenue is shown under "presentation differences" in the reconciliation between budget actuals and net cash flows;

(b) Expenses: budget actuals are recorded on a modified cash basis, in contrast with expenses in the financial statements that are prepared under the IPSAS full-accrual basis. The difference is presented under "Basis differences" under the category "Operating" in the reconciliation between budget actuals and net cash flows;

(c) Assets: advances of cash assistance, inventory and property and equipment appear as actuals in the budget. However, these items are in the statement of financial position of the financial statements and not under expenses. The difference that arises between actuals and expenses as a result of this is presented under "Basis differences" under the category "Operating" in the reconciliation between budget actuals and net cash flows;

(d) Funds held on behalf of others: budget does not include funds held on behalf of others, and this is presented under "entity differences" in the reconciliation between budget actuals and net cash flows;

(e) Investing and financing activities: purchases, maturities and sales of investments, interest received, purchases of property and equipment and intangibles, proceeds on sale of property and equipment, and payment of finance lease liabilities are not included in budget. These are presented under "Basis differences" under the categories "Investing" and "Financing" in the reconciliation between budget actuals and net cash flows.

Note 5
Comparison to budget

1. Actual on comparable basis from statement V presented in the table below are reconciled with the amounts presented in the statement of cash flows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Exchange rate changes*	*2014*	*2013*
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(4 868 092)	–	–	–	(4 868 092)	(4 223 984)
Basis differences	477 585	(458 807)	(6 734)	–	12 044	55 441
Exchange rate changes on cash and cash equivalents	–	–	–	11 795	11 795	117
Entity differences	(390 205)	–	–	–	(390 205)	22 053
Presentation differences	5 169 287	–	–	–	5 169 287	4 848 533
Net cash flows from the statement of cash flows	**388 575**	**(458 807)**	**(6 734)**	**11 795**	**(65 171)**	**702 160**

2. Statement V (statement of comparison of budget to actual amounts) documents the various budgets to the actual amounts incurred against them. Both budgets and actuals (cash and budgetary commitments) are calculated on the same modified cash basis. Explanations of material differences between the original and the final budgets, as well as between final budgets and actual amounts, are presented in the financial overview for the year ended 31 December 2014.

3. The following table provides a breakdown of the country programme and other resources — emergency budgets by region.

(Thousands of United States dollars)

	Original budget	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Country programme budgets by region				
Regular resources				
Central and Eastern Europe and Commonwealth of Independent States	25 215	27 053	25 961	1 092
East Asia and the Pacific	66 523	67 064	62 030	5 034
Eastern and Southern Africa	211 645	215 443	209 137	6 306
Latin America and the Caribbean	34 799	37 280	35 263	2 017
Middle East and North Africa	44 272	47 508	44 292	3 216
South Asia	150 342	157 905	152 349	5 556
Western and Central Africa	285 651	294 863	277 515	17 348
Subtotal	**818 447**	**847 116**	**806 547**	**40 569**

	Original budget	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Other resources — regular				
Central and Eastern Europe and Commonwealth of Independent States	76 188	61 249	56 749	4 500
East Asia and the Pacific	209 513	183 003	158 989	24 014
Eastern and Southern Africa	663 618	740 347	653 898	86 449
Latin America and the Caribbean	130 666	99 984	90 065	9 919
Middle East and North Africa	243 162	210 440	190 883	19 557
South Asia	393 128	289 451	241 299	48 152
Western and Central Africa	622 572	722 811	586 417	136 394
Subtotal	**2 338 847**	**2 307 285**	**1 978 300**	**328 985**
Total country programme budgets	**3 157 294**	**3 154 401**	**2 784 847**	**369 554**
Other resources — emergency				
Central and Eastern Europe and Commonwealth of Independent States	140 622	34 731	31 799	2 932
East Asia and the Pacific	187 705	137 364	122 826	14 538
Eastern and Southern Africa	483 496	211 649	199 827	11 822
Latin America and the Caribbean	50 866	20 491	18 711	1 780
Middle East and North Africa	1 815 510	611 781	552 012	59 769
South Asia	109 163	58 555	51 128	7 427
Western and Central Africa	705 849	382 485	321 562	60 923
Global	8 111	26 389	13 657	12 732
Total other resources — emergency budget	**3 501 322**	**1 483 445**	**1 311 522**	**171 923**

Note 6
Cash and cash equivalents

1. Convertible cash in the bank and on hand are those currencies that are allowed to be freely exchanged to other currencies without licence or authorization. Non-convertible cash at bank and on hand are those currencies that cannot be freely exchanged into other currencies without permission from the national/central bank of the host country.

(Thousands of United States dollars)

	2014	*2013*
Cash at bank and on hand — convertible	267 307	99 806
Cash at bank and on hand — non-convertible	25 960	28 406
Cash at bank in money market demand accounts	141 285	217 191
Term deposits and other (90 days or less)	1 152 232	1 306 552
Total cash and cash equivalents	**1 586 784**	**1 651 955**

Note 7
Contributions receivable and other receivables

Contributions receivable

(Thousands of United States dollars)

	Governments and intergovernmental agencies	*Inter-organizational arrangements*	*National Committees*	*Other organizations*	*2014*	*2013*
Gross current receivables						
Unearmarked	51 808	–	222 015	42	273 865	352 155
Earmarked	1 110 127	30 318	137 336	36 514	1 314 295	1 260 020
Total current contributions receivable	**1 161 935**	**30 318**	**359 351**	**36 556**	**1 588 160**	**1 612 175**
Gross non-current receivables						
Unearmarked	23 013	–	680	–	23 693	24 128
Earmarked	465 252	2 015	60 000	616	527 883	643 552
Total non-current contributions receivable	**488 265**	**2 015**	**60 680**	**616**	**551 576**	**667 680**
Total contributions receivable	**1 650 200**	**32 333**	**420 031**	**37 172**	**2 139 736**	**2 279 855**

1. Receivables are earmarked when agreements specify terms for the use of contributions, such as the purpose, geographical area and period of use, and are unearmarked when contributions are free of specific terms, allowing UNICEF to direct such resources according to its mandate. Both earmarked and unearmarked receivables are recorded when contribution agreements become enforceable, which occurs at the date when the agreement is signed, free of legislative/parliamentary approval clause, or at the date when donor's notification of the amount to be disbursed to UNICEF when such a clause exists is fulfilled. Ageing of receivables and exposure of UNICEF to credit and currency risks related to those receivables is disclosed in note 30, Financial risk management.

Other receivables

(Thousands of United States dollars)

	2014	*2013*
Current other receivables		
Receivables from sales of greeting cards and products	20 003	27 032
Value-added tax receivables	12 126	8 384
Receivables from staff members	7 603	7 325
Receivables from other United Nations agencies	2 034	1 782
Unused transfers of cash assistance due from implementing partners	3 163	2 257

	2014	*2013*
Other	6 699	3 274
Impairment	(4 961)	(2 074)
Total current other receivables	**46 667**	**47 980**
Non-current other receivables	**1 046**	**947**
Total other receivables	**47 713**	**48 927**

Other receivables

2. UNICEF exposure to credit and currency risks related to other receivables is disclosed in note 30, Financial risk management.

Note 8
Advances of cash assistance

(Thousands of United States dollars)

	2014	*2013*
Advances of cash assistance by region		
Central and Eastern Europe and Commonwealth of Independent States	16 996	9 103
East Asia and Pacific	62 503	35 854
Eastern and Southern Africa	200 900	170 653
Latin America and Caribbean	25 276	29 006
Middle East and North Africa	161 247	122 536
South Asia	75 025	69 714
Western and Central Africa	216 330	193 362
Transfers to United Nations agencies and other organizations at Headquarters	1 907	473
Adjustment	(80 928)	(70 161)
Total advances of cash assistance by region	**679 256**	**560 540**

The adjustment included in the above table represents an accrual for timing differences where implementing partners have incurred valid expenses as at 31 December, although reports had not yet been processed but had been received by UNICEF at the reporting date.

Note 9
Inventories

(Thousands of United States dollars)

	2014	*2013*
Programme supplies	458 831	377 310
Greeting cards and products	–	6 534
Total inventories	**458 831**	**383 844**

The cost of sales for greeting cards and products is disclosed in note 22, Revenue from greeting cards and products. The cost of direct sales for procurement services is disclosed in note 24, Other revenue.

Note 10
Investments

(Thousands of United States dollars)

	2014	*2013*
Current investments		
Term deposits (greater than 90 days)	1 450 233	1 827 850
Structured deposits	180 257	113 831
Total current investments	**1 630 490**	**1 941 681**
Non-current investments		
Traded bonds	1 211 143	449 917
Total non-current investments	**1 211 143**	**449 917**
Total investments	**2 841 633**	**2 391 598**

Note that for classification purposes, maturities on the structured deposits may differ from their contractual maturities because these financial instruments have prepayment options. The contractual maturities are used for classification purposes in the table above.

Note 11
Other assets

(Thousands of United States dollars)

	2014	*2013 (restated)*
Current other assets		
Education grant advances to staff members	10 800	9 736
Prepaid expenses and other assets	148 156	226 018
Other procurement services	543 235	113 213
Promissory notes	56 444	59 045
Total current other assets	**758 635**	**408 012**
Non-current other assets		
Promissory notes	32 690	89 996
Other assets	1 967	2 016
Total non-current other assets	**34 657**	**92 012**
Total other assets	**793 292**	**500 024**

1. Prepaid expenses and other assets are mainly comprised of advances to vendors.

2. UNICEF acts as a procurement agent for various foundations and Governments. Other procurement services assets of $543.24 million represent partner funds to which UNICEF is entitled, based on the terms of the agreements. A corresponding liability is recorded in note 16, Funds held on behalf of others, and note 17, Finance lease and other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

3. In 2014 UNICEF presented these balances on a gross basis in the statement of financial position to reflect the effect of escrow accounts held on behalf of GAVI, the Vaccine Alliance, rather than on a net basis, as in prior years, following the release of the framework to IPSAS by the IPSAS Board. The impact of these changes has required a gross up of funds held on behalf of others and other assets that were previously recorded net of the escrow accounts. The grossed up amount of the balances totalled $543.24 million for 2014.

4. UNICEF has entered into promissory note agreements with a related party and, as at 31 December 2014, the total amount of outstanding promissory notes were $89.13 million (2013: $149.04 million). The promissory notes guarantee that UNICEF will receive funds as per agreed payment schedule in the promissory note that mirror the payment terms of the procurement of vaccines agreement signed between UNICEF and various pharmaceutical companies. The promissory note does not accrue interest and the outstanding principal balance is recorded in other assets at amortized cost using the effective interest rate method. See note 37, Prior period adjustments, for further information.

Note 12
Property and equipment
(Thousands of United States dollars)

	Land	*Buildings*	*Leasehold improvements*	*Furniture, fixtures and equipment*	*Infrastructure, information technology and communications equipment*	*Office information technology and computer equipment*	*Transportation equipment*	*2013*
Cost								
Balance at 1 January	83 712	88 245	1 689	7 146	11 138	4 955	4 955	201 840
Additions	–	2 099	4 499	3 551	4 869	4 143	10 477	29 638
Disposals	–	(888)	–	(1 280)	(436)	(554)	(178)	(3 336)
Balance at 31 December	**83 712**	**89 456**	**6 188**	**9 417**	**15 571**	**8 544**	**15 254**	**228 142**
Accumulated depreciation								
Balance at 1 January	–	4 726	143	5 287	5 959	2 396	679	19 190
Depreciation	–	4 804	469	701	2 303	1 796	2 020	12 093
Impairment	–	–	–	1	10	1	–	12
Disposals	–	(30)	–	(1 062)	(370)	(337)	(145)	(1 944)
Balance at 31 December	**–**	**9 500**	**612**	**4 927**	**7 902**	**3 856**	**2 554**	**29 351**
Carrying value at 31 December	**83 712**	**79 956**	**5 576**	**4 490**	**7 669**	**4 688**	**12 700**	**198 791**

(Thousands of United States dollars)

	Land	*Buildings*	*Leasehold improvements*	*Furniture, fixtures and equipment*	*Infrastructure, information technology and communications equipment*	*Office information technology and computer equipment*	*Transportation equipment*	*2014*
Cost								
Balance at 1 January	83 712	89 456	6 188	9 417	15 571	8 544	15 254	228 142
Additions	–	4 472	4 486	3 108	3 105	2 657	13 120	30 948
Adjustments	–	558	–	116	(21)	(733)	850	770
Disposals	–	(486)	–	(824)	(1 380)	(372)	(199)	(3 261)
Balance at 31 December	**83 712**	**94 000**	**10 674**	**11 817**	**17 275**	**10 096**	**29 025**	**256 599**
Accumulated depreciation								
Balance at 1 January	–	9 500	612	4 927	7 902	3 856	2 554	29 351
Depreciation	–	4 750	831	1 298	2 540	2 518	4 656	16 593
Adjustments	–	117	–	(39)	9	(171)	598	514
Impairment	–	–	–	–	–	–	14	14
Disposals	–	(486)	–	(273)	(1 211)	(290)	(61)	(2 321)
Balance at 31 December	**–**	**13 881**	**1 443**	**5 913**	**9 240**	**5 913**	**7 761**	**44 151**
Carrying value at 31 December	**83 712**	**80 119**	**9 231**	**5 904**	**8 035**	**4 183**	**21 264**	**212 448**

1. UNICEF does not currently hold any donated property or items of equipment that are subject to conditions.

2. Included within buildings are $5.82 million (2013: $2.44 million) in construction, renovation and security enhancements costs in progress.

3. The carrying value of property and equipment recognized under finance leases is as follows:

(Thousands of United States dollars)

	2014	*2013*
Land	80 000	80 000
Buildings	63 628	66 668
Furniture, fixtures and equipment	–	66
Total	**143 628**	**146 734**

4. UNICEF leases a building, the adjacent plaza and the land underlying both, collectively referred to as the Three United Nations Plaza complex, from the United Nations Development Corporation, a public benefit corporation of the State of New York. The lease agreement, which commenced in 1984 (with amendments thereto in 1994 and 2009) and expires in 2026, is classified as a finance lease. UNICEF will receive title to the Three United Nations Plaza complex upon the expiration of the lease agreement if it fulfils the conditions of continuous and uninterrupted occupancy of the building and maintenance of its worldwide headquarters in New York City until 2026.

5. The Three United Nations Plaza complex is recorded on the statement of financial position at its estimated fair value as at the date of the adoption of IPSAS. The annual lease payments of $6.73 million (2013: $6.73 million), exclusive of operating expense escalations, are allocated between the finance charges and the repayment of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the obligation. While the building and plaza are depreciated over their remaining useful lives, the underlying land is not depreciated. Finance charges on the Three United Nations Plaza complex are recorded within finance costs, while depreciation expense on the building and plaza are recorded within depreciation and amortization expense in the statement of financial performance.

6. UNICEF has approximately 700 operating lease agreements for land, office, warehouse and residential space. The majority of lease agreements are under commercial terms. Approximately 150 agreements are for space provided to UNICEF by host Governments on a free-of-charge basis, for which fair value of annual rent was estimated and recognized as an expense of $19.80 million (2013: $18.50 million), as well as in-kind contributions revenue (see note 21, Revenue from voluntary contributions). Rent for all operating leases is reported within rental and leasing expense (see note 28, Other expenses).

Note 13
Intangible assets

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licenses and copy rights*	*Intangibles under development*	*2013*
Cost					
Balance at 1 January	229	3 131	–	974	4 334
Additions	606	–	–	3 276	3 882
Transfers	–	2 746	–	(2 746)	–
Balance at 31 December	**835**	**5 877**	**–**	**1 504**	**8 216**
Amortization					
Balance at 1 January	8	465	–	–	473
Amortization	92	1 306	–	–	1 398
Balance at 31 December	**100**	**1 771**	**–**	**–**	**1 871**
Carrying value at 31 December	**735**	**4 106**	**–**	**1 504**	**6 345**

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licenses and copy rights*	*Intangibles under development*	*2014*
Cost					
Balance at 1 January	835	5 877	–	1 504	8 216
Additions	246	–	16	3 281	3 543
Transfers	–	4 562	–	(4 562)	–
Balance at 31 December	**1 081**	**10 439**	**16**	**223**	**11 759**
Amortization					
Balance at 1 January	100	1 771	–	–	1 871
Amortization	199	1 803	1	–	2 003
Balance at 31 December	**299**	**3 574**	**1**	**–**	**3 874**
Carrying value at 31 December	**782**	**6 865**	**15**	**223**	**7 885**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2014	*2013*
Accounts payable	160 294	174 753
Accrued liabilities	117 569	81 467
Total accounts payable and accrued liabilities	**277 863**	**256 220**

The exposure of UNICEF to currency and liquidity risk related to trade and other payables is disclosed in note 30, Financial risk management.

Note 15
Deferred revenue

1. This note presents both "deferred revenue" and "contributions received in advance".

(Thousands of United States dollars)

	2014	*2013*
Contributions received in advance of a specified period	**1 015**	**9 793**
Deferred revenue		
Balance at 1 January	1 655 554	513 297
Additions	2 829 520	2 152 777
Revenue recognized	(2 951 376)	(1 010 520)
Balance at 31 December	**1 533 698**	**1 655 554**
Total	**1 534 713**	**1 665 347**

(Thousands of United States dollars)

	2014	*2013*
Current portion	982 802	988 554
Long-term portion	550 896	667 000
Total deferred revenue	**1 533 698**	**1 655 554**

2. Contributions received in advance of a specified period consist of cash contributions that were received before the start date of the agreement, and are to be used by UNICEF in future periods specified by donors. Deferred revenue consists of contributions receivable that are not yet due, and based on the terms of agreements, are to be used by UNICEF in future periods specified by donors. The current portion of deferred revenue excludes contributions received in advance.

3. As these are released based on the due date, revenue from contributions is recognized for the specified period that the funds are intended.

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance at 1 January 2014	*Funds received*	*Funds disbursed*	*Movement of accruals*	*Balance at 31 December 2014*
Procurement services					
Governments	337 711	385 773	(434 957)	–	288 527
Inter-organizational arrangements	113 065	193 278	(218 784)	–	87 559
Non-governmental organizations	134 956	1 456 983	(1 084 851)	–	507 088
National Committees	(8)	33	(28)	–	(3)
Other arrangements					
Others	18 052	95 295	(79 506)	–	33 841
Accruals	(11 570)	–	–	2 576	(8 994)
Total	**592 206**	**2 131 362**	**(1 818 126)**	**2 576**	**908 018**

1. Funds held on behalf of third parties represent liabilities in respect of assets held under agency arrangements. For standard procurement services, UNICEF is responsible for arranging and coordinating the delivery of goods or services on behalf of procuring partners (including Governments and United Nations agencies). Funds are received from procuring partners in advance to cover UNICEF commitments to suppliers and handling fees (fixed percentage).

2. Similarly, for procurement services funded by GAVI, the Vaccine Alliance, UNICEF arranges and coordinates the procurement and delivery of vaccines and vaccine-related devices on behalf of the Alliance for the benefit of eligible countries. Funds are received from the Alliance in advance and kept in an escrow account for which UNICEF has a security interest and sole drawing rights. UNICEF draws funds to its own bank account prior to paying suppliers. For 2014, the Alliance arrangements are reflected in the non-governmental organizations line.

3. In 2014 UNICEF presented certain balances in the statement of financial position to reflect the effect of escrow accounts held on behalf of GAVI, the Vaccine Alliance, on a gross basis rather than on a net basis following the release of the framework to IPSAS by the IPSAS Board. The impact of these changes has required a gross up of funds held on behalf of others and other assets that were previously recorded net of the escrow accounts (see note 11, Other assets).

Note 17
Finance lease and other liabilities

(Thousands of United States dollars)

	2014	*2013 (restated)*
Current other liabilities		
Unearned income	18 017	33 235
Finance lease liabilities	3 393	3 298
Other liabilities	87 637	68 832
Total current finance lease and other liabilities	**109 047**	**105 365**
Non-current other liabilities		
Finance lease liabilities	51 754	55 140
Other liabilities	84 210	196 371
Total non-current finance lease and other liabilities	**135 964**	**251 511**
Total finance lease and other liabilities	**245 011**	**356 876**

1. Other liabilities include unapplied cash that has been received by UNICEF, other assets and land and buildings sold but not yet transferred.

2. Other liabilities relating to long-term agreements represent where UNICEF has committed to procure minimum order quantities for vaccines under firm long-term agreements. The amounts due under these long-term agreements are backed by other assets issued by GAVI, the Vaccine Alliance, that match the due dates of the payables (see note 11, Other assets).

3. The following table presents minimum lease payments payable for finance leases, the present value of minimum lease payments payable and future finance charges for 2014.

(Thousands of United States dollars)

	2014	*2013*
Undiscounted minimum lease payments		
Not later than one year	6 734	6 845
Later than one year and not later than five years	26 914	26 919
Later than five years	43 735	50 464
Total undiscounted minimum lease payments	**77 383**	**84 228**
Present value of minimum lease payments		
Not later than one year	3 392	3 298
Later than one year and not later than five years	15 865	14 914
Later than five years	35 884	40 227
Total present value of minimum lease payments	**55 141**	**58 439**
Future finance charges	**22 242**	**25 789**

Note 18
Employee benefit liabilities

(Thousands of United States dollars)

	2014	*2013*
Current employee benefit liabilities		
Home leave	5 935	6 134
Annual leave	87 734	85 943
Other end-of-service entitlements	828	1 814
Other employee benefits	8 082	2 444
Total current employee benefit liabilities	**102 579**	**96 335**
Non-current employee benefit liabilities		
Home leave	866	959
Other end-of-service entitlements	113 702	105 249
After-service health insurance[a]	1 081 082	816 022
Other employee benefits	65	339
Total non-current employee benefit liabilities	**1 195 715**	**922 569**
Total employee benefit liabilities	**1 298 294**	**1 018 904**

[a] After-service health insurance in this table includes liability for the medical insurance plan.

A. Defined-benefit plans

1. UNICEF offers to its employees and former employees the following defined-benefit plans:

(a) **After-service health insurance**. This plan provides worldwide coverage for the health-related expenses of eligible former staff members and their dependants. The liability represents the present value of the share of UNICEF medical insurance costs for retirees and post-retirement benefits accrued to date by active staff. It comprises three main arrangements: United States-based insurance plans; Switzerland-based insurance plans; and the medical insurance plan;

(b) **After-service health insurance medical insurance plan**. The medical insurance plan is a health and dental insurance scheme operated by UNICEF for the benefit of its locally recruited active staff members (both in the General Service and National Professional Officer categories) and for former locally recruited staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters locations.

2. The after-service health insurance medical insurance plan is presented with the after-service health insurance liability in the first table to this note. For further transparency, the medical insurance plan liability is presented separately from the after-service health insurance liability in the tables below.

3. End-of-service entitlements comprise repatriation grant, travel and shipping costs.

4. Death benefit is a post-employment defined-benefit plan. The obligation to provide this entitlement is generated when eligible employees report for service. The payment is made upon the death of an employee who leaves behind a surviving spouse or a dependent child.

5. Defined-benefit plans are appraised using an actuarial valuation method; additional details on the valuation of the plans are provided below.

6. The movement in the present value of the defined-benefit obligation for each of the defined-benefit plans, as provided in the table below, is included in the year-end employee benefit liability.

Movement in the value of the defined-benefit obligation
(Thousands of United States dollars)

Defined-benefit obligation	*After-service health insurance*	*End-of-service entitlements*	*Medical insurance plan*	*Death benefit*	*2014 total*	*2013 total*
Balance at 1 January 2014	556 125	101 139	259 897	1 829	918 990	1 058 502
Current service cost	19 671	7 308	15 194	179	42 352	59 947
Interest cost on benefit obligation	26 510	4 008	12 448	69	43 035	41 944
Actuarial losses/(gains) on benefit obligation	112 134	5 993	88 468	94	206 689	(221 561)
Benefits paid (net of participant contributions)	(8 065)	(10 751)	(1 301)	(204)	(20 321)	(19 842)
Balance at 31 December	**706 375**	**107 697**	**374 706**	**1 967**	**1 190 745**	**918 990**

Contributions from the United Nations Children's Fund for each of the contributory defined-benefit plans
(Thousands of United States dollars)

UNICEF contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical insurance plan*	*Total*
2014 actual	27 858	26 855	15 636	70 349
2013 actual	56 606	24 724	15 425	96 755

Contributions from plan participants for each of the contributory defined-benefit plans
(Thousands of United States dollars)

Participant contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical insurance plan*	*Total*
2014 actual	n/a	n/a	4 146	4 146
2013 actual	n/a	n/a	2 826	2 826

7. The value of the defined-benefit obligation equals the defined-benefit liability that is recognized in the statement of financial position since any assets set aside by

UNICEF to fund those benefits do not qualify as plan assets under IPSAS 25: Employee benefits, because such assets are not held in a trust that is legally separate from the reporting entity, which exists solely to pay or fund employee benefits. UNICEF earmarks funds to reserves for each of the defined-benefit plans below (see table below under "funding of reserves" for details). The amounts recognized in the statement of financial performance are as follows:

(Thousands of United States dollars)

	After-service health insurance	*End-of-service*	*Medical insurance plan*	*Death benefit*	*2014*	*2013*
Current service cost	19 671	7 308	15 194	179	42 352	59 947
Interest cost on benefit obligation	26 510	4 008	12 448	69	43 035	41 944
Total expense included in surplus	**46 181**	**11 316**	**27 642**	**248**	**85 387**	**101 891**

Actuarial (gains)/losses recognized directly in net assets

(Thousands of United States dollars)

Actuarial (gains)/losses on benefit obligation	*After-service health insurance*	*End-of-service*	*Medical insurance plan*	*Death benefit*	*2014*	*2013*
Current period	112 134	5 993	88 468	94	206 689	(221 561)

8. UNICEF funds its liabilities for the defined-benefit plans it offers to its employees through the use of reserves. Reserves, like other savings plans, are mechanisms for earmarking funds for future expenses of a designated nature. The funding deficit for the aggregate of the defined-benefit plans and other liabilities is presented in the table below. The table includes liabilities and earmarked funds for actuarially determined defined-benefit plans (for example, after-service health insurance, end-of-service entitlements, medical insurance plan and death benefits) and for other liabilities, including annual leave.

(Thousands of United States dollars)

	2014	*2013*
Funding of reserves		
Actuarial liabilities recognized in the statement of financial position	1 190 745	918 990
Other liabilities and provisions recognized in the statement of financial position	94 623	92 220
Funding	(539 200)	(506 212)
Funding deficit	**(746 168)**	**(504 998)**

B. Actuarial valuation

9. The financial health of the defined-benefit plans is measured by actuarial valuations.

10. An actuarial valuation conducted by UNICEF actuaries in 2014 (as at 31 December 2014) was used for the closing balances on 31 December 2014. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

11. The census data provided to the actuary and used in the calculations for the defined-benefit plans as at 31 December 2014 represented employee data as at 31 December 2013.

12. The next formal full valuation is expected be conducted in 2015 (as at 31 December 2015). The valuation for 2015 will be performed by the actuaries by using updated census data and changes in major assumptions.

13. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in the table under paragraph 6 above as "(net of participant contributions)", are deducted from the obligation to determine the residual obligation borne by UNICEF. Retirees and active staff members participate in the same health-care plans. Their collective contributions are offset against the total cost of providing health care in accordance with the cost-sharing ratios approved by the General Assembly.

Actuarial assumptions

14. The two key assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, this includes the health-care cost-trend rate. These assumptions must be based on the same underlying inflation assumption.

15. **Inflation rate.** The inflation rate is an economic indicator that measures the rate of increase of a price index. Under IPSAS 25: Employee benefits, assumptions such as the discount rate and the health-care cost trend should be based on the same underlying inflation assumption. An inflation assumption rate of 2.25 per cent (2013: 2.50 per cent) was used for the 31 December 2014 valuation. This inflation assumption rate is used as a proxy for the long-term inflation expectations 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

16. **Discount rate.** The discount rate should reflect the time value of money and the estimated timing of future-benefit payments. In accordance with IPSAS 25: Employee benefits, the discount rate used to determine the defined-benefit obligations should be based on market rates for high-quality corporate bonds that match the currency and estimated term of the obligations. The United Nations has used spot rates from the Citigroup pension discount curve as the basis for determining the discount rate for the actuarially valued defined-benefit plans.

17. Based on the analysis for 2014, the single equivalent discount rate was 3.83 per cent as at 31 December 2014 (2013: 4.73 per cent), and a discount rate, rounding to the nearest 25 basis points, would equal 4.00 per cent (2013: 5.00 per cent). The United Nations agencies selected a 3.83 per cent discount rate for use in that valuation (2013: 4.73 per cent).

18. **Rate of compensation increase.** The rate of compensation increase used for defined-benefit obligations represents a long-term assumption and includes components for inflation, productivity increases and merit and promotion adjustments.

19. **Future mortality assumptions.** Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics in the form of mortality tables.

20. **After-service health insurance participation and election assumption.** It is assumed that 95 per cent of future retirees who are expected to meet the eligibility requirements for after-service health insurance benefits will participate in the plan in retirement, and that 80 per cent of future male retirees and 50 per cent of future female retirees will be married at the time of retirement and will elect to cover their spouse under the same medical arrangement that they have elected.

21. The following table summarizes the principal actuarial assumptions used to determine the defined-benefit liabilities, expressed as weighted averages, where applicable.

	2014 (percentage)	*2013 (percentage)*
Discount rate		
Rate at 1 January	4.73	4.00
Rate at 31 December	3.83	4.73
Rate of inflation	2.25	2.50
Expected rate of medical cost increase		
Medical inside the United States[a,b]	6.30	6.30
2024 and onwards medical inside the United States[c]	4.50	4.50
United States dental[b]	5.00	5.00
2024 and onwards United States dental[c]	4.50	4.50
Expected rate of salary increases (declining from age 20 to age 60)	**8.30-5.50**	**8.30-5.50**

[a] United States medical Medicare (United States medical non-Medicare is slightly higher).
[b] Rates for the following respective year.
[c] For 2012, rate extended to 2027.

Current rates of death underlying the values of United Nations Children's Fund liabilities

	2014		2013	
Rate of death: pre-retirement	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00065	0.00906	0.00065	0.00906
Female	0.00034	0.00645	0.00034	0.00645
Rate of death: post-retirement	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00072	0.01176	0.00072	0.01032
Female	0.00037	0.00860	0.00037	0.00766

Rates of retirement for Professional staff with 30 or more years of service

	2014		2013	
Rate of retirement	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.15	0.73	0.15	0.73
Female	0.13	0.75	0.13	0.75

Sensitivity analysis

22. The following table outlines the potential impact of changes in certain key assumptions used in measuring defined-benefit obligations and benefit costs. The sensitivity analysis contained in the table is hypothetical and should be used with caution. If the assumptions about the discount rate and the health-care cost trends described above were to change, this would impact the measurement of the obligation and expense as shown in the table below.

Potential impact of changes in key assumptions used in measuring defined benefit obligations and benefit costs

(Thousands of United States dollars)

	After-service health insurance		*End of service*	*Medical insurance plan*		*Death benefit*
Sensitivity of assumptions (impact on)	*Obligation*	*Expense*	*Obligation*	*Obligation*	*Expense*	*Obligation*
Discount rate						
Impact of: 1 per cent increase	(119 989)	n/a	(10 770)	(94 341)	n/a	(144)
Impact of: 1 per cent decrease	146 075	n/a	12 090	127 493	n/a	157
Health-care cost trend rates						
Impact of: 1 per cent increase	155 532	16 020	n/a	97 021	12 845	n/a
Impact of: 1 per cent decrease	(120 418)	(12 225)	n/a	(73 219)	(9 358)	n/a

C. Multi-employer pension plans

23. UNICEF recognizes the following categories of employee benefits:

- Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Other long-term employee;
- Termination benefits.

24. UNICEF 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 pension plan is a funded, multi-employer defined-benefit plan. As specified by article 3(b) of the Regulations of the Pension Fund, membership in the Pension Fund is open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

25. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension 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 plan. UNICEF and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of the defined benefit obligation of UNICEF, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNICEF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS.

26. UNICEF contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

27. The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Pension 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.

28. The financial obligation of UNICEF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly measured as a percentage of the participant's pensionable remuneration (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

29. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (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 to the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as of 31 December 2015.

30. 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 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

31. 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 Pension Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Pension Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly has not invoked the provision of article 26.

32. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants of the Pension Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013.

33. During 2014, UNICEF contributions paid to the Pension Fund amounted to $137.68 million (2013: $128.19 million).

34. 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 Pension Fund publishes quarterly reports on its investments, and these can be viewed by visiting the Pension Fund website at www.unjspf.org.

35. Summary information about the plan is presented below.

Actuarial valuation of the United Nations Joint Staff Pension Fund
(Thousands of United States dollars)

	2013[a]
United Nations Joint Staff Pension Fund actuarial deficit	(2 584)
Surplus as a percentage of pensionable remuneration	0.72

[a] Most recent actuarial valuation.

Contributions to the United Nations Joint Staff Pension Fund

(Thousands of United States dollars)

	2014	*2013*
UNICEF contributions	137 684	128 187
Participants' contributions	69 174	64 389
Total contributions	**206 858**	**192 576**

Note 19
Provisions

(Thousands of United States dollars)

	For returns of unused funds	*Other provisions*	*Total*
Balance at 1 January 2014	26 380	1 791	28 171
Additional provisions recognized	7 025	48	7 073
Balance at 31 December 2014	**33 405**	**1 839**	**35 244**

A provision is reported for unused funds to be returned to donors, as determined for all completed or terminated projects in the reporting year in which the contribution agreements require the return of unused funds. UNICEF expects to settle the liability within 12 months from the reporting date.

Note 20
Net assets

(Thousands of United States dollars)

		IPSAS reserves		*Other reserves*							
	Accumulated surpluses	*Actuarial gain/(loss)*	*Investment revaluation*	*Procurement services*	*Insurance*	*After-service health insurance fund*	*Separation fund*	*Medical insurance plan fund*	*Capital assets fund*	*Total reserves*	*Total net assets*
Balance at 1 January 2013	**2 772 128**	**(103 327)**	**490**	**2 000**	**115**	**323 491**	**50 692**	**70 647**	**7 878**	**351 986**	**3 124 114**
Surplus	759 570	–	–	–	–	–	–	–	–	–	759 570
Actuarial gains	–	221 561	–	–	–	–	–	–	–	221 561	221 561
Changes in fair value of available-for-sale financial assets	–	–	(1 090)	–	–	–	–	–	–	(1 090)	(1 090)
Transfers to/from the fund	(59 089)	–	–	–	–	47 262	7 907	6 213	(2 293)	59 089	–
Balance at 31 December 2013	**3 472 609**	**118 234**	**(600)**	**2 000**	**115**	**370 753**	**58 599**	**76 860**	**5 585**	**631 546**	**4 104 155**
Surplus	572 558	–	–	–	–	–	–	–	–	–	572 558
Actuarial losses	–	(206 689)	–	–	–	–	–	–	–	(206 689)	(206 689)
Changes in fair value of available-for-sale financial assets	–	–	(1 589)	–	–	–	–	–	–	(1 589)	(1 589)
Transfers to/from the fund	(36 518)	–	–	–	–	19 339	7 330	6 319	3 530	36 518	–
Balance at 31 December 2014	**4 008 649**	**(88 455)**	**(2 189)**	**2 000**	**115**	**390 092**	**65 929**	**83 179**	**9 115**	**459 786**	**4 468 435**

Net assets consist of “accumulated surpluses” and “reserves”. Reserves includes “IPSAS reserves” and “other reserves”. Each of these types of reserves is explained further below.

1. Net assets represent the value of UNICEF assets less its outstanding liabilities at the reporting date. UNICEF net assets comprise accumulated surpluses and reserves.

2. Accumulated surpluses represent the accumulated surpluses and deficits from UNICEF operations over the years.

3. UNICEF maintains the following IPSAS reserve and other reserves (see paras. 4-10 below). For internal reporting and budgeting purposes, the UNICEF Executive Board has designated portions of accumulated surpluses as funding for specified activities and future expenses, including after-service health insurance, capital assets, the separation fund, procurement services and insurance.

4. *Reserve for investment revaluation*. The reserve comprises revaluation transactions of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of reserve that relates to that financial asset is effectively realized and is recognized in the statement of financial performance. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognized in the statement of financial performance.

5. *Reserve for after-service health insurance*. In 2003, the Executive Board approved the establishment of a reserve for after-service health insurance. The reserve is used to fund the after-service health insurance liability included in employee benefit liabilities and recorded on the statement of financial position.

6. *Reserve for capital assets*. In 1990, the Executive Board approved the establishment of a capital asset reserve of $22 million from regular resources to improve control over future purchases of capital assets such as office buildings and staff housing in the field.

7. *Reserve for separation fund.* In 2006, the Executive Board approved the establishment of a separation fund to cover separation and termination liabilities. This fund comprises the net accumulation of total contributions from the funding source of current eligible staff members less payments made to staff members upon termination or retirement.

8. *Reserve for procurement services*. In 1993, the Executive Board approved the establishment of a reserve for procurement services of $2 million to absorb possible future shortfalls. The reserve was funded by the surplus of handling fees charged for each procurement request against staff and related expenses charged against such fees by the Supply Division.

9. *Reserve for medical insurance plan*. The medical insurance plan is a health and dental insurance scheme operated by UNICEF for the benefit of their locally recruited active staff members (both in the General Service and National Professional Officer categories) and former locally recruited staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters locations. Staff members and the organization share in the cost of the premiums. This reserve is used for the payment of all approved claims filed under the medical insurance plan and is funded through monthly transfers by UNICEF and contributions by plan participants.

10. *Reserve for insurance*. In 1950, the Executive Board approved the establishment of a reserve for insurance of $0.2 million to absorb losses of UNICEF

programme supplies and equipment not covered by commercial insurance. This amount was funded by approved freight allocations.

Note 21
Revenue from voluntary contributions

(Thousands of United States dollars)

	2014	*2013*
Voluntary cash contributions		
Governments and intergovernmental agencies	3 150 172	2 976 647
Inter-organizational arrangements	503 534	340 460
National Committees	1 061 885	1 070 445
Others	277 267	281 776
Total voluntary cash contributions	**4 992 858**	**4 669 328**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	47 294	30 049
Inter-organizational arrangements	34	–
National Committees	2 100	3 714
Others	10 742	13 385
Total voluntary in-kind contributions	**60 170**	**47 148**
Total voluntary contributions	**5 053 028**	**4 716 476**
Less: returns to donors of unused contributions	(20 608)	(21 667)
Total voluntary contributions (net)	**5 032 420**	**4 694 809**

1. Foreign exchange gains (losses) are included above on voluntary contributions and disclosed separately in the table below.

National Committees

2. The voluntary contribution revenue of $1,061.89 million (2013: $1,070.45 million) from National Committees represents the net contributions that the Committees have approved for transfer to UNICEF. Total contributions received by the National Committees during the year, excluding proceeds from sales activities, were $1,396.15 million (2013: $1,440.93 million). Of that amount, $334.26 million (2013: $370.48 million) was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 34, Related parties, for additional information on the relationship between UNICEF and the National Committees).

In-kind contributions

3. In-kind contributions comprise contributions received as goods. Major types of goods received include vitamin A, ready-to-use therapeutic food, winterization kits and water and sanitation items, at a total value of $60.17 million (2013:

$47.15 million). In-kind contributions also include rights to use assets such as land and buildings valued at $19.80 million (2013: $18.50 million).

(Thousands of United States dollars)

	2014	*2013*
Earmarked/unearmarked classification of voluntary contributions		
Regular resources	1 191 230	1 107 868
Foreign exchange losses	(2 240)	(1 490)
Total regular resources (net)	**1 188 990**	**1 106 378**
Other resources — regular	2 340 707	2 256 622
Foreign exchange losses	(76 725)	(699)
Total other resources — regular (net)	**2 263 982**	**2 255 923**
Other resources — emergency	1 592 480	1 330 471
Foreign exchange (losses)/gains	(13 032)	2 037
Total other resources — emergency (net)	**1 579 448**	**1 332 508**
Total voluntary contributions (net)	**5 032 420**	**4 694 809**

Note 22
Revenue from greeting cards and products

(Thousands of United States dollars)

	2014	*2013*
Gross proceeds from sale of greeting cards and products	36 743	65 514
Royalties from sale of greeting cards and products	5 953	4 107
Total	**42 696**	**69 621**

1. Through the sales of greeting cards and products, UNICEF generates additional funds for programmes of cooperation in developing countries. UNICEF sells greeting cards and products either directly to customers, using its country offices, or indirectly through National Committees and other sales partners that act as an agent on its behalf. Gross proceeds from the sale of greeting cards and products are accrued on basis of preliminary sales reports received at year-end. In 2014, the gross proceeds were $42.70 million (2013: $69.62 million) and the related cost of sales was $20.04 million (2013: $24.42 million).

2. UNICEF has agreements with a number of greeting cards companies that design, manufacture, warehouse, distribute and sell cards and products on behalf of UNICEF in the United States of America and in countries throughout Europe and remit a percentage of the retail sales to UNICEF. Royalties are remitted (a) from the sales partners to National Committees acting on behalf of UNICEF and then paid to UNICEF; and (b) from sales to partners in which the funds will come directly to UNICEF through the country offices.

3. To address the decline in the cards and products business, UNICEF is gradually phasing out the in-house operations and transitioning to a licensing and locally sourced business model. This new business model, which will be in place by 2015, will continue to deliver proceeds at a lower level of costs, while maintaining the brand visibility associated with UNICEF cards and products.

Note 23
Interest revenue and finance costs

UNICEF generates interest revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities and bank accounts. Interest revenue for 2014 was $29.76 million (2013: $29.24 million). Finance costs of $3.55 million (2013: $3.74 million) resulted from finance lease liabilities.

Note 24
Other revenue

(Thousands of United States dollars)

	2014	*2013*
Procurement services	46 867	46 202
Miscellaneous revenue	17 550	13 292
Total other revenue	**64 417**	**59 494**

1. UNICEF undertakes procurement services for Governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. In 2014, the total value of the net funds received for procurement services carried out on behalf of third parties was $1,567.22 million (2013: $1,561.20 million).

2. UNICEF recognized revenue of $38.19 million (2013: $39.41 million) related to these procurement services through recovery of the costs incurred in providing those services to third parties. The costs for procurement services include $35.50 million (2013: $31.70 million) in direct and indirect costs comprised mostly of salaries and wages, which are included as part of disclosed amounts in note 27, Employee benefits expenses, and note 35, Segment information.

3. The procurement services revenue includes $8.68 million (2013: $6.79 million) related to direct sales of goods to third parties from the warehouse in Denmark. An additional $8.94 million (2013: $6.85 million) of expenses related to the direct sale of goods to third parties from the warehouse in Denmark are disclosed separately in note 28, Other expenses.

Note 25
Net gains and losses

(Thousands of United States dollars)

	2014	*2013*
Net foreign exchange losses	(39 485)	(7 090)
Net fair value gains and losses on:		
Structured deposits	87	651
Net gains on sale of traded bonds	15	9
Net gains on sale of property, plant and equipment	869	1 894
Other losses	–	(99)
Total net losses	**(38 514)**	**(4 635)**

Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*2014*	*2013*
Gains	10 441	20 456	30 897	23 390
Losses	(26 720)	(43 662)	(70 382)	(30 480)
Total net losses	**(16 279)**	**(23 206)**	**(39 485)**	**(7 090)**

In addition to the above, a realized foreign exchange loss of $13.52 million (2013: $1.78 million) and an unrealized loss of $78.47 million (2013: $1.62 million), mostly related to other resources receivables, are included within voluntary contributions in note 21, Revenue from voluntary contributions, in accordance with UNICEF Financial Regulations and Rules.

Note 26
Transfer of programme supplies and cash assistance

(Thousands of United States dollars)

	Cash assistance	*Transfers of programme supplies*	*2014*
2014			
Assistance by region			
Eastern and Southern Africa	417 518	199 847	617 365
Western and Central Africa	408 186	302 863	711 049
East Asia and Pacific	111 641	73 138	184 779
South Asia	157 640	67 282	224 922
Middle East and North Africa	295 461	172 386	467 847
Latin America and Caribbean	56 515	11 198	67 713
Central and Eastern Europe and Commonwealth of Independent States	30 085	21 436	51 521

	Cash assistance	*Transfers of programme supplies*	*2014*
Transfers to United Nations agencies and other organizations at headquarters	24 221	3 347	27 568
Subtotal	**1 501 267**	**851 497**	**2 352 764**
Movement in provision	10 767	–	10 767
Total transfers by region	**1 512 034**	**851 497**	**2 363 531**

(Thousands of United States dollars)

	Cash assistance	*Transfers of programme supplies*	
2013			
Assistance by region			
Eastern and Southern Africa	407 900	237 105	645 005
Western and Central Africa	355 254	208 912	564 166
East Asia and Pacific	86 169	40 171	126 340
South Asia	181 343	55 837	237 180
Middle East and North Africa	195 384	125 022	320 405
Latin America and Caribbean	67 912	15 346	83 258
Central and Eastern Europe and Commonwealth of Independent States	25 917	12 273	38 190
Transfers to United Nations agencies and other organizations at headquarters	9 868	438	10 306
Subtotal	**1 329 747**	**695 104**	**2 024 850**
Movement in provision	803	–	803
Total transfers by region	**1 330 550**	**695 104**	**2 025 653**

Adjustment for timing differences represents accrued expenses at year-end to account for implementing partners that have incurred valid expenses where the reports have been submitted by the reporting date but for which UNICEF has not yet processed the reports. The provision for timing differences was $80.93 million for 2014 and $70.16 million for 2013. The difference between these amounts is reflected in the table above and represents the net impact of the change in the adjustment.

Note 27
Employee benefits expenses

(Thousands of United States dollars)

	2014	*2013*
Salaries and wages	686 546	636 317
Contribution to the United Nations Joint Staff Pension Fund	137 248	127 963
Increase in after-service health insurance expenses	46 398	50 029
Increase in other post-employment employee liabilities	10 618	13 246
Increase in other long-term employee benefit liabilities	19 214	26 900
Other personnel expenses	229 525	228 340
Total	**1 129 549**	**1 082 795**

Note 28
Other expenses

(Thousands of United States dollars)

	2014	*2013*
Programme-related professional and expert services	305 676	271 394
Media production services	16 369	11 773
Advertising, promotion and public relations	8 223	6 894
Printing, binding, editing and translation	13 494	10 056
Management and operational services	82 085	82 806
Warehousing and logistical services	28 309	22 111
Personnel support	3 293	2 589
External audit	1 027	1 070
Travel	144 568	134 874
Distribution	115 273	120 929
Rental and leasing	79 382	67 511
Retentions commissions and cost of greeting cards and products	20 040	24 427
Repairs and other maintenance	32 398	30 113
Supplies and materials	35 923	32 038
Investment funds for market development	31 865	29 449
Communication	21 419	20 467
Other operating expenses	46 979	44 571
Write-offs and inventory shortages	13 168	9 599
Utilities	19 870	16 032
Procurement services (note 24)	8 940	6 848
Professional development	10 161	11 315

	2014	*2013*
Insurance	2 873	2 113
Impairment (recovery)/loss	1 657	4 304
Total	**1 042 992**	**963 283**

1. Programme-related professional and expert services expense of $305.68 million (2013: $271.39 million) is made up of third party professional and technical consulting costs for programmatic activities in specific areas such as communications, evaluations, studies, research, surveys and training.

2. Other operating expenses comprise headquarters-related United Nations common service costs of $17.84 million and other office operating expenses, such as bank charges, moving expenses, hospitality and others, of $29.14 million.

3. Write-offs recorded in 2014 include greeting cards inventory of $1.86 million recorded under "Retentions commissions and cost of greeting cards" and inventory, receivables and property and equipment totalling $13.17 million recorded under "Write-offs and inventory shortages".

4. In 2014, $286.56 million (2013: $305.50 million) of total other expenses relate to management and business support costs. The remaining $756.43 million (2013: $657.78 million) represents programme-related expenses. See note 35, Segment information.

5. Where UNICEF has considered that the carrying value of certain assets is above or below the recoverable amount, an impairment loss or recovery has been provided. Accordingly, included in the total other expenses is $1.66 million (2013: $4.30 million), representing impairment provisions relating to property, plant and equipment, inventory and receivables.

Note 29
Financial instruments

1. UNICEF has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The present note contains information about the Fund's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout the financial statements.

Accounting classifications and fair values

2. The following tables detail the value of financial assets and financial liabilities by class of instrument and by category, as defined in the accounting policies.

Financial assets as at 31 December

(Thousands of United States dollars)

		Fair value through surplus or deficit			Total fair value	
Financial assets	*Loans and receivables*	*Available-for-sale*	*Designated as such upon initial recognition*	*Total carrying value*	*2014*	*2013 (restated)*
Cash and cash equivalents	1 586 784	–	–	1 586 784	1 586 784	1 651 955
Term deposits	1 450 233	–	–	1 450 233	1 450 233	1 827 850
Traded bonds	–	1 211 143	–	1 211 143	1 211 143	449 917
Structured deposits	–	–	180 257	180 257	180 257	113 831
Promissory notes	89 134	–	–	89 134	89 134	149 041
Receivables from contributions	2 139 736	–	–	2 139 736	2 139 736	2 279 855
Other receivables	47 713	–	–	47 713	47 713	48 927
Total financial assets	**5 313 600**	**1 211 143**	**180 257**	**6 705 000**	**6 705 000**	**6 521 376**

3. The carrying value of financial assets is considered to be a reasonable approximation of fair value.

Financial liabilities as at 31 December

(Thousands of United States dollars)

			Total fair value	
Financial liabilities	*Other financial liabilities (amortized cost)*	*Total carrying value*	*2014*	*2013 (restated)*
Financial liabilities				
Accounts payable	277 863	277 863	277 863	256 220
Funds held on behalf of third parties	908 018	908 018	908 018	592 206
Finance lease	55 147	55 147	55 147	58 438
Other liabilities	171 847	171 847	171 847	265 203
Total financial liabilities	**1 412 875**	**1 412 875**	**1 412 875**	**1 172 067**

4. With the exception of finance leases, most liabilities are short-term and are expected to be settled within the next 12 months. Any other non-current liabilities are reported at amortized cost on the statement of financial position, and it is assumed that the carrying amounts approximate the fair values of the financial instruments.

Valuation method

5. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(a) Level 1: average quoted prices from two separate sources (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices);

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*2014*	*2013*
Assets					
Financial instruments at fair value through surplus or deficit, including:					
Structured deposits	–	180 257	–	180 257	113 831
Available-for-sale financial assets	1 211 143	–	–	1 211 143	449 917
Total	**1 211 143**	**180 257**	**–**	**1 391 400**	**563 748**

6. UNICEF does not hold any financial liabilities that are recognized at fair value through surplus or deficit.

Note 30
Financial risk management

Exposure to credit risk

1. Credit risk is the risk of financial loss to UNICEF, if a donor, customer or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from cash and cash equivalents, investments, receivables from contributions and other receivables.

2. UNICEF holds bank accounts in more than 160 countries. This exposes the organization to significant default risk. To mitigate this risk, UNICEF has established a risk-assessment process that is to be completed before bank accounts may be opened at any bank where UNICEF has not had a prior business relationship. In addition, if there are no alternatives to dealing with a specified bank that has a higher risk, UNICEF may impose internal guidelines such as minimizing the balances on its bank accounts.

3. With regard to investments, UNICEF mitigates its exposure to credit risk by imposing certain restrictions, including, but not limited to, minimum credit rating of the underlying financial instrument or institutions (generally at least A for long-term investments and P-1 from Moody's for short-term investments for financial institutions and AA to AAA from Moody's for investments in debt instruments); maximum thresholds to be invested per counterparty; and maximum thresholds to be invested by type of investment. UNICEF has a Financial Advisory Committee that approves each new counterparty before any investments may be made.

4. UNICEF exposure to credit risk from receivables from contributions and other receivables is mainly influenced by the type of donor. Receivables from Governments, intergovernmental agencies and other United Nations organizations generally have a very low default risk. UNICEF has established an allowance for

impairment that represents its estimate of incurred losses in respect of receivables from contributions and other receivables, based on specific identification of receivables that might be impaired.

5. The carrying value of all financial instruments represents the Fund's maximum exposure to credit risk.

Concentration of credit exposure by credit rating

(Thousands of United States dollars)

At 31 December	*AAA*	*AA*	*A*	*B*	*Non-rated*	*2014*	*2013*
Cash and cash equivalents							
Cash	–	316 931	9 083	48 518	60 020	434 552	345 403
Term deposits	–	370 020	145 656	636 556	–	1 152 232	1 306 553
Subtotal	**–**	**686 951**	**154 739**	**685 074**	**60 020**	**1 586 784**	**1 651 956**
Investments							
Term deposits	–	351 312	1 098 921	–	–	1 450 233	1 827 850
Traded bonds	799 596	387 886	23 661	–	–	1 211 143	449 917
Structured deposits	–	–	180 257	–	–	180 257	113 831
Subtotal	**799 596**	**739 198**	**1 302 839**	**–**	**–**	**2 841 633**	**2 391 598**
Total	**799 596**	**1 426 149**	**1 457 578**	**685 074**	**60 020**	**4 428 417**	**4 043 554**

6. Non-rated financial assets represent cash and cash equivalents held in various operating accounts in country offices. Ratings are based on credit ratings by Moody's. UNICEF uses Moody's as a benchmark to rate issuing institutions and financial instruments. Ratings above correspond to the Moody credit ratings as follows:

Moody's credit ratings		*UNICEF credit ratings*
Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	AAA
Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	AA
A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.	A
Baa1 Baa2 Baa3	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	B

Ageing of receivables

(Thousands of United States dollars)

	0 to 1 year	*>1 to 2 years*	*Over 2 years*	*Current*	*Not due*	*Foreign exchange losses*	*2014*	*2013*
Contributions receivables	54 576	17 292	3 204	1 601 077	551 576	(87 989)	2 139 736	2 279 855
Other receivables	–	3 117	23 995	22 692	1 046	(3 137)	47 713	48 927
Total	**54 576**	**20 409**	**27 199**	**1 623 769**	**552 622**	**(91 126)**	**2 187 449**	**2 328 782**

7. UNICEF believes that all receivables are collectible based on historic payment behaviour and analysis of the outstanding balances.

Movements in allowance for impairment in respect of loans and receivables during 2014

(Thousands of United States dollars)

	Gross receivable at 31 December 2014	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written off as uncollectible*	*Net receivable at 31 December 2014*	*Net receivable at 31 December 2013*
Contributions receivable	2 142 377	–	–	(2 641)	2 139 736	2 279 855
Receivables from greeting cards	20 075	–	–	(72)	20 003	27 028
Other receivables	31 766	(7 352)	4 465	(1 169)	27 710	21 899
Total	**2 194 218**	**(7 352)**	**4 465**	**(3 882)**	**2 187 449**	**2 328 782**

8. Promissory notes are raised against cash and guaranteed grant agreements held by the International Bank for Reconstruction and Development on behalf of GAVI, the Vaccine Alliance. Counterparty default risk is mitigated by the fact that the Alliance is not relieved of obligations to pay under the promissory note even if the International Bank for Reconstruction and Development fails to comply with the demand to transfer funds to UNICEF. The promissory notes are secured against Alliance assets and properties that include accounts receivables, cash and collateral and security guarantees.

Exposure to liquidity risk

9. Liquidity risk is the risk that UNICEF will encounter difficulty in meeting its obligations associated with its accounts payables, other liabilities and promised transfers of cash to programmes. UNICEF Regulations and Rules do not permit UNICEF to borrow.

10. Management believes that UNICEF can meet its obligations because purchase orders are not raised unless budget is available. Management maintains liquidity by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities and by holding cash and liquid investments, some of which have secondary financial markets. It should be noted that UNICEF does not have financing activities other than finance leases activities as it is not permitted to borrow.

11. Surplus cash is invested in a range of financial instruments, including money-market demand accounts, structured deposits, time deposits and fixed-income securities, which seek to ensure the security and liquidity of investments while optimizing yield. In all cases, investments are permitted only in high-credit quality institutions and issues, with diversification of investment supported by maintaining counterparty credit limits.

Contractual maturities of United Nations Children's Fund financial liabilities

(Thousands of United States dollars)

	Due				*Overdue*					
	0-3 months	*3-6 months*	*6-12 months*	*More than 1 year*	*0-3 months*	*3-6 months*	*6-12 months*	*More than 1 year*	*2014 total carrying value*	*2013 total carrying value*
Accounts payable	100 901	–	–	(276)	47 144	5 290	3 547	3 688	160 294	174 753
Accrued liabilities	–	–	–	–	–	–	–	–	117 569	81 467
Total	**100 901**	**–**	**–**	**(276)**	**47 144**	**5 290**	**3 547**	**3 688**	**277 863**	**256 220**

The maturities for accrued liabilities are not included as they are not known.

12. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Exposure to market risk

13. Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk. UNICEF is exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates. Through its policies and procedures, UNICEF ensures that market risks are identified, measured, managed and regularly reported to management and the Financial Advisory Committee.

14. Treasury activities compromise the following four portfolios:

1. Cash and cash equivalents portfolio
2. Short-term investments portfolio
3. Long-term investments portfolio
4. Emerging markets portfolio

15. Risk in the emerging markets portfolio is mitigated through a limit of $30 million in functional emerging market currencies and by transacting only with partners pre-approved by the Financial Advisory Committee. In addition, UNICEF transacts in emerging markets only investments for currencies where UNICEF has large spending needs, thereby reducing foreign exchange risk.

Currency risk

16. Currency risk (or foreign exchange risk) arises with regard to financial instruments that are denominated in a foreign currency. UNICEF is exposed to currency risk on revenues and expenses that are denominated in a currency other

than the United States dollar. The currencies in which these transactions are primarily denominated are as follows:

(a) Regarding revenues: the euro, the Norwegian krone, the Swedish krona, the Canadian dollar, the pound sterling, the Australian dollar, the New Zealand dollar, the Swiss franc, the Danish krone and the Japanese yen;

(b) Regarding expenses: all currencies used at UNICEF country offices, including the Indian rupee, the Pakistani rupee, the Nigerian naira, the Ethiopian birr and the Kenyan shilling, among many others.

17. UNICEF does not apply hedge accounting, although it applies "natural hedges" by holding foreign currencies in order to cover forecast foreign currency cash outflows in revenue-side currencies in addition to entering into foreign exchange forward contracts on revenue-side currencies.

18. The overall position of UNICEF in foreign currencies is not significant. The following table provides a summary of UNICEF foreign currency positions in financial instruments in the statement of financial position at the end of the reporting period.

(Thousands of United States dollars)

	United States dollar	*Euro*	*Pound sterling*	*Swiss Franc*	*Swedish Krona*	*Norwegian krone*	*Japanese yen*	*Other*	*2014*	*2013 (restated)*
Cash and cash equivalents	1 309 867	189 093	1 861	6 449	23	11	1 085	78 395	1 586 784	1 651 955
Term deposits	1 441 694	8 539	–	–	–	–	–	–	1 450 233	1 827 850
Traded bonds	1 211 143	–	–	–	–	–	–	–	1 211 143	449 917
Structured deposits	68	13 420	7 927	–	28 155	127 371	3 315	–	180 257	113 831
Promissory notes	77 850	11 284	–	–	–	–	–	–	89 134	149 041
Receivables from contributions	713 683	649 906	320 609	55 133	145 939	14 786	33 215	206 465	2 139 736	2 279 855
Other receivables	25 720	4 064	144	(174)	(11)	147	(7 900)	25 724	47 713	48 927
Total financial assets	**4 780 025**	**876 306**	**330 541**	**61 408**	**174 106**	**142 315**	**29 715**	**310 584**	**6 705 000**	**6 521 376**
Accounts payable	(240 281)	(14 880)	(805)	(625)	(52)	–	(586)	(20 634)	(277 863)	(256 219)
Funds held on behalf of third parties	(896 734)	(11 283)	–	–	–	–	–	(1)	(908 018)	(592 207)
Finance lease and other liabilities	(222 875)	(3 217)	(790)	(8)	–	(1 042)	–	938	(226 994)	(356 877)
Total financial liabilities	**(1 358 890)**	**(29 380)**	**(1 595)**	**(633)**	**(52)**	**(1 042)**	**(586)**	**(19 697)**	**(1 412 875)**	**(1 205 303)**
Net exposure	**3 320 135**	**846 926**	**328 946**	**60 775**	**174 054**	**141 273**	**29 129**	**290 887**	**5 292 125**	**5 316 073**

Interest rate risk

19. Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. As of the reporting date, the Fund's financial assets subject to fixed interest rates include all term deposits and investments. Operating bank accounts are excluded from the table below. There were no financial assets subject to variable interest rates.

(Thousands of United States dollars)

	2014	*2013 (restated)*
Fixed rate instruments:		
Financial assets	6 705 000	6 521 376
Total fixed rate instruments	**6 705 000**	**6 521 376**

Sensitivity analysis: foreign currency

20. The following table shows the sensitivity of surplus/deficits to strengthening and weakening of key currencies used by UNICEF. This analysis is based on foreign currency exchange rate variances that UNICEF considered to be reasonably possible as at the reporting date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted contributions and expenditures.

(Thousands of United States dollars)

	Surplus/(deficit)	
As at December 2014	*Strengthening*	*Weakening*
Euro	(83 564)	83 564
Pound sterling (10 per cent change)	(32 895)	32 895
Swiss franc (10 per cent change)	(6 077)	6 077
Swedish krone (10 per cent change)	(17 405)	17 405
Norwegian krone (10 per cent change)	(14 127)	14 127
Japanese yen (10 per cent change)	(2 913)	2 913
Total	**(156 981)**	**156 981**

21. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2014 only.

Sensitivity analysis: interest rates

22. The following table presents the sensitivity of net assets and surplus/deficits to a change in interest rates in the range of minus 30 basis points and plus 100 basis points, given outstanding positions as at 31 December 2014. Only the fair value of the bond portfolio is subject to fair value changes as a result of changes in interest rates, as all bonds are classified as available-for-sale financial instruments. Changes in fair value for available-for-sale financial instruments are recorded directly in net assets.

(Thousands of United States dollars)

	Impact		
	Net assets	*Surplus/deficit*	*Percentage*
Portfolio value	1 211 143		
Plus 100 basis points	1 196 623	21 803	1.79
Minus 30 basis points	1 221 719	3 292	0.27

Other price risk

23. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

24. Information on factors affecting the fair value measurement of UNICEF investments can be found at the beginning of this note.

Derivatives

25. UNICEF uses forward exchange contracts to manage risks related to foreign currencies. The Fund's reasons for holding these derivatives include reducing and efficiently managing the economic impact of foreign currency exposures as effectively as possible.

26. Gains/(losses) from changes in fair values of forward exchange contracts were nil in 2014 since UNICEF had closed out all of its forward exchange contracts before the end of the reporting period.

27. UNICEF invests in traded bonds, which are classified as available-for-sale financial instruments. These bonds have a call-option feature agreed to with the issuer at the time of purchase. This call-option feature gives the issuer the right to call the bond on pre-agreed dates throughout the life of the bond. Since the bonds are callable at par value (that is, their stated or face value), there is no risk of loss to the principal. All bonds held at the end of 2014 included a call-option feature.

28. UNICEF also invests in structured deposit financial instruments that include an embedded option (that is, an embedded derivative) along with a fixed-term deposit. This financial instrument earns an enhanced yield that is higher than a basic, standard time deposit. While this financial instrument has an underlying element of currency risk, it is only limited to the foreign exchange benefit forgone between the strike price and the current spot if the deposit is repaid in the alternative currency. No risk is involved if the option is not exercised.

Note 31
Capital management

1. UNICEF defines the capital it manages as the aggregate of its net assets, which comprises accumulated surpluses and reserve balances. This definition of capital is used by management and may not be comparable to measures presented by other United Nations organizations. UNICEF does not have any long-term borrowings outside of its finance lease liabilities, as its Financial Regulations and

Rules prohibit it from borrowing funds to either bridge its cash requirements or to leverage its cash position. Various reserves are established by management in order to provide funding of future expenses (see note 20, Net assets).

2. The objectives of UNICEF in managing capital are to:

- Safeguard its ability to continue as a going concern;
- Fulfil its mission and objectives as established by its strategic plan;
- Ensure sufficient liquidity to meet its operating cash requirements;
- Preserve capital;
- Generate a competitive market rate of return on its investments.

3. It should be noted that risk and liquidity management are emphasized over absolute rate of return for the investment portfolio.

4. A four-year medium-term strategic plan and integrated budget are proposed by the Executive Director and submitted to and approved by the Executive Board. The plan and the budget outline a recommended apportionment and utilization of existing and anticipated resources of UNICEF over the plan period, determining affordability while maintaining fund balance to ensure liquidity. The plan also includes a financial plan. The financial plan provides detailed financial projections of:

- Estimated future financial resources for each year of the plan period;
- Estimated yearly levels of costs;
- Working capital levels required for the liquidity of UNICEF.

Other resources: regular and emergency

5. For other resources, regular and emergency, the objective is to ensure programme implementation while remaining within the available fund balance. Management to that end is carried out on an individual programme budget basis. The cash component of these resources is commingled with other institutional resources and managed as a portfolio (the opening and closing balances for net assets is disclosed in note 20, Net assets).

6. The ability of UNICEF to obtain additional capital is subject to:

- Its ability to raise financial resources and generate revenue;
- Market conditions;
- The provisions of its Financial Regulations and Rules, and investment guidelines.

Restriction

7. UNICEF is subject to a Board-imposed liquidity requirement. The requirement does not constitute an external restriction. The UNICEF Financial Regulations and Rules indicate that, in order to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. In 1987, the Executive Board established the minimum year-end cash balance of regular resources as 10 per cent of projected regular resources income for the following year (decision 1987/14). There have been no changes in the way UNICEF manages its capital in 2014.

Note 32
Commitments

1. The following tables present the open purchase orders for which UNICEF had not received the related services or goods as at 31 December 2014. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2014	*2013*
Commitments for purchase of property and equipment (including finance leases)		
Buildings	357	–
Leasehold improvements	–	74
Vehicles	6 612	7 574
Furniture and fixtures	102	243
Communications and information technology equipment	2 576	2 316
Other capital commitments		
Intangible assets	886	178
Total capital commitments	**10 533**	**10 385**

	2014	*2013*
Operating commitments		
Contracts for purchase of supplies and other goods	274 548	248 837
Contracts for purchase of services	300 608	200 686
Commitments to transfer cash to implementing partners	68 276	11 188
Commitments to transfer supplies to implementing partners	246 778	235 752
Total operating commitments	**890 210**	**696 463**
Total commitments	**900 743**	**706 848**

2. UNICEF operating lease agreements include cancellation clauses with 30-day notice periods. As a result, there is no disclosure of operating lease commitments in the above table.

Long-term agreements

3. UNICEF also has various long-term agreements with suppliers. The table below identifies the total remaining contract value on long-term agreements that remained open as at 31 December 2014.

(Thousands of United States dollars)

	2014	*2013 (restated)*
Long-term agreements for goods	6 862 861	7 052 207
Long-term agreements for services	794 276	449 168
Total long-term agreements	**7 657 137**	**7 501 375**

Note 33
Contingencies

Contingent assets

1. In certain cases, prior to concluding contribution agreements, UNICEF receives pledges for future contributions. Furthermore, some contribution agreements require parliamentary approval before funds are received. These contingent assets are not recorded in the statement of financial position but are disclosed since the inflow of resources is probable. At the reporting date, probable contributions to UNICEF were estimated at $124.68 million (2013: $226.50 million).

Contingent liabilities

2. On 27 November 2013, the Executive Director of UNICEF announced a project for the establishment of a global shared service centre to provide country offices and headquarter locations with transactional processing support. The creation of the service centre is expected to affect 400 posts. A significant number of these posts will be abolished through natural attrition. As at 31 December 2014, UNICEF was still working on matching approximately 100 affected employees with other posts. The current plan is to transfer transactions to the service centre in a phased manner in 2015 and 2016. The separations are likely to take place over a similar timeline. Management is confident that most of the remaining affected employees will be retained within the organization in other roles. Any costs incurred will be covered from separation fund (note 20). As a result, no restructuring provision has been recognized for 2014.

3. UNICEF has an irrevocable standby letter of credit of $3 million that is held as a security deposit by the landlord of United Nations Development Corporation for the leased premises in New York. The letter of credit is not collateralized with any UNICEF investments. UNICEF does not expect this letter of credit to be used by the third party.

4. UNICEF is subject to a variety of claims and suits that arise from time to time in the ordinary course of its operations. These claims are segregated in the following two main categories: third-party claims and human resources claims.

5. As at 31 December 2014, UNICEF did not have any accrued liabilities for contingent legal matters. Consistent with IPSAS, UNICEF is not required to disclose descriptions of the nature of its contingent liabilities, as potential outflows from settlements are remote. With respect to outstanding legal matters, on the basis of current knowledge, UNICEF believes that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on its operations, financial position, financial performance or cash flows. However, as the outcome of such legal matters is inherently unpredictable

and subject to significant uncertainties, these possible obligations may become actual liabilities by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of UNICEF.

Note 34
Related parties

National Committees

1. National Committees, which constitute a unique category of UNICEF partners, were established for the purposes of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. Working as partners of UNICEF in their respective countries, National Committees are independent, non-governmental organizations registered under the laws of their respective countries as charities, trusts, foundations or associations. National Committees are required by their statutes to have governing boards that have control over the resources that they raise. The relationship between the National Committees and UNICEF, as well as their use of its name and logo, are regulated by the recognition and cooperation agreements signed between UNICEF and each National Committee. National Committees are currently established in 35 countries.

2. As stipulated in the cooperation agreements, National Committees provide UNICEF with annual certified revenue and expenditure reports. These reports indicate the total contributions received by the National Committee, the amount withheld to cover the costs of National Committee activities, or as reserves, and the net due to UNICEF.

Voluntary contribution revenue and receivables from National Committees

(Thousands of United States dollars)

	2014		*2013*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 061 885	319 363	1 070 445	370 208
Voluntary in-kind contributions	2 100	–	3 714	–
Total	**1 063 985**	**319 363**	**1 074 159**	**370 208**

3. Of the total voluntary cash contributions received in 2014, $499.29 million were institutional, $117.54 million were other resources — emergency, and $445.06 million were other resources — regular. The voluntary in-kind contributions of $2.10 million (2013: $3.71 million) comprised $1.67 million in other resources — emergency, with the remaining $0.43 million in other resources — regular.

4. According to the revenue and expenditure reports submitted by the National Committees, total contributions received by the National Committees in 2014, excluding proceeds from sales activities, were $1,396.15 million (2013: $1,440.93 million). Of that amount, $334.26 million (2013: $370.48 million) was retained by the National Committees to cover the costs of their fundraising, advocacy and management and administration activities, or as reserves. As a result, a total amount of $1,061.89 million (2013: $1,070.45 million) in net cash contributions was either transferred or due to be transferred to UNICEF from the National Committees.

5. In addition to the revenue and expenditure reports, National Committees prepare annual financial statements that are audited by independent certified auditors and are publicly available on the websites of the National Committees. These financial statements provide additional detail on the financial performance and financial position of the National Committees.

6. In accordance with the terms of the respective cooperation agreement with UNICEF, National Committees may establish reserves in order to comply with national laws and statutes, as well as for other purposes. In the event of the liquidation of a National Committee, net assets, including reserves, would be transferred to UNICEF, subject to the provisions of the cooperation agreement, if legally permitted, or otherwise in accordance with national law and the statute of the Committee. The National Committees reported to UNICEF through their revenue and expenditure reports that the retained reserves, based on their local accounting standards, stood at $174.36 million (2013: $198.91 million) as at 31 December 2014.

Supported deliveries

7. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $82.34 million (2013: $85.55 million). The deliveries were not reflected in the financial accounts of UNICEF, although they were handled through the administrative structures of the organization.

Key management personnel

8. The leadership structure of UNICEF is stratified into two main tiers:

(a) Executive: collectively this tier of leadership consists of the first two levels within the hierarchy, an Under-Secretary-General (Executive Director) and four Assistant Secretaries-General (Deputy Executive Directors);

(b) Management: collectively this tier of leadership consists of the third level within the hierarchy, the "head of office" of the global headquarters divisions and the regional offices;

(c) Close family members of key management personnel are presumed to be their spouses, domestic partners, children, grandchildren, brothers, sisters, parents, grandparents, or in-laws and relatives living in a common household as key management personnel, unless personal circumstances (such as estrangement) prevent the key management personnel from having influence over the close family member.

(Thousands of United States dollars)

	Number of individuals	*Salary and post adjustment*	*Other entitlements*	*Post-employment and long-term employee benefits*[a]	*2014*	*2013*
Key management personnel	32	5 222	2 196	1 270	8 688	7 918
Close family members	3	187	20	48	255	233
Total	**35**	**5 409**	**2 216**	**1 318**	**8 943**	**8 151**

[a] The increase in post-employment and other long-term benefits results from an increase in actuarially valued liabilities.

9. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements, such as assignment grants, the employer contribution to health insurance and pensions, dependency allowances, education grants, hardship, mobility and non-removal allowances, real estate agency reimbursements and representation allowances.

10. Key management personnel and their close family members are also eligible for post-employment employee benefits such as after-service health insurance, repatriation benefits and payment of unused annual leave.

11. Loans are referred to as "salary advances" at UNICEF. Salary advances are available to all UNICEF staff, including key management personnel, for specific purposes.

12. There were no loans and advances granted to key management personnel and their close family members that were not available to other categories of staff in accordance with United Nations Staff Rules.

United Nations programmes, funds and specialized agencies

13. UNICEF and other United Nations organizations work for and towards the enhancement of the United Nations efforts to achieve a better world for all. UNICEF is engaged extensively in the United Nations inter-agency financial and operating mechanisms, such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations organizations work together on activities to achieve a set of objectives. Each participating organization assumes its share of responsibilities related to planning, implementing, monitoring and evaluating activities.

Other related parties

Joint United Nations Programme on HIV/AIDS

14. The Joint United Nations Programme on HIV/AIDS (UNAIDS) is guided by the Programme Coordinating Board. UNICEF participates in the setting of financial and operating policies of the Programme Coordinating Board, which comprises 33 members, including 6 seats for co-sponsors (membership rotates among 10 United Nations organizations — co-sponsors). All 10 co-sponsoring organizations, through reports and recommendations to the Programme Coordinating Board, may influence strategy and technical policy-setting.

Global Alliance for Improved Nutrition

15. The Global Alliance for Improved Nutrition, an alliance that was created in 2002 at a special session of the General Assembly on children, supports public-private partnerships to increase access to the missing nutrients in diets necessary for people, communities and economies to be stronger and healthier. UNICEF participates in the setting of the Alliance's strategy and its financial and operating policies, holding 1 of 17 votes on its Board of Directors.

Global Partnership for Education

16. The Global Partnership for Education, previously the Education for All — Fast Track Initiative, is a Global Programme Partnership involving bilateral donors,

regional and international agencies, including UNICEF, development banks and civil society organizations on the one hand, and low-income countries on the other. Its overall aim is to strengthen international efforts to ensure universal primary education by 2015. UNICEF plays a significant role within the Global Partnership for Education at both the global and at country levels, and is currently the Coordinating Agency for the Local Donor Group in 14 countries, and Supervising Entity in 2. UNICEF has influenced the Global Partnership for Education to support inclusion of countries in fragile situations.

Global Fund to Fight AIDS, Tuberculosis and Malaria

17. The Global Fund to Fight AIDS, Tuberculosis and Malaria was established in 2002 as a public-private partnership with the goal to raise, manage and disburse additional resources to prevent and treat HIV and AIDS, tuberculosis and malaria. In addition to the Global Fund's disease-specific funding, the Global Fund also provides resources for health systems strengthening. Since the Global Fund's inception in 2002, UNICEF has been an active partner at the global and country levels.

GAVI, the Vaccine Alliance

18. GAVI, the Vaccine Alliance was launched in 2000 as a public-private global health partnership committed to increasing access to immunization in poor countries. UNICEF plays important roles in the provision of vaccines and immunization supplies for countries through UNICEF's Supply Division and provides technical assistance to Governments in the preparation of applications to the Alliance and the implementation of Alliance-supported programmes. The Alliance makes funds available to UNICEF through escrow accounts and has also entered into promissory note agreements with UNICEF As at 31 December 2014, the total amount of outstanding promissory notes were $89.13 million (see note 11, Other assets). In addition, to the above, UNICEF also manages Alliance funds that are recorded in voluntary contributions in support of global and country-specific programmes.

Revenue realized from other related parties as at 31 December

(Thousands of United States dollars)

	2014	*2013*
UNAIDS	12 602	6 255
Global Alliance for Improved Nutrition	–	295
Global Partnership for Education	76 447	53 197
GAVI, the Vaccine Alliance	69 993	63 403
Global Fund to Fight AIDS, Tuberculosis and Malaria	33 127	21 018
Micronutrient Initiative	12 990	17 163
Total	**205 159**	**161 331**

Note 35
Segment information

1. A segment is a distinguishable activity or group of activities for which it is appropriate to report financial information separately. At UNICEF, segment information is based on the principal activities and sources of financing of the organization. For UNICEF the relevant segments are labelled institutional, regular resources, other resources — regular and other resources — emergency.

Institutional and regular resources segments

Revenue

2. Revenue included in these segments is defined as regular resources in the UNICEF Financial Regulations and Rules. Regular resources include unrestricted contributions, proceeds from the sale of UNICEF cards and products and from other revenue-producing activities and miscellaneous revenue.

3. Revenue from regular resources is allocated between the institutional segment and the regular resources segment as follows:

- The regular resources segment includes voluntary contributions (non-exchange revenue), revenue from greeting cards and products, exchange revenue such as interest, proceeds on sale and procurement services fees;
- The institutional segment includes internal cost recovery and direct attribution such as warehouse overhead and centrally managed costs.

Activities

4. The institutional segment includes UNICEF headquarters and central functions, as well as its treasury operations. Headquarters and central functions provide business support in a number of areas, including: communications; finance and accounting; management of after service health insurance; human resources; information technology; legal services; travel; asset management and security; and donor-related activities. The central functions also process transactions, manage data and provide other services.

5. These activities are funded from the institutional budget and the Private Fundraising and Partnerships budget. The expenditures against the budget are recorded on a modified cash basis and are described in statement V.

6. The major categories of expenses within the institutional segment include salaries, depreciation of assets and increases in the after-service health insurance liability.

7. The institutional segment includes assets and liabilities that are linked to the overall UNICEF mandate and are not easily allocated to other segments. The main categories of assets included in this segment are centrally managed buildings, staff advances and intangible assets. Also included is the inventory maintained in the warehouse in Copenhagen. The main liability is for after-service health insurance.

8. The regular resources segment includes activities described in programme documents. These activities are funded from the country programmes and the advocacy, programme development and inter-country programme (the expenditures

against the budget are recorded on a modified cash basis and are described in statement V).

9. The majority of categories of expense within this segment include the utilization of cash transferred to implementing partners, programme supplies delivered to implementing partners and salaries and benefits.

10. Major categories of assets are inventory and direct cash transfers, which are funded from the country programmes and the advocacy, programme development and inter-country programme.

11. The combined net assets of these two segments represents the regular resources fund balance, as defined by the Financial Regulations and Rules. To determine the portion of the regular resources fund balance available for funding the institutional budget, the Private Fundraising and Partnerships budget, country programmes and the advocacy, programme development and inter-country programme, UNICEF adjusts the fund balance for reserves, capital requirements and relevant assets and liabilities.

Other resources — regular and other resources — emergency segments

12. Other resources (regular) includes funds contributed to UNICEF by Governments, intergovernmental organizations, non-governmental organizations and the United Nations system for specific purposes within the programmes approved by the UNICEF Executive Board.

13. Other resources — emergency include those funds earmarked for emergency operations.

14. These segments include activities described in programme documents. These activities are funded from the country programmes, emergency appeals and the advocacy, programme development and inter-country programme (the expenditures against the budget are recorded on a modified cash basis and are described in statement V).

15. The majority of categories of expense within the other resources (emergency) segment include the utilization of cash transferred to implementing partners, programme supplies delivered to implementing partners and salaries and benefits. In addition, these segments are charged a cost-recovery fee, which is eliminated in the "inter-segment" column in the report on the segment.

16. The fund balance is recorded at the level of individual donor agreements within the accounting records of UNICEF. The combined other resources — regular and other resources — emergency fund balance is earmarked for the purposes set out in the donor agreements and, at the conclusion of the activities, unspent balances are either returned to the donor or reprogrammed, as permitted under the donor agreement.

Trust fund segment

17. The trust fund segment includes activities defined by the Financial Regulations and Rules as special accounts. The fund balance is maintained separately and is accounted for as funds held on behalf of a third party.

18. For each trust fund, a determination is made as to whether UNICEF has control over the activity as determined by the organization's accounting policy. Where the answer is yes, the accounting policy for exchange revenue and recording of expense is applied. Otherwise, all cash inflows and outflows are netted together in a liability account. The fee charged by UNICEF to manage the activities is recorded as other income within the institutional segment.

19. Procurement services represent the primary component of activities within the trust fund segment.

20. This segment also contain other smaller grants that are managed in similar fashion to trust funds, such as guest houses managed for UNICEF staff and contractors in volatile locations where commercial alternatives are not available. Income from these guesthouses is used solely for maintenance and upkeep of the guesthouse in question.

Segment information on assets and liabilities by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2014*
Segment assets							
Current segment assets							
Cash and cash equivalents	1 586 784	–	–	–	–	–	1 586 784
Inter-segment activity[a]	(3 153 585)	–	2 006 352	670 129	477 104	–	–
Investments	1 630 490	–	–	–	–	–	1 630 490
Inventories	50 531	34 766	164 431	208 918	185	–	458 831
Contributions receivable	–	271 422	826 271	490 467	–	–	1 588 160
Other receivables	23 887	7 651	11 794	2 811	524	–	46 667
Deferred revenue	–	113 476	337 999	227 781	–	–	679 256
Other assets	27 143	8 516	8 357	1 197	713 422	–	758 635
Non-current segment assets							
Investments	1 211 143	–	–	–	–	–	1 211 143
Contributions receivable	–	23 693	523 083	4 800	–	–	551 576
Property and equipment	175 011	21 565	6 296	9 543	33	–	212 448
Intangible assets	4 387	3 318	149	31	–	–	7 885
Other receivables	1 016	7	18	5	–	–	1 046
Non-current other assets	1 967	–	–	–	32 690	–	34 657
Total segment assets 2014	**1 558 774**	**484 414**	**3 884 750**	**1 615 682**	**1 223 958**	**–**	**8 767 578**
Total segment assets 2013 (restated)	**1 546 880**	**522 020**	**3 825 400**	**1 162 786**	**964 793**	**–**	**8 021 879**

[a] For both risk management and efficiency reasons, all cash and investments are held and managed centrally and are therefore included within Institutional segment.
The inter-segment activity represents the cash held at the end of the year on behalf of other segments.

Segment information on assets and liabilities by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2014*
Segment liabilities							
Current segment liabilities							
Accounts payable	45 303	15 342	49 675	25 610	141 933	–	277 863
Deferred revenue	–	57 877	672 228	253 712	–	–	983 817
Funds held on behalf of third parties	–	–	–	–	908 018	–	908 018
Finance leases and other liabilities	12 315	6 295	–	–	90 437	–	109 047
Employee benefits	101 354	533	560	132	–	–	102 579
Provisions	21 548	–	4 259	9 437	–	–	35 244
Non-current segment liabilities							
Deferred revenue	–	23 012	523 084	4 800	–	–	550 896
Employee benefits	1 195 715	–	–	–	–	–	1 195 715
Finance leases and other liabilities	51 754	–	–	–	84 210	–	135 964
Total segment liabilities 2014	**1 427 989**	**103 059**	**1 249 806**	**293 691**	**1 224 598**	**–**	**4 299 143**
Total segment liabilities 2013 (restated)	**1 178 139**	**164 533**	**1 393 206**	**218 816**	**963 030**	**–**	**3 917 724**
Net assets 1 January 2014	**726 228**	**–**	**2 432 194**	**943 970**	**1 763**	**–**	**4 104 155**
Surplus/(deficit) for the year	(4 951)	–	202 762	378 025	(3 278)	–	572 558
Actuarial gains/(losses) recognized directly in the reserves	(206 689)	–	–	–	–	–	(206 689)
Changes in fair value of available-for-sale financial assets	(1 589)	–	–	–	–	–	(1 589)
Movement between funds	(859)	–	(12)	(4)	875	–	–
Net assets 31 December 2014	**512 140**	**–**	**2 634 944**	**1 321 991**	**(640)**	**–**	**4 468 435**
Net assets 31 December 2013 (restated)	**726 228**	**–**	**2 432 194**	**943 970**	**1 763**	**–**	**4 104 155**

Segment information on revenue and expenses by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2014*
Segment revenue							
Voluntary contributions	–	1 188 990	2 263 982	1 579 448	–	–	5 032 420
Revenue from greeting cards and products	–	42 696	–	–	–	–	42 696
Interest revenue	–	29 755	–	–	–	–	29 755
Other revenue	–	44 089	5 067	725	14 536	–	64 417
Internal cost recovery	227 448	–	–	–	–	(227 448)	–
Internal direct attribution	140 628	–	–	–	–	(140 628)	–
Total segment revenue 2014	**368 076**	**1 305 530**	**2 269 049**	**1 580 173**	**14 536**	**(368 076)**	**5 169 288**
Total segment revenue 2013	**299 350**	**1 256 692**	**2 256 034**	**1 332 739**	**7 703**	**(299 350)**	**4 853 168**
Segment expenses							
Transfers of cash assistance	–	243 674	814 909	453 451	–	–	1 512 034
Transfer of programme supplies	–	64 812	435 854	350 831	–	–	851 497
Employee benefit expenses	476 777	279 008	265 396	106 716	1 652	–	1 129 549
Depreciation and amortization	10 564	4 117	1 839	2 075	2	–	18 597
Commissions and cost of greeting cards	20 040	–	–	–	–	–	20 040
Investment funds for market development	31 865	–	–	–	–	–	31 865
Other expenses	234 657	268 625	549 493	290 225	16 163	(368 076)	991 087
Finance costs	3 547	–	–	–	–	–	3 547
Total segment expenses 2014	**777 450**	**860 236**	**2 067 491**	**1 203 298**	**17 817**	**(368 076)**	**4 558 216**
Total segment expenses 2013	**793 931**	**808 473**	**1 770 349**	**1 008 699**	**6 861**	**(299 350)**	**4 088 963**
Gains and (losses), net 2014	(44 369)	3 498	1 204	1 150	3	–	(38 514)
Gains and (losses), net 2013	(4 628)	(71)	328	(264)	–	–	(4 635)
Net surplus/(deficit) 2014	**(453 743)**	**448 792**	**202 762**	**378 025**	**(3 278)**	**–**	**572 558**
Net surplus/(deficit) 2013	**(499 209)**	**448 148**	**486 013**	**323 776**	**842**	**–**	**759 570**

Note 36
Subsequent events

1. Subsequent to the statement of financial position date, but prior to the signing of these financial statements, on 10 February 2015 the Executive Director announced that the global shared service centre would be located in Budapest. It is planned that the roll-out of the centre will start in June of 2015 and will continue on a phased basis into 2016. It is estimated that operating costs for the centre located in Budapest will be $19.3 million annually. The announcement is subject to the signing of a host country agreement and UNICEF management is expecting that this will be completed shortly.

2. Subsequent to the statement of financial position date, but prior to the signing of these financial statements, in its first regular session, 3 to 5 February 2015, the UNICEF Executive Board extended and expanded the Vaccine Independence Initiative and its revolving fund for the period 2016-2020. The authorized capitalization of the underlying revolving fund was increased by $90 million to $100 million (2013: $10 million), subject to the availability of specific-purpose contributions. The board approved the utilization of the revolving fund to support timely procurement of non-vaccine commodities and to support contracting arrangements that result in a secure supply or reduced prices of vaccines and other commodities.

3. Subsequent to the statement of financial position date, but prior to the signing of these financial statements in February 2015, UNICEF held a pledging conference where $48 million of regular resources was pledged by various donors against a 2015 target in the medium term strategic plan of $630 million.

Note 37
Prior period adjustments

1. UNICEF enters into long-term agreements with suppliers of vaccines to procure vaccines as part of procurement services for GAVI, the Vaccine Alliance. As part of this arrangement, the Alliance issues equivalent value of promissory notes and other assets in favour of UNICEF that match its commitments under the long-term agreements. These assets and liabilities relating to these arrangements had previously been off set against each other and a prior period adjustment has been recorded to show the correct gross position with no impact on total net assets held. The 2013 comparative figures at the individual line item level were retrospectively restated to show gross position;

- Promissory notes and other assets of $163.53 million (2013: $262.25 million) issued by the Alliance as part of the procurement services for the Alliance are financial assets that should be recognized in the financial statements. The other assets comparative balance was restated retrospectively by $262.25 million to reflect the assets increasing balance for total assets for 2013 by $262.25 million;
- Linked long-term agreements with vaccine suppliers related to the procurement services of $163.53 million (2013: $262.25 million). The long-term agreements are backed by the above-mentioned promissory notes and other assets. Financial liabilities should be recognized in the financial statements for these agreements. The other liabilities comparative balance was restated retrospectively, increasing the balance of total liabilities for 2013 by $262.25 million.

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