General Assembly
Official Records
Seventy-first Session
Supplement No. 5C

A/71/5/Add.3*

United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2015

and

Report of the Board of Auditors

United Nations • New York, 2016

* Reissued for technical reasons on 14 October 2016.

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.

ISSN 1020-2439

Contents

Letters of transmittal

Letter dated 31 May 2016 from the Executive Director of the United Nations Children's Fund addressed to the Executive Secretary to the United Nations Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2015. 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 2016 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 2015, 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 United Nations 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 2015, 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 judgment, 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 2015 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 United Nations 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 2016

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 2015. 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

UNICEF has reported a net deficit of $76 million for the year under review (2014: surplus of $572.6 million). This was mainly due to an increase in expenses of 12 per cent, reflecting increased programmatic activities through the provision of programme supplies and transfers of cash assistance mainly in the Middle East and North Africa and the West and Central Africa regions. However, substantial actuarial gains[a] ($240 million) helped raise the net assets to $4,631 million despite the net deficit during the year.

Total assets have remained almost at the same level as at the end of the previous year, but the total liabilities have declined, leading to an increase in the accumulated surpluses and reserves. The total assets to total liabilities ratio was 2.11, which indicated strong solvency. The current ratio was 2.80:1, which showed high liquidity and that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2015.

During the year ended 31 December 2015, UNICEF continued to address the concerns expressed by the Board of Auditors in its previous reports. There was, however, no improvement in the implementation of the recommendations of the Board. Of 23 outstanding recommendations, only 9 (39 percent) (2014: 42 per cent) were implemented and closed, whereas 14 recommendations (61 per cent) remained under implementation.

The Board has noticed continuous weaknesses in the areas of budget and grants management, the harmonized approach to cash transfers, the activities of National Committees, programme management and inventory management. The Board has also asked UNICEF to consider the need for an annual integrated budget document for more effective monitoring and control.

Key audit findings

Budget management

UNICEF has multiple budgets, including the institutional budget, country programme budgets, emergency appeal budgets, the integrated budget and the Private Fundraising and Partnerships budget, among others. The budget cycles, the level of aggregation and the sources of funds vary for each type of budget. UNICEF does not have a composite annual budget that comprises all types of expenditure.

The programme budget was used for meeting expenses that potentially were eligible to be met from the institutional budget. The recommendation of the Board to 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 has yet to be implemented.

Harmonized approach to cash transfers

This approach essentially makes the monitoring of cash assistance given to implementing partners more efficient by moving to a risk-based approach adopted by all of the United Nations agencies that participate in it. Thirty-five country offices did not carry out a macroassessment, and 312 of the 2,042 microassessments planned in 2015 were not completed as required by the harmonized approach. Many assurance activities were also not completed in accordance with the plan.

Donor reporting

There was a delay in sending reports to donors on the utilization of grants. The delay was up to 162 days in the West and Central Africa Regional Office and up to 98 days in the Regional Office for South Asia. Offices are required to ensure timely and quality reports to account for the resources entrusted to the organization and to help raise future resources.

Programme management

There were delays in the implementation of integrated monitoring and evaluation plans in country offices audited during the year, which in turn affected the monitoring and evaluation responsibilities of country offices and national partners. There were also delays in the preparation and approval of annual work plans and annual management plans, affecting the timely implementation of various country programmes.

Inventory management

The in-bound freight costs ($85.28 million) incurred for the purchase of programme supplies was not capitalized at the time of their receipt as stores-in-hand. Instead, an end-of-the-year exercise of apportionment of freight costs at an enterprise-wide level was carried out on an approximation basis[b] for inclusion in the inventory in the financial statements. When the inventory is issued as programme supplies and expensed during the year, the value so expensed does not include in-bound freight costs and the freight costs are recorded under other expenses as distribution costs. That resulted in an understatement of transfer of programme supplies by $85 million.

Procurement and contracting

There were delays in the delivery of goods as noted in the country offices of India and Nepal and the Regional Office for South Asia.

Of 4,137 cases of delays, liquidated damages were levied or proposed to be levied by various centres of the Supply Division in only 52 (less than 2 per cent). The cases of delay included 17 cases of non-emergency supplies and 192 of emergency supplies.

Main recommendations

On the basis of its findings, the Board of Auditors recommends that:

(a) **UNICEF consider (a) consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the Executive Board; and (b) include budgeted amounts for various activities under each outcome at the appropriate business unit level;**

(b) **UNICEF identify the operational costs that should be met from the programme budget and the institutional budget for maintaining their distinction in accordance with UNICEF Financial Regulations and Rules;**

(c) **UNICEF, with the objective of ensuring an effective harmonized approach to cash transfers management, institute a process to comprehensively capture the data and monitor the outcomes of assurance activities and action taken thereon by the country offices;**

(d) **Regional offices strengthen their internal control mechanism on the monitoring of donor reports and ensure that all donor reports are sent on time;**

(e) **UNICEF ensure that (a) regional and country offices take necessary steps to prepare realistic integrated monitoring and evaluation plans and improve their completion rate of activities; and (b) follow the procedure prescribed in the UNICEF Programme Policy and Procedure Manual with respect to the preparation and implementation of annual workplans and annual management plans in order to enable their timely execution;**

(f) **UNICEF include the freight costs in the programme supplies transferred to implementing partners in order to reflect their correct carrying cost;**

(g) **UNICEF ensure that the purchase orders contain realistic delivery dates, binding both on the suppliers and UNICEF, and consider any unjustified deviation seriously in the interest of programme implementation;**

(h) **UNICEF review cases of delay and follow up with contracting staff, suppliers and freight forwarding agents to ensure timely delivery of supplies.**

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[a] Actuarial gains occur because the liability due to the current year's services was less than the amount provided in the previous year or because the plan assets gave higher returns than anticipated.

[b] Freight costs would have been incurred on items currently in stock as inventory and the items expensed when issued to programmes. Therefore, the Division of Financial and Administrative Management apportions the total freight costs to both inventory and expensed supplies in proportion to the purchase cost of inventory issued and expensed. The proportion that relates to inventory is then added to the value of inventory in the financial statements, although it remains a separate general ledger item in the trial balance.

Key facts

$5.020 billion: Revenue and other gains

$5.096 billion: Expenses

$0.076 billion: Deficit for the year

$8.794 billion: Assets

$4.163 billion: Liabilities

$4.631 billion: Accumulated surpluses 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 a staff strength of 12,593 as at 31 December 2015.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2015, 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 2015 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. The audit was carried out through field visits to six UNICEF country offices[1] 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.

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

[1] Nigeria and the Democratic Republic of the Congo in the West and Central Africa region (Regional Office in Dakar); Brazil and Argentina in Latin America (Regional Office in Panama City) and the Caribbean region; and Nepal and India in the South Asia region (Regional Office in Kathmandu).

discussed with the administration, whose views are appropriately reflected in the report.

B. Audit findings and recommendations

1. Follow-up to previous recommendations of the Board

6. There were 23 outstanding recommendations at the end of the year 2014, of which 9 (39 per cent) have been implemented and closed, and 14 (61 per cent) are under implementation (see annex I).

2. Financial overview

7. In 2015, UNICEF reported a net deficit of $75.5 million (2014: surplus of $572.6 million). However, substantial actuarial gains[2] ($240 million) helped raise the net assets to $4,631 million despite the net deficit during the year.

8. Total assets ($8,794 million) have remained almost at the same level as at the end of the previous year, but the total liabilities ($4,163 million) have declined by $136 million, leading to an increase of $136 million in the accumulated surpluses and reserves. The ratio of total assets to total liabilities was 2.11, which indicated strong solvency. The current ratio[3] was 2.80:1, which showed high liquidity, indicating that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2015. The financial ratios of UNICEF are set out below.

Table II.1
Financial ratios

Description of ratio	*2015*	*2014*	*2013 (restated)*
Total assets: total liabilities[a]			
Assets: liabilities	2.11	2.04	2.05
Current ratio[b]			
Current assets: current liabilities	2.80	2.79	3.18
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	2.04	2.01	2.53
Cash ratio[d]			
(Cash + short-term investments): current liabilities	1.40	1.33	1.73

Source: UNICEF 2015 and 2014 financial statements.
[a] A high ratio is a good indicator of solvency.
[b] A high ratio indicates an entity’s ability to pay off its short-term liabilities.
[c] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.
[d] The cash ratio is an indicator of an entity’s liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.

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[2] Actuarial gains occur because the liability due to the current year’s services was less than the amount provided in the previous year or because the plan assets gave higher returns than anticipated.
[3] Ratio of current assets to current liabilities.

9. Total liabilities of UNICEF stood at $4,163 million (2014: $4,299 million) as at 31 December 2015, with non-current employee benefits liabilities at $1,034 million (2014: $1,196 million), representing 61 per cent of the total non-current liabilities (not due in the next 12 months), as at 31 December 2015. An actuarial valuation was conducted in 2015 that covered the non-current liabilities, which included after-service health insurance, end-of-service entitlements and death benefit. Earmarked reserves funded 51 per cent of the actuarial and other liabilities and provisions recognized in the statement of financial position, leaving a funding deficit of $545 million.

3. Budget management

Need for annual budget

10. UNICEF has multiple budgets, including (a) country programme budgets; (b) emergency appeal budgets; (c) the Global and Regional Programme budget; (d) the Emergency Programme Fund; (e) the institutional budget; and (f) the Private Fundraising and Partnerships budget, among others. The budgets, using different time frames, are approved by the Executive Board at different points in time. The budget cycles, the level of aggregation and the sources of funds vary for each type of budget (see annex II). The country programme budgets and Global and Regional Programme budget are multi-year budgets with varying time frames. The Executive Board approves the total amount for each outcome for the entire budget period. The yearly allocation is made by the respective business units and maintained in the UNICEF system. The Board noted that UNICEF does not have a consolidated annual budget that comprises all types of expenditure that works as an important tool for effective financial control. The integrated budget, prepared for a four-year period, integrates the country programme budgets with the institutional budget and provides a yearly breakdown of resources estimated to be available and their utilization. However, its cycle is different from the budget cycles of country programme budgets, and is therefore not reflective of the annual country budgets, which are approved at different times compared with the integrated budget and also cover a budget period that is not aligned with that of the Strategic Plan/integrated budget.

11. As a decentralized organization, UNICEF provides considerable flexibility to its country and regional offices, which have the flexibility to request re-allocations within the aggregate budget amount for each outcome. As a result, there is no budget for any level below "outcome" in the budget documents.

12. Management stated that UNICEF prepares and presents financial information and budgets to the Executive Board consistent with the harmonized practices of other United Nations agencies. UNICEF has multiple budgets that are prepared at different times and use different mechanisms in line with the UNICEF Financial Regulations and Rules and the decisions of the Executive Board. Management also stated that, as UNICEF is a decentralized organization, the result statements are articulated at the country office level and reflect country-specific results. The country office results are linked to the UNICEF Strategic Plan through programme information database coding. As a result, at the same time that they are preparing multi-year plans, offices are also preparing annual budgets.

13. The Board is of the view that UNICEF has a multiplicity of budgets covering different areas of expenditure in different years. The country programme budgets, which have the major part of the total budget, provide programme-based aggregate amounts for the entire budget period. They do not provide yearly breakdowns or

amounts allocated to various activities under outcomes. The multiplicity of budgets and the non-availability of disaggregated amounts below the outcome level may reduce the effectiveness of the budget as a tool of financial control. Further, an annual budget, based on the workplans, down to the level of activities and operational costs across all fund sources, might not conflict with the decentralized nature of the organization; on the contrary, it would enhance budgetary controls.

14. **The Board recommends that UNICEF consider (a) consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the Executive Board; and (b) include budgeted amounts for various activities under each outcome at the appropriate business unit level.**

Funding administration and operational costs from the programme budget

15. Regulation 1.2 (f) (i) of the UNICEF Financial Regulations and Rules states 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 those activities is met from the programme budget.

16. Under regulation 1.2 (h), the institutional budget shall cover the costs of development effectiveness activities, management activities, United Nations development coordination 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 the 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” means activities that are aimed at promoting the identity, direction and 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.

17. In the previous report (see A/70/5/Add.3, paras. 24-27) the Board of Auditors noted that the programme budget was used for meeting expenses that should have been met from the institutional budget and recommended that management should 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. The administration responded in the addendum to the report of the Secretary-General on implementation of the recommendations of the Board of Auditors (A/70/338/Add.1) that UNICEF had started a consultative process that would result in the issuing of guidance on cost attribution principles to be used for the 2016 and 2017 budget submissions. The action plan to address the recommendation also included 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, which was planned to be established in phases from August 2015 onward. Conclusions on the appropriate level of operational posts in country offices can only be drawn after the Centre is fully operational. The administration set a timeline up to the end of 2017 for implementation.

18. The Board continued to note that, in certain country offices audited during the year, the programme budget was used for meeting expenses that potentially could be

met from the institutional budget, as presented in the table below. The staff engaged in functions such as administration, finance, accounting, supply and information technology were charged to the programme budget. Unless the operational posts that were to be charged to programme budgets were specified, the Board could not derive assurance that funds from the programme budget were not being spent on costs that should be met from the institutional budget.

Table II.2
Administrative staff funded from the programme budget

		Administrative staff funded from the programme budget		
Country Office	*Staff funded from the programme budget*	*Number*	*Percentage*	*Annual expenditure (Millions of United States dollars)*
Brazil	79	21	27	1.02
Democratic Republic of the Congo	445	45	10	1.95
Nepal	103	14	14	1.19
Nigeria	271	14	5	1.10

Source: Data collected from country offices listed above.

19. Further, the Board found that, though core management functions are typically required to be funded from the institutional budget, the costs of the following divisions at the headquarters office in New York were charged in 2015 to programme funds, which include regular resources, other resources — regular, other resources — emergency and the Emergency Programme Fund.

Table II.3
Core management functions charged to programme funds and/or the institutional budget
(United States dollars)

Division	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Emergency Programme Fund*	*Institutional budget*
Office of the Executive Director	–	285 805	–	–	7 146 977
Division of Communication	4 059 935	653 013	614 286	166 932	14 507 559
Division of Financial and Administrative Management	–	–	–	–	28 701 410
Division of Human Resources	–	360 946	1 579 484	204 034	28 565 381
Information Technology Solutions and Services	–	8 099	189 851	–	27 022 772
Evaluation Office	2 747 103	1 280 183	1 458 489	–	1 582 616
Total	**6 807 038**	**2 588 046**	**3 842 110**	**370 966**	**107 526 715**

Source: Files available on Division of Financial and Administrative Management SharePoint.

20. The entire costs of $121.14 million with respect to the headquarters divisions listed above should have been charged to the institutional budget, however, the Board observed that, of $121.14 million, $107.53 million was charged to the institutional budget and the remaining $13.61 million was met from programme

funds. UNICEF stated that headquarters divisions could also have regular resources, other resources — regular and other resources — emergency expenses when their work directly supported programmes or when donors provided funding for specific headquarters initiatives to improve core processes (for example, headquarters-based operations staff whose primary purpose was to support the operations function of emergencies) or contributions for improving core functions would be recorded as other resources, as they were earmarked for their use.

21. UNICEF stated that the development of guidance on direct cost attribution to programmes was currently in progress and they were conducting a comprehensive review of the operations function with the objective of clarifying the application of the principles for cost attribution for operating costs charged to programme funds. The results of the exercise would be discussed internally during the fourth quarter of 2016 with guidance expected to be issued in 2017.

22. The Board found that a part of administrative or management costs came from the institutional budget and the remaining part from the programme budget as direct costs for support personnel. There was a risk that a number of administrative or management costs might be met from the programme budget in the absence of proper identification of such costs. Without clear demarcation of indirect costs and the budget to which they can be charged, there was a risk of inconsistencies and a lack of transparency for the donors and the Executive Board on the funds that were actually available to programmes. The Board is of the view that the utilization of the programme budget for meeting staff costs involved in administration and management may affect the implementation of programmes for which programme funds were intended. Any administrative cost other than programme support costs represents an additional burden on the programme budget. In addition, the institutional budget would also not reflect the reality of the Fund's administrative and management expenditure.

23. **The Board reiterates its recommendation that UNICEF identify the operational costs that should be met from the programme budget and the institutional budget for maintaining their distinction in accordance with UNICEF Financial Regulations and Rules.**

4. Cash management

Direct cash transfers and harmonized approach to cash transfers

24. The Fund's direct cash transfers to implementing partners amounted to $1.77 billion in 2015. There are a total of 8,711 implementing partners who collaborate with UNICEF, of which 5,044 (58 per cent) are national governments and 3,667 (42 per cent) are non-governmental organizations.

25. UNICEF adopted a revised harmonized approach to cash transfers framework[4] in February 2014. The policy aimed at instituting:

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

[4] An earlier version of the framework was adopted in 2005 by UNICEF, the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and the World Food Programme (WFP), whose representatives sit on the Executive Board of the United Nations Development Group, which has endorsed the framework.

(b) Transparent processes and oversight of cash transfers at the 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.

26. The harmonized approach to cash transfers framework essentially makes the monitoring of cash assistance given to implementing partners more efficient by moving to a risk-based approach adopted by all the United Nations agencies that participate in it. Activities include:

(a) Macroassessments of the countries, which is a review of the existing available reports on public financial management of the country;

(b) Microassessment of the implementing partner to assess the partner's financial management capacity before the beginning of the programme cycle (valid for 5 years), determining the risk rating of the partner, if the partner receives more than $100,000 in a calendar year;

(c) Assurance plans based on the risk rating of the implementing partner in microassessment. UNICEF country offices: (i) conduct spot checks on the partner's reports of utilization of cash; (ii) conduct programmatic visits to assess the achievements reported by the partners; and (iii) plan a scheduled audit by an external service provider if the partner receives more than $500,000 per programme cycle.

(a) Status of country macroassessments and implementing partner microassessments

27. The Board noted that valid macroassessments were in existence for 92 countries in 2015. At the end of 2015, 35 country offices did not have a macroassessment; 10 were reported to be in progress; in 18 others, it was either not required or not possible.

28. With regard to conducting microassessments, country offices manage their annual plans and report to the regional offices and headquarters on the planned and actual microassessments. The Field Results Group[5] stated that it had no centralized information on the number of microassessments of implementing partners that were due for the year. However, 2,042 microassessments were planned for 2015, of which work with respect to 1,730 had been completed.

29. The status of implementation of the harmonized approach to cash transfers framework assurance plans is uploaded by the country offices generally biannually and, in some regions, quarterly. While the framework's status report captures the data on implementation status, the Board could not find an assurance on critical risks such as whether segregation of duties[6] had been respected (and whether regional framework focal points had been contacted to mitigate risks, if any, associated with conflicts related to the segregation of duties, particularly in smaller offices).

[5] The Field Results Group was created in 2014 to, among other things, manage the harmonized approach to cash transfers framework at the headquarters level.

[6] It is essential that the same person who releases the cash transfers does not also conduct spot checks for the verification of utilization of funds.

30. UNICEF stated that segregation of duties with respect to the spot check could not be covered in the harmonized approach to cash transfers framework status report and could be tested by the audit in future visits.

(b) Status of implementation of assurance plans

31. All the country offices had assurance plans. UNICEF reported high achievement in implementation of assurance plans in 2015. However, the achievements in the West and Central Africa Region, which received $483 million, that is, 29 per cent of the direct cash transfers globally, fell short, reporting 60 per cent, 63 per cent and 42 per cent achievement against programmatic visits, spot checks and scheduled audits respectively in 2015. In the Latin America and Caribbean Region, which received $52 million (2.8 per cent of the total) the achievement totals were 46 per cent, 34 per cent and 21 per cent respectively at the time of audit in November 2015. With regard to the top 25 country offices, the Board found that 14 countries, which together received 35 per cent of the direct cash transfers globally, achieved less than 80 per cent of the minimum requirements. The Field Results Group informed the Board that the lack of achievement was due to security concerns and a lack of access in places such as the Syrian Arab Republic and Yemen, and the sudden onset of emergencies such as natural disasters (Nepal) or epidemics (Sierra Leone), resulting in high transfers within short periods and a large number of minimum requirements. Thus, regions and countries that were high-risk and received substantial cash transfers could not achieve the minimum requirements in the implementation of harmonized approach to cash transfers framework assurance.

(c) Going forward

32. In 2014, UNICEF, in conjunction with the United Nations Population Fund (UNFPA) and the United Nations Development Programme (UNDP), developed a global strategy to better collectively manage the harmonized approach to cash transfers. It was decided that UNICEF, in conjunction with UNFPA, would enter into long-term agreements by January 2015 with third-party service providers to conduct various activities related to the harmonized approach to cash transfers framework[7] in the country and regional offices. Long-term agreements were executed, but delays in their execution ranged from four to nine months, which was attributed to negotiations on general terms and conditions of the contracts with the vendors. The Board also found that the volume of services to be provided by the vendors was not assessed prior to the bidding process.

33. Roughly $2 million was committed to procure from vendors 153 items of services ranging from macroassessments, microassessments, spot checks and audits from September to December 2015. UNICEF could not provide the Board with an estimate on the anticipated expenditure in the coming years for those procurements.

(d) Status of direct cash transfers

34. The position of outstanding direct cash transfers across all regions as at 31 December 2015 is set out in the table below.

[7] Those covered, among other things, harmonized approach to cash transfers framework assessments, assurance activities, internal control and financial audits, follow-ups on recommendations, advisory services and the preparation of reports.

Table II.4
Outstanding direct cash transfers as at 31 December 2015
(Millions of United States dollars)

	0-6 months		*6-9 months*		*More than 9 months*		*Outstanding direct cash transfers*
Region	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*
CEE-CIS	32.97	100	0.13	0	0.03	0	33.14
EAPR	37.92	5	2.17	5	0.30	1	40.39
ESAR	168.42	23	7.26	4	2.64	1	178.32
HQ	4.40	1	0.36	8	0.02	1	4.79
LACR	19.85	3	0.98	5	0.26	1	21.09
MENA	184.87	25	3.91	2	1.50	1	190.28
ROSA	70.95	10	11.86	14	0.73	1	83.54
WCAR	206.56	28	7.26	3	2.07	1	215.91
Total	**725.96**	**95**	**33.94**	**4**	**7.56**	**1**	**767.46**

Source: Division of Finance and Administrative Management, 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 Region; ROSA, Regional Office for South Asia; WCAR, West and Central Africa Region.

35. As the outstanding direct cash transfers of more than 9 months was just 1 per cent, it was not a cause for concern during 2015. However, the Regional Office for South Asia reported 14 per cent of the total direct cash transfers outstanding for six to nine months. In certain country offices, the outstanding direct cash transfers were more than regional and global averages. For example, in Nepal, direct cash transfers totalling $11.03 million involving 77 implementing partners were outstanding for more than six months (28 per cent of the total value of direct cash transfers) including $273,268 (2.4 per cent) that was outstanding for more than nine months. Similarly, the percentage of direct cash transfers outstanding for more than nine months was high in Chile (24.1 per cent), the Dominican Republic (12.3 per cent), Peru (12.3 per cent) and Guyana (10.1 per cent). In the West and Central Africa Region, Burkina Faso (17.8 per cent), Cameroon (16.3 per cent), the Democratic Republic of the Congo (15.8 per cent), Equatorial Guinea (15.1 per cent), Togo (14.7 per cent), Liberia (11.7 per cent), Chad (11.2 per cent) and Senegal (10.2 per cent) had direct cash transfers outstanding for more than six months.

36. UNICEF agreed to continue to ensure rigorous pursuit towards the settlement of long-outstanding cash transfers.

37. While it appreciates the efforts of UNICEF towards the settlement of long-outstanding cash transfers, the Board expects further improvement in liquidation of outstanding direct cash transfers, especially those that are more than six months, to mitigate the risk of misuse of funds, particularly given the unstable and challenging environments in which those programmes are implemented.

38. In addition, UNICEF policy[8] states that if reporting on the full utilization has not been received within six months of the direct cash transfer issue date, no further direct cash transfers will be made to the implementing partner, unless with the approval of the Regional Director. The Board, however, found 33 instances in which 20 implementing partners had received direct cash transfers amounting to $2.5 million in 2015, although the utilization reports on $2.2 million of direct cash transfers that had been granted more than six months earlier were pending against them. The approval of the Regional Director was not taken for the second direct cash transfers, which constituted a departure from the harmonized approach to cash transfers process. In response, UNICEF stated that, in some of the cases, the request for a second direct cash transfer was granted before six months had elapsed since the first transfers, or had been paid a few days after the six-month time limit, and the paying office was unaware that the time limit had passed.

39. The Board noted that, during 2015, the country office in India approved and released additional direct cash transfers totalling $800,688 to implementing partners with outstanding cash transfer balances even though 170 days had elapsed since the release of the first direct cash transfers and reporting had not been received. In all those cases, the additional direct cash transfers were released between 170 and 180 days after the release of the first direct cash transfers. The India country office stated that the additional direct cash transfers so sanctioned formed 3 per cent of the total direct cash transfers disbursed in 2015, and the delays were within a 10-day period and therefore did not pose a substantial risk to the organization. UNICEF also stated that the Virtual Integrated System of Information (VISION) system control had been put in place to prevent the approval of cash transfers to implementing partners with unreported cash utilizations of longer than six months. Where approval had not been obtained from the Regional Director, a second payment would be approved in the system prior to six months. UNICEF considered that appropriate given that the outstanding balance of all 17 cases noted was only $33,000 and payments were made promptly after processing. The Board does not agree with the reply of UNICEF because the sanctioning of additional direct cash transfers to implementing partners with outstanding direct cash transfers of more than 170 but less than 180 days was possibly to avoid obtaining the approval of the Regional Director as required under the direct cash transfers policy and indicates weak internal control and weakness of the policy. UNICEF management agreed to update policy in that regard.

40. **The Board recommends that UNICEF, with the objective of ensuring an effective harmonized approach to cash transfers management, institute a process to comprehensively capture the data and monitor the outcomes of assurance activities and action taken thereon by the country offices; and ensure that all country offices comply with the extant direct cash transfers policy, in letter and spirit, while making direct cash transfers, and include significant deviations in the performance review of the country office.**

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[8] Financial and Administrative Policy 5: Cash disbursements supplement 3: cash transfers (harmonized approach to cash transfers).

5. National Committees

Reserve policy

41. UNICEF partners with 34 National Committees for advocacy and mobilization of resources for UNICEF. The relationship between the National Committees (independent non-governmental organizations) and UNICEF are regulated by cooperation agreements signed between UNICEF and each National Committee. 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 2014 (A/70/5/Add.3) certain issues relating to the weak oversight of National Committees by UNICEF, such as reserves policies of National Committees not being in line with reserves guidance.

42. The reserves guidance for National Committees makes reference to cooperation agreements between UNICEF and the National Committees that provide that the National Committees 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 must be kept informed of the reserves policy and implementation, and the reserves policy must include the level, management strategy and planned utilization of such funds.

(a) Retention of reserves

43. The Board noted that 10 National Committees had retention levels of reserves (excluding statutory reserves and earmarked/restricted non-statutory reserves) in excess of the stipulations in their respective reserves policies, cooperation agreement or the benchmark of three months operating expenses stated in the reserves guidance.

44. There were excess reserves (non-statutory) of $15.19 million in the National Committees of Hong Kong, China ($10.55 million), the Republic of Korea ($2.24 million), Hungary ($0.94 million), Australia ($0.65 million), Greece ($0.48 million), Portugal ($0.26 million), Andorra ($0.04 million), Poland ($0.02 million), Slovakia ($0.004 million) and Lithuania ($0.003 million). The reserves were found to be in excess by 3 to 641 per cent of the requirement, the highest being Hungary (641 per cent) and Hong Kong (192 per cent). Retention of higher levels of reserves than the prescribed limits by National Committees deprived UNICEF of necessary funds for its programmes for children.

45. The Private Fundraising and Partnerships division accepted that the retention level was unacceptably high with respect to Hong Kong, China, and it was engaging with the National Committee. In addition, the unrestricted reserves of Australia included funds set aside for investment in fixed-asset replacements and fundraising programme and were considered reasonable. Hungary and Greece agreed to reduce the levels of reserves by 2015 while the excess reserves of the Republic of Korea included the funds of $3.4 million set aside in 2014 to acquire additional office space for the National Committee. The levels for Lithuania, Poland and Portugal were within reasonable limits and the excess in Slovakia was not material. The Private Fundraising and Partnerships division does discuss the matter of reserve

levels with National Committees as part of the annual Joint Strategic Plan review process and the annual allocation of investment funds.

46. **The Board reiterates its recommendation that UNICEF continue to engage with National Committees to align their reserves policies, including the retention of reserves, with the reserves guidance of UNICEF.**

Revenue recognition

47. As stipulated in the cooperative agreements, National Committees provide UNICEF with annual certified revenue and expenditure reports. The reports indicate the total contributions received by the National Committees, the amount withheld to cover the costs of National Committee activities, or as reserves, and the net due to UNICEF. UNICEF reckons the contribution revenue due, received and receivable from National Committees as at the year-end based on the revenue and expenditure reports submitted by National Committees.

48. A test check of revenue and expenditure reports with respect to 6 of 34 National Committees (Finland; Germany; Hong Kong, China; Spain; Switzerland and the United Kingdom of Great Britain and Northern Ireland) showed that the revenue and expenditure reports submitted by the National Committees with regard to collections relating to 2015 amount to revenues receivable of $99.95 million. However, a revenues receivable of $80.16 million only, with respect to these six National Committees, was reflected in the financial statements for the year ended 31 December 2015. The difference, in the amount of $19.79 million, was due to a manual error in the calculation of final revenue adjustment based on final revenue expenditure reports received. As a result, revenue from voluntary contributions as well as contributions receivable from National Committees were understated by $19.79 million with respect to the test-checked National Committees. This also resulted in an overstatement of net deficit of $19.79 million for 2015.

49. UNICEF stated that it had validated all revenue and receivables information and the total impact was $22.56 million (0.46 percent of the total revenues) for 2015. The correction will be made in 2016.

50. The Board, however, feels that the delay in validation leads to omission of such revenue and expenditure from recognition in the period they pertain to.

51. **The Board recommends that UNICEF ensure the timely validation of revenue and expenditure reports of National Committees to mitigate the risk of not recognizing revenue in the period it relates to.**

Achievement of fundraising targets

52. The UNICEF Private Fundraising and Partnerships Plan for 2014-2017 sets out the strategic direction for the mobilization of private sector revenue in support of the UNICEF Strategic Plan and lays out a common vision and framework for private sector fundraising and partnerships at all levels of UNICEF and for National Committees to maximize revenue from the private sector for UNICEF programmes and expand strategic engagement with the private sector and advocate to advance child rights.

53. The Private Fundraising and Partnerships division was expected to achieve the targets as set out in the table below.

Table II.5
Status of the estimated revenue against target through November 2015
(Millions of United States dollars)

Source of funds	*Target*	*Estimated revenue collection*	*Percentage of achievement*
From new corporate partners	20	17.00	85
Major donor fundraising	55	29.90	54
Countries that had prioritized legacy funding	90	51.80	58
Investment funds	234	232.40	99
Corporate partnerships in 15 high-potential countries	137	91.70	67

Source: Private Fundraising and Partnerships division.

54. The Board noted slow progress with respect to achieving the targets of new corporate partners, major donor fundraising, prioritized legacy funding and corporate partnerships. The Board checked the position of fundraising with reference to the key performance indicators in select National Committees from the data extracted from the management software of the Private Fundraising and Partnerships division and noted that:

(a) In the cases of Australia, Denmark, Israel and Turkey, there were no contributions from major donors, while in the cases of Ireland, Israel and Turkey, fundraising through foundations was not explored;

(b) Converting donor promises into actual pledges is one of the important parameters for assessing the effectiveness of fundraising activities. However, the number of donor promises converted into pledges was zero with respect to Israel. With respect to Australia, Ireland, Norway, the Republic of Korea and Turkey, the percentage of donor promises converted into pledges as compared to the number of new donors acquired during the year was only 7.12, 0.09, 0.51, 1.19 and 1.03 per cent, respectively.

55. The Private Fundraising and Partnerships division stated that the establishment of indicators had been made with a full recognition that variances could and would occur. Variances are caused by a range of factors, some of which are outside of the division’s control. UNICEF further stated that the Private Fundraising and Partnerships division provides quarterly targets for gross revenue by channel in 2015, as well as progress to date. Quarterly performance by channel is reviewed and based on analysis and discussions with relevant teams within the division as well as with relevant National Committees and country offices and take place as necessary. By reviewing these variances on a quarterly basis, the division is better able to understand actual results, the current status of the market and, if feasible, to adjust and/or correct its approach, as a part of ongoing effective monitoring.

56. While the Board agrees that achievements are governed by many external factors, the Board also recognizes the fact that all factors affecting the targets would have been incorporated into its plans based on previous experience and lessons learned.

57. **The Board recommends that UNICEF fix targets for revenue collection on the basis of achievements in previous years and fund requirements, and endeavour to achieve them using proper strategy and effective monitoring.**

6. Donor reporting

58. According to section 4.8 of its Programme Policy and Procedure Manual of 2012, UNICEF is required to submit reports to donors on the use of contributions in line with the proposal submitted to the donor. Offices are required to ensure timely and quality reports to account for the resources entrusted to the organization and to help raise future resources. In addition, it states that the overall responsibility for reporting should be located with senior staff in both country and regional offices, and should include taking stock of donor feedback on the timeliness and quality of reports. Paragraph 4.281 of the Manual also states that, as part of their oversight function, regional offices are responsible for the monitoring and sample assessment of country office reporting performance, including the quality of reports, their timeliness and their compliance with reporting conditions.

59. The Board reviewed the status of donor reporting in the West and Central Africa Regional Office for 2015 and noted that 49 (74 per cent) of the 68 reports due to be sent by the Office to the donors and the Public Sector Alliances and Resource Mobilization Office during 2015 were sent with delays ranging from 1 to 162 days. Further analysis by the Board revealed that 15 reports were sent with a delay of 1 to 7 days, 9 with a delay of 8 to 30 days, 13 with a delay of 31 to 60 days, 9 with a delay of 61 to 90 days and 2 with a delay of 91 to 120 days, and that 1 report was delayed by more than 120 days (162 days). That indicated that the monitoring mechanism for the timeliness of donor reports was weak in the regional offices. In addition, the Board attempted to review the oversight function of the West and Central Africa Regional Office in relation to the monitoring of the country offices' donor reporting performance, and requested country-level details of quality assurance reviews along with the donor reports that were conducted by the Office during 2014 and 2015. The Board was informed that the Office had not conducted quality assurance reviews of donor reports of any country offices during 2014 and 2015 owing to emergencies (mainly the Ebola crisis) in 2014 and to a delay in the process of recruitment (started in September 2015) of consultants in 2015.

60. The Board is concerned that the delayed submission of donor reports by the West and Central Africa Regional Office and the fact that it did not conduct quality assessments of the donor reports of country offices in two consecutive years might affect the quality of reports, their timeliness and their compliance, and have an adverse impact on fundraising activities.

61. The West and Central Africa Regional Office agreed that the delay in submission of donor reports and the fact that it did not conduct quality assurance reviews were issues that needed management intervention, and that the management would work on those issues. UNICEF agreed to strengthen the monitoring of donor reports to ensure timely submission.

62. The Board further observed that a total of 401 donor reports for the year 2015 pertaining to the Regional Office for South Asia and its country offices were due for submission during the year. Of those, reports had been sent with delays ranging from (a) 1-10 days for 31 reports, (b) 11-40 days for 15 reports, (c) 41-90 days for 5

reports and (d) 91-100 days for 4 reports. Six reports (two each for Afghanistan, Bangladesh and Pakistan) were overdue by two to four months.

63. The Regional Office for South Asia stated that it would engage with the country offices to adopt the country office performance scorecards being rolled out globally in 2016, which incorporate donor reporting indicators. Agreeing with the audit, UNICEF stated that country and regional offices were directly accountable for submitting quality donor reports on time. The follow-up of donor reports was part of the oversight responsibility of regional offices and therefore the Regional Office for South Asia would continue to monitor the regional key performance indicators for donor reports on a monthly basis and remind offices when reports were due. It was also stated that the Office planning section was committed to strengthening its follow-up of donor reporting with offices during on-site visits.

64. The Board considers that delayed and overdue donor reports not only affect the timely submission of accounts to the donors, but they also affect the raising of future resources.

65. **The Board recommends that the regional offices strengthen their internal control mechanism on the monitoring of donor reports and ensure that all the donor reports are sent on time. The West and Central Africa Regional Office also needs to ensure quality donor reporting by country offices by conducting sample quality assurance reviews as part of their oversight function.**

7. Enterprise risk management

66. UNICEF adopted a risk management policy in May 2009. Against the plan for a full-fledged risk management secretariat equipped to meet its brief, one risk adviser was posted. In 2013, UNICEF developed 12 risk categories divided into four areas: institutional, programmatic and operational, contextual and other. In 2015, an instruction was issued for risk assessment and reporting which laid down that the office must, at a minimum annually, monitor the status of actions to manage significant risks and update risk assessment for emerging and declining significant risks.

67. The Board noted, from a sample of three country offices (Afghanistan, the Sudan and Yemen) and two headquarters divisions (Programme and Supply) that considerable progress had been made in the preparation of risk registers in 2015.

68. The depth and extent of risk identification varied between the offices. The Board noted that the risk registers for Afghanistan and Yemen did not report risks under results-based management and reporting,[9] which was rated as a high risk in the enterprise-wide risk profile. In the absence of documentation, the Board was not sure as to how a conclusion was drawn that all risks were assessed and found to be low or insignificant in the two country offices, despite their operation in conflict-ridden countries. The Board was informed by the management that, unless considered significant, it was not mandatory for the offices to document all the risks.

[9] Risks for results-based management and reporting relate to the risk of not being able to ensure that the UNICEF contribution to development results are expressed in clear, measurable terms, including risks on quality, consistency and the transparency of reporting.

Table II.6
Risk identification in risk registers

	Number of risks identified	
Country office/division	*2014*	*2015*
Afghanistan		5
Sudan	11	11
Yemen		4
Programme Division	8	8

Source: *inSight*.

69. The Board also noted that the Programme Division had identified eight risks, but in its own categories and not in the standard template. The Sudan country office identified 11 risks but not under the risk categories identified in the 2013/2015 guidance. Unless the offices/divisions follow the standard template for reporting, the collation of risks at the enterprise level will be difficult. The Sudan country office had also not provided a rating on impact and likelihood but instead gave an overall rating.

70. The Board found that though the country offices raised significant risks, rated as very high/critical, these were not escalated further. For example, the Sudan office rated as "very high" the residual risk of being spread too thin to perceive an impact from interventions and of overlap at the output level in country programmes. The above risk was not escalated as reflected in inSight, the management dashboard. The management stated that offices were required to escalate risk only if they needed assistance to mitigate that risk, or if the risk had implications beyond the office. The Board opines that, in their initial stages, offices may need guidance to arrive at such judgments on escalations and therefore a proactive approach either regionally or from headquarters may be useful.

71. Further, the unit for enterprise risk management in the Division of Financial and Administrative Management currently works with one risk officer (supervised by a Senior Adviser) and the Controller. The unit is also supported by the risk focal points in each office. The inSight tool is not conducive to aggregation, thereby making regular reviews at the Division level difficult. Until such time as the inSight tool is amended, risk identification, review and mitigation will depend largely on local initiative. The unit for enterprise risk management is not adequately resourced to guide and monitor country offices.

72. While risk mitigation may require the commitment of resources, a formal embedding of risks in funds allocation is yet to be put in place. At the enterprise level, the harmonized approach to cash transfers framework also provides a risk assessment for operational areas, including financial and programmatic risks. Management informed the Board that there was no direct link between the harmonized approach to cash transfers assessments and enterprise risk management. Currently, the enterprise-wide assessment and review is at best an annual exercise. The Board, however, considers it important that, in addition to an enterprise-wide collation of risk (as was done in 2015), UNICEF establish a periodic review at the office level where the operational divisions in an office review the risks, the impact

of mitigating actions and the residual risk in order to provide a horizontal integration and remove redundancies in risk mitigation, if any.

73. **The Board recommends that UNICEF ensure the preparation of risk registers annually by all country offices and divisions, prepare an enterprise-wide annual risk mitigation plan and institutionalize a mechanism for the quarterly review of risk registers.**

8. Programme management

Delayed implementation of the integrated monitoring and evaluation plan

74. According to paragraph 5.111 of the UNICEF Programme Policy and Procedure Manual for 2012, the integrated monitoring and evaluation plan is the central tool that helps UNICEF country offices and national partners manage their monitoring and evaluation responsibilities as established in the country programme action plan. It also states that once completed, the multi-year and rolling integrated monitoring and evaluation plans will serve as management tools that trace out how and when the country office and partners will get the critical information needed for results-based management. The country office is responsible for monitoring implementation and for adjusting/refining the integrated monitoring and evaluation plans during the mid-year and annual and mid-term reviews.

75. The Board reviewed the integrated monitoring and evaluation plans in select offices and noted that:

(a) The Argentina country office had planned six activities. Of those, there were delays in the implementation of three programmes with a budget of $140,000;

(b) In the West and Central Africa Regional Office and two country offices, namely the Democratic Republic of the Congo and Nigeria, the number of activities completed was very low (30, 23 and 19 per cent respectively) and many activities had either not yet started or had been postponed or cancelled;

(c) In the Regional Office for South Asia, of the four activities planned to be completed in 2015, only one study activity had been completed in 2015 and three evaluations having a combined budget of $391,871 could not be completed;

(d) In the Nepal country office, of the 27 activities to be completed during 2015, only 10 activities had been completed during the year. The combined budget of the 17 activities that had been either delayed or discontinued was $1.28 million;

(e) In the India country office, of the eight activities to be completed in 2015, only six activities had been completed as of February 2016.

76. UNICEF stated that, as an ongoing practice, the regional offices already monitored preparation and implementation of the integrated monitoring and evaluation plans, and advised on reasonable funding for implementation of the country office plans. The audited offices were implementing measures that would ensure that integrated monitoring and evaluation plans were more realistic and activities were regularly monitored. In addition, UNICEF was currently implementing a software platform that would replace the hard copy or text-based integrated monitoring and evaluation plans.

77. The Board observed that in all the regional and country offices there were deficiencies in the entire process of preparation and execution of integrated

monitoring and evaluation plans, such as the changing of plans at the end of the year, incomplete information in the plans, the absence of a completion schedule and not taking up the planned activities. The Board is concerned that a change of data/information in the plans after the year was over, as well as the absence of updated status of planned activities, might render the plans ineffective as a management tool for monitoring and evaluation. The Board is also concerned that the delay in implementation of the plans might result in the unavailability of critical information needed for results-based management of the programmes and thereby weaken their efficiency.

Delay in submission and approval of annual workplans

78. 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. The plans are signed by the relevant government authorities before the beginning of the following year. The approved plan 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 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. That endorsement should be obtained, at the latest, two months after the start date of the workplan to enable disbursements to begin.

79. The Programme Policy and Procedure Manual also stipulates that planning work should be done early in the year (by the end of January at the latest) 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.

80. The Board noted a delay of some two months in the signing of four annual workplans, comprising five programme component results, under the Country Programme Action Plan 2013-2017 of the Democratic Republic of the Congo in 2016, though the start date of all the workplans was 1 January 2015. The Board also noted that the first disbursements, totalling $203,793, were made to the four counterpart agencies before the signing of the annual workplans. Without any specific reference to a rule or provision, management stated that several options allowed the country office to disburse funds and continue activities prior to the signature of the annual workplan.

81. The Board noted, in the Nigeria country office, a delay of two to three months in the signing of 11 rolling workplans for 2014-2015 under its Country Programme Action Plan 2014-2017, though the start date of all the workplans was 1 January 2014. The Board also observed that the first disbursements, amounting to $227,894 were made to five agencies before the signing of the rolling workplans by the counterpart government agencies.

82. The Board also noted that the Nigeria country office prepared 11 annual workplans for 2016, but as at 4 February 2016, only 6 plans were approved and the remaining 5 were awaiting approval by government agencies. The Nigeria country office stated that, to overcome the difficulty, the office had adopted rolling workplans and had changed the planning cycle to coincide with the Government’s June-

December planning period. That allowed UNICEF Nigeria to disburse funds and continue activities prior to the signature of the annual workplans at the beginning of the year.

83. The Board considers that late approval and signing of annual workplans may have an adverse impact on the implementation of the programme activities as envisioned in the country programme action plans, especially in those cases where the annual workplans start on 1 January of the respective years.

84. Agreeing with the audit, UNICEF stated that the Nigeria country office would start workplan discussions early to ensure that the first rolling workplan was signed on time. That would address timely execution of workplans in subsequent years so that the country office would continue to have a valid signed workplan.

Delay in preparation and implementation of annual management plans

85. The annual management plan of a country office, an internal office management tool, is one of the main documents that guide the management of UNICEF support to the country programme. While the annual workplan describes the planned programme activities of all implementing partners, the annual management plan ensures that the human, material and financial resources of the country office remain focused on the planned strategic results for children. The plan describes management and coordination mechanisms and defines related staff accountabilities.

86. Paragraph 4.55 of the UNICEF Programme Policy and Procedure Manual of 2012 stipulates that the representative of the country office is accountable for the preparation or updating of the annual management plans by 15 February every year with the support of the country management team. In addition, 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.

87. The Board noted the following:

(a) The Argentina and Brazil country offices prepared their annual management plans after a delay of two and four months, respectively. Except for those country offices, the Latin America and Caribbean Regional Office did not receive annual management plans from the other country offices in the region. Both the country offices stated that, owing to the holiday schedule, it was not realistic to achieve the prescribed date. However, they agreed to improve efforts to conclude the process of elaboration and approval of annual management plans before 31 March of each year;

(b) In the West and Central Africa Regional Office, the Board noted that though 23 annual management plans were available with the Office, it did not keep track of the dates when the plans were prepared and shared with them, and it did not keep track of the dates that comments were sent to country offices, if any. After examination of the plans, the Board noted that only four country offices had prepared the plans in February 2015 as stipulated in the Manual. Nine country offices did not mention the date or month of preparation. The Regional Office stated that, owing to its involvement in supporting the country offices' response to multiple crises and emergencies in 2015, particularly Ebola, it did not track the dates it received the plans or when it provided feedback. However, the plans were reviewed and feedback was provided as needed;

(c) The annual management plan for the Nepal country office for 2015 was approved by the representative only on 10 April 2015 (i.e., after a delay of nearly two months) and was shared with its Regional Office as late as 6 September 2015. The country office stated that timely action would be taken to comply with the set standard from 2016 onward.

88. The Board observed that the non-receipt of annual management plans from country offices undermined the exercise of oversight and guidance that was to be provided by regional offices to the country offices. Delay in the preparation/updating of the plans might affect the country offices' management of and focus on planned strategic results. The late submission of plans to the regional offices takes away from the country offices the benefit of guidance by and suggestions from the regional offices.

89. Agreeing with the audit, UNICEF stated that the West and Central Africa Regional Office would issue annual management plan guidance to country offices and would establish a systematic approach to collect, review and provide feedback to the country offices regarding their plans. With respect to the Regional Office for South Asia, UNICEF stated that, to ensure the timely preparation of annual management plans by country offices in general, UNICEF had released a platform in inSight that simplified the planning, monitoring and reporting of plans and the oversight by regional offices.

90. **The Board recommends that UNICEF ensure that (a) regional and country offices take necessary steps to prepare realistic integrated monitoring and evaluation plans and improve their completion rate of activities; and (b) follow the procedure prescribed in the UNICEF Programme Policy and Procedure Manual with respect to the preparation and implementation of annual workplans and annual management plans in order to enable their timely execution.**

Programme: education outcome

91. The UNICEF Strategic Plan 2014-2017 allocated 85 per cent of its total resources to programmes, placing the programmes at the core of its work. Of the seven outcome areas,[10] education accounts for 20 per cent of the total outlay for the period. Each outcome area is supported by measurable targets at the output, outcome and impact levels.

(a) Staffing in the Programme Division

92. The total number of vacancies in the Programme Division was reported as 73 in 2015 (48 in 2014) of which 62 were posts for staff at the Professional level. The Education Section had a total of 31 staff, including 25 at the Professional level, and vacant posts for 6 staff at the Professional level in 2015.[11] The Division informed

[10] Health; HIV and AIDS; water, sanitation and hygiene; education; nutrition; child protection; and social inclusion.

[11] The Programme Division stated that there were three vacancies that had been deliberately kept vacant after the departures of the incumbents. Two had been abolished in order to establish two new positions and the third was still vacant. Of the two new positions, one was vacant and the other was being filled as of March 2016.

the Board that the vacancies were the result of the time taken by the recruitment process. The vacant positions affected the achievement of the targeted outputs, as was shown by the subsequent audit findings. Increasing vacancies, despite the need for increasing staff strength, are challenges in the management of human resources in the Programme Division.

(b) Capacity development

93. The Division of Data, Research and Policy informed the Board that 25 learning programmes had been developed for staff during 2015. However, the Board noticed that two initiatives[12] for enhancing technical capacities under education could not be completed as scheduled in 2015, mainly due to funding and staffing constraints and the expanding dossier of work in the Division.

94. The management informed the Board that, annually, the Learning Committee recommends the calendar of training for the professional development of staff of the Programme Division. The courses are designed to cater to a large number of people across the Division. However, a learning plan that maps a training needs assessment to actual training and its evaluation is not in place.

(c) Achievement of outputs

95. The Programme Division sets targets against each outcome or section of the annual workplan, which is aligned to its office management plan, which is intended to work coterminously with the Strategic Plan. The office management plan has, among other things, a monitoring sheet and the fund tracking sheets of the annual workplan. However, there is no transparent mechanism to periodically update these documents to provide a close watch on funding and achievement in priority areas.

96. The Board reviewed the achievements of the Education Section against the targets in the annual workplan for 2014-2015. During that period, UNICEF made significant strides in key areas.[13] However, a shortfall against some of the planned outputs of the workplan was noted (see annex III). Some of the areas of non-achievement are critical, including:

(a) Guidance on early learning and on secondary education were not developed owing to staff vacancies;

(b) Peer review on girls' education and implementation in 12 countries was to be completed by 2017, but no peer reviews were conducted during 2014 and 2015;

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[12] The development of a global talent group for education and the development of a long-term agreement to provide technical support to country offices, regional offices and headquarters.

[13] Establishing "Education Cannot Wait: A Fund for Education in Emergencies"; advocating for the inclusion of learning outcomes and indicators on early childhood development in the targets of Sustainable Development Goal 4, and launching the global report entitled "Fixing the Broken Promise of Education for All", which is a joint project by UNICEF and the Institute for Statistics of the United Nations Educational, Scientific and Cultural Organization (UNESCO) as part of their Global Initiative on Out-of-School Children, resulting in the development of more than 40 country studies and 6 regional reports; providing support to the Nepal country office for funding through Global Perspectives in Education and additional direct support to nine other country offices (Chad, the Comoros, the Democratic Republic of the Congo, Kenya, Nigeria, Somalia, South Sudan, the Sudan and Viet Nam) to strengthen programmes co-funded by Educate a Child amounting to financial support of more than $180 million; and the launching of a report entitled "The Investment Case for Education and Equity", which produced new data on inequitable education financing and had a significant impact on UNICEF advocacy work.

(c) The strengthening of data on inclusive education covering disabilities could be completed in only 2 of 10 countries targeted;

(d) Fourteen high-level analytical pieces were to be prepared and disseminated. Two have been finalized. Two pieces were reported to be in draft form since 2014, one of which was on lessons learned from conflict analysis.

(d) Guidance and advisory services

97. The Programme Division, the Field Results Group and the Division of Data, Research and Policy play a pivotal role in providing guidance and technical services on programme design, implementation and monitoring. Such guidance is provided through the issuance of guidance material, field visits and advisory services adapted to the specific requirements of the country and regional offices.

98. Together the Group and the Divisions issued 168[14] guidance and other resource materials, of which 88 per cent were from the Programme Division. Such materials, categorized by the Programme Division as guidance material, included, among other things, journal articles, reports, working/discussion papers and other literature. An institutional mechanism to receive feedback from country offices and regional offices in order to monitor the implementation of the guidance and provide timely assistance was not in place.

99. Only 31 of 147 documents had a defined target audience. A comprehensive repository of all guidance material issued by the Programme Division does not exist, risking the duplication of effort as well as the inadequate outreach of such material. The Programme Division affirmed that, as of 2016, a SharePoint team site was being established to incorporate relevant publications and links to other team sites.

(e) Achievement of country programme outcome: education

100. The UNICEF Strategic Plan 2014-2017 sets out, under each outcome area, the outputs (targets) at a global level, which are aligned with the Millennium Development Goals. The UNICEF country programmes are expected to achieve these outputs at the end of the programme period. The budgets are provided to the country offices at the outcome level. The Programme Division informed the Board that allocations were disaggregated to the output level in the country offices.

101. The Board reviewed activities and achievement of outputs in two selected country offices, namely, Afghanistan and Sierra Leone. The output indicators of the two countries, though varying in score, pointed out common areas of vulnerabilities and therefore common areas of focus. The Board also noted that the two countries did not have any reliable data regarding the number of children of primary school age who were out-of-school or regarding the learning outcomes.[15]

102. The Board reviewed the focus areas according to the country programme documents of Afghanistan and Sierra Leone. Afghanistan clearly defined the focus

[14] Programme Division: 147; Field Results Group: 12; Division of Data, Research and Policy: 9.

[15] The Strategic Plan profile of Sierra Leone for 2015 shows that the number of children of primary school age who were out of school was 6.6 million, while according to the country office's "Country profile", the total population of Sierra Leone in 2013 was 6.2 million. Data inconsistency is suspected, as it is improbable that the number of children of primary school age is more than the total country population.

areas that addressed the vulnerabilities indicated by the output indicators; the focus areas for Sierra Leone were more generic in nature.

103. While the achievements in Afghanistan (see annex IV) would address the quality of education in schools, the achievements largely addressed the focus areas indicated by the output indicators. In Sierra Leone (see annex IV), achievements were not necessarily in the focus areas. The Board considers that documentation of clear prioritization and stronger linkage of activities and achievements with the focus areas would lead to more targeted action.

104. **The Board recommends that UNICEF lay down quantitative thresholds for projecting staff requirements and reduce the time lag in the recruitment process.**

105. **The Board recommends that UNICEF consider (a) putting in place a fund tracking system to establish links between planned and actual expenditure against the appropriate planning level (outcome, output, activity); (b) review the existing guidance and other resource material for their improvement and better utilization; and (c) align output indicators with focus areas and activities towards achievement of outputs under the outcome entitled "Education".**

9. Supply management

Delay in delivery of goods

106. The UNICEF Supply Manual states that the purchase order should contain the delivery terms and date and the payment terms as negotiated with the supplier. Further, the UNICEF Supply Manual provides for the levy of liquidated damages for non-performance or delay in performance by the vendor.

107. The Board reviewed 30 purchase orders issued by the Argentina country office during 2015 and observed that goods with respect to three purchase orders with a contract value of $40,787 were not delivered by the vendors as at the time of audit (February 2016), although the scheduled delivery dates had expired three to four months earlier. In addition, the delivery of goods with respect to nine purchase orders was received after a delay of 3 to 55 days. However, no liquidated damages were recovered from the suppliers as provided for in the UNICEF Supply Manual. The total value of the 12 purchase orders was $256,581.

108. The Argentina country office stated that the cases of delay in receipt of goods that were attributable to the vendors would be reviewed and appropriate action would be taken.

109. **The Board recommends that the Argentina country office identify cases where the delay in receipt of goods was attributable to the vendors and take appropriate action under the contract agreement.**

Delay in receiving vaccine arrival reports

110. In accordance with guidelines set out in the UNICEF Supply Manual, all vaccines should be inspected within 24 hours of their arrival at the designated place and the results of the inspection should be communicated to the Supply Division through a vaccine arrival report. In order to monitor the "cold chain" and safe delivery of vaccines to central stores at the country level, as well as ensure that vaccines arrive "as ordered" and in good condition, a vaccine arrival report must be

completed and returned to the Supply Division within 72 hours for every vaccine shipment procured through the Division.

111. From its review of the vaccine arrival reports in 2015, the Board noted that, of a total 2,347 shipment supplies received in 2015, vaccine arrival reports for only 598 shipment supplies (25 per cent) were received within the stipulated time frame of 72 hours; 1,431 shipment supplies (61 per cent) were received late; and vaccine arrival reports for remaining 318 shipment supplies (14 per cent) were yet to be received. Country offices did not adhere to timelines in submitting the vaccine arrival reports to the Supply Division and took, on average, 19 days to submit a report.

112. The Supply Division stated that, in a majority of shipments, the consignee was not the country office, but third parties such as national governments, other United Nations agencies and non-governmental organizations, and, therefore, ensuring timely vaccine arrival reports became challenging. It further stated that a detailed monitoring system was in place through which country offices and third-party consignees were alerted of the importance of timely submission of vaccine arrival reports; however, the rate of return remained below expectation.

113. The Board is of the view that the delay in submission of vaccine arrival reports may result in difficulty in monitoring the state of the cold chain during transportation of vaccines and in ensuring the quality and security of vaccines. UNICEF is aware that vaccine arrival reports are sent by third parties, which must have been the basis for setting a time frame of 72 hours for their submission, and so there is a need to impress upon the third parties the necessity of ensuring the timely submission of vaccine arrival reports.

114. **The Board recommends that Supply Division follow up with country offices and third parties to review the causes of delay and make sincere efforts to ensure the timely receipt of vaccine arrival reports.**

10. Inventory management

Carrying cost of programme supplies

115. Under IPSAS 12, the cost of inventories comprises all costs (including transport, handling and other costs) incurred in bringing the inventories to their present location and condition. Financial and Administrative Policy 6 of UNICEF and the accounting policy on inventories also states that the cost of purchase of the Fund's programme inventory consists of purchase price, import duties and other taxes (non-refundable purchase tax) and transport handling and other direct acquisition costs, that is to say, freight-in-costs (i.e., from the supplier).[16] Further, IPSAS 12 requires that when inventories are distributed, it is the carrying amount of the inventories that should be recognized as an expense in the period in which the goods are distributed.

116. The Board noted that the cost of inbound freight incurred ($85.28 million) was not capitalized at the time of taking the purchased programme supplies as stores-in-hand. Instead, an end-of-year exercise of apportionment of freight costs at an

[16] The Board also noted that UNICEF management considered import duties and customs clearance ($1.14 million), inspection costs ($0.78 million) and insurance and shipping ($0.07 million) as immaterial for the purposes of inventory valuation.

enterprise-wide level was carried out on an approximation basis[17] for inclusion in the inventory in the statement of financial position. However, the Board further observed that when the inventory was subsequently distributed it was again expensed without considering the freight element. Thus, there is a difference between the inventory valuation as shown in the statement of financial position and that which was expensed subsequently in the statement of financial performance.

117. When the inventory is issued as programme supplies and expensed during the year, the value so expensed does not include inbound freight costs and the same is added in other expenses: distribution and is therefore underestimated to that extent.

118. Management informed the Board that it was not technically feasible to automate for real-time capitalization in a cost-effective manner. The difficulties included the multiplicity of purchase orders and the possibility that shipments might be split or consolidated at different points, which would make matching freight costs to individual supplies a challenge. It was also stated that UNICEF had selected the IPSAS position of presenting expenses by nature, as allowed for in IPSAS 12. Therefore, disclosing freight as distribution costs in other expenses and disclosing distribution costs related to inventory separately following the nature of costs, rather than as a part of transfers to implementing partners (a subset of transfer of programme supplies) in the statement of financial performance, is in order.

119. In addition, at the beginning of the next budget cycle, the freight cost will again be reversed back from the inventory and the carrying amount of the inventory and therefore will not include the element of freight cost during the year. IPSAS 12 does state that inventory-related expenses can be classified based on the nature of expenses. Those clauses, however, do not specify that the organizations are allowed to exclude freight cost from the carrying cost of such inventory.

120. Thus, programme supplies are not expensed at the carrying cost of inventory, as it does not include freight costs, resulting in an understatement of the transfer of programme supplies by $85 million (inbound freight costs).

121. UNICEF management was of the view that the freight costs had been correctly presented in line with IPSAS when the presentation of expenses based on nature was used. However, UNICEF management agreed to include the freight costs as part of programme supplies for presentation in the financial statements.

122. **The Board recommends that UNICEF include the freight costs in the programme supplies transferred to implementing partners in order to reflect their correct carrying cost.**

Slow-moving inventory

123. The UNICEF Supply Manual states that supplies that have been held for more than 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

[17] Freight costs would have been incurred on items currently in stock as inventory and the items would have been expensed when issued to programmes. Therefore, UNICEF apportions the total freight costs to both inventory and expensed supplies in proportion to the purchase cost of inventory issued and expensed. The proportion that relates to inventory is then added to the value of inventory in the financial statements.

impairment assessment. Stocking of supplies in warehouses for long periods should be avoided and supplies with a limited shelf life must be withdrawn from active stock three months before they reach their expiry dates. Physical count of inventory is required to be done at least twice a year to identify discrepancies and obsolete inventory so that these can be written off with the approval of the Property Survey Board.

124. The Board noted the following:

(a) According to the review of inventory held as at 31 December 2015 by the Supply Division, the combined value of inventory held by the Copenhagen Supply Division warehouse and the warehouse hubs in Dubai, Shanghai, China, and Panama was $58.46 million. That included inventory valued at $2.52 million (4.3 per cent) held for more than two years (slow-moving inventory). The inventory that had been held more than two years at the Copenhagen warehouse, valued at $2.33 million (including inventory worth $0.42 million with some shelf life remaining), was lying in stock for periods ranging from 759 to 1,394 days. Of that, inventory worth $0.78 million (73 per cent) was pre-positioned for use in 2016, while inventory worth $0.5 million (23 per cent) was earmarked for referral to the Property Survey Board for write-off, which indicated that those inventories were not immediately required. The Supply Division stated that inventories with shelf lives remained in stock for more than two years owing to a dispute with a supplier on the recall of products, slow off-take and erratic demand. It also attributed the fact that other items had been in inventory for more than two years to slower demand and the belated receipt of World Health Organization guidelines. The Division, however, agreed to improve the monitoring of inventory held for more than two years and strengthen its divisional procedures by prescribing a periodic review. The Division also indicated its intention to develop an inventory management policy specific to the warehouses in Copenhagen and the hubs, given their establishment for the global pre-positioning of emergency strategic supplies;

(b) According to the stock-ageing report of the Democratic Republic of the Congo country office, there were 136,429 units of stock, valued at $0.48 million, that had been in different warehouses of the country office for more than two years (received during 2011, 2012 and 2013). Of that amount, $30,000 was in transit to partners or awaiting confirmation from partners at year's end and not physically in the UNICEF warehouse. The Democratic Republic of the Congo country office stated that the supplies valued at $0.37 million held in stock for more than two years were pre-positioned supplies for emergency, and some of the supplies were planned for distribution in 2016. It also stated that follow-up on expiring items was made on a monthly basis. However, the Board noticed that the items received by the warehouse with expired dates as old as 3/2013, 2/2015 and 4/2015 had been held in stock mainly as pre-positioned in case of an emergency;

(c) At the Nepal country office, inventory worth $0.19 million had been in stock for more than two years. Of that, 73 items worth $165,844 (87.3 percent of the total) had been lying in the warehouse for four years (1,461 days). The country office stated that those items were pre-positioned materials meant for emergency and had no expiration date; however, action would be taken for the disposal of expired/obsolete items, if any.

Goods in transit

125. In accordance with instructions and guidance relating to closures of accounts that had been issued to country offices in 2015, in the case of an item that had been in transit for more than 100 days, that case should be followed up with the vendor or the freight forwarder as appropriate to determine the status of the item and reasons for delay. The UNICEF Supply Manual explains that the supply chain is a set of interlinked processes that ensure that the right quantities of the right supplies are delivered in the most efficient manner to the right locations, at the right time. It includes assessment, planning, procurement, shipping, goods clearance, warehousing and inventory management, in-country distribution, supply tracking and monitoring and evaluation. All transactions are to be recorded in the Virtual Integrated System of Information (VISION) to ensure adequate movement, records and maintenance of inventory levels. Accordingly, movement of inventory from one location to another, accompanied by a set of transport documents, was to be recorded in VISION as goods in transit. Country offices were to ensure that all open waybills were returned as duly acknowledged and updated in VISION and that goods on open waybills/acknowledgements that had not been returned signed were to be included in year-end inventory reports as inventory in transit.

126. The Board noted the following:

(a) In the Democratic Republic of the Congo country office, in 145 purchase orders, goods valued at $1.27 million had been in transit for 101 to 235 days as at 31 December 2015. The country office stated that delays in goods in transit were due to local conditions and government regulations;

(b) In the Nigeria country office, 21 purchase orders valued at $3.85 million had been in transit for 109 to 515 days as at 31 January 2016. The Nigeria country office stated that it was expediting efforts to ensure the timely clearance of goods at the Ministry of Foreign Affairs, educating implementing partners on the importance of acknowledgements through programmatic monitoring visits and avoiding errors in shipping documents caused by forwarders;

(c) In the Nepal country office, 245 items of inventory worth $746,758 (21 per cent of the total) were in transit for as long as eight months from a UNICEF Nepal warehouse to either an implementing partner or another UNICEF Nepal warehouse. The country office stated that the items were the supplies released during an early stage of the earthquake emergency response and the updating of VISION was in progress. While taking note of the response of the country office, the Board considers that updating in VISION needs to be expedited for better control of inventory;

(d) In the Supply Division, 7,906 purchase orders valued at $115.17 million were reflected as goods in transit as at 31 December 2015. That included items covered by 855 purchase orders valued at $5.16 million (4.4 per cent of the total value of supplies in transit including emergency supplies valued at $1.03 million), that were reported to be in transit for a period ranging from 201 to 1,388 days. The Board analysed the items reflected as goods in transit and found that they included consignments categorized as (i) actually under transit; (ii) with freight forwarding agents for shipment; (iii) received by implementing partners (the documents/ acknowledgement of which had not yet been updated in VISION); and (iv) short shipments. The Board further analysed the consignments under the categories "actually under transit" and "with freight forwarders for shipment" (which essentially commences when the goods are picked up by freight forwarders for shipment and ends when the goods reach the destination port). The Board found that only items covered by 2,696 purchase orders ($46.69 million or 41 per cent) were in transit, implying that items covered by 5,210 purchase orders ($68.48 million or 59 per cent) were delivered at the port of their destination, the logistics of which were to be handled by the country offices. That inflated the quantity of goods in transit to that extent. Further analysis revealed that items covered by 142 purchase orders ($1.77 million) were in transit for a period ranging from 44 to 1,332 days as set out below.

Table II.7
Details of time lag on inventory in transit

Product group and code	*Time lag in transit (days)*	*Items*	*Value (Millions of United States dollars)*
Pharmaceuticals, 101	119 to 1,220	49	0.49
Medical supplies, 105	87 to 196	37	0.53
Malaria prevention and diagnosis, 109	44 to 1,332	21	0.21
HIV/AIDS and malaria, 110	126 to 660	4	0.01
Nutrition, 115	129 to 1,303	31	0.53
Total		**142**	**1.77**

Source: UNICEF Supply Division.

127. While agreeing with the audit finding, the Supply Division stated that a project was under way to facilitate the automation of the receipt of goods by country offices. It agreed to prescribe guidelines for close coordination among freight forwarding agents, country offices and implementing partners in order to strengthen supply chain management.

128. The Board is concerned that the accumulation of inventory without utilization for a long period results in a blocking up of resources. The Board further noticed weaknesses in supply chain management caused by the inordinate delay in the completion of formalities relating to documentation by country offices. Although country offices are equipped to update the proof of delivery in VISION, they are not doing so regularly. Consequently, items that were delivered at the port of destination continued to be reflected as goods in transit, thereby hampering the decision-making process relating to supply chain. The Board also noted that the handling of consignments after their arrival at the ports of destination was executed manually; however, handling needs to be automated to avoid delays. Delay in the receipt of supply items and storing inventory in warehouses for long periods may adversely affect the implementation of the programmes and the quality of the supplies to be delivered.

129. The Board noted that there remained scope for improvement in inventory and supply management through more closely monitoring stock levels, monitoring goods nearing expiration and the effective investigation of items that have been in transit for unduly long periods. The expiration of items without using them or

ensuring their turnover could result in wasteful expenditures that might have been avoided.

130. UNICEF stated that the majority of the reported items were kept owing to the volatility of demand. UNICEF also stated that it would continue monitoring to ensure that write-offs continued to remain at low levels. With respect to the West and Central Africa Regional Office, UNICEF, agreeing with the audit finding, stated that the Democratic Republic of the Congo country office would perform a biannual analysis on slow-moving inventory to ensure inventory rotation. UNICEF also stated that, to address the delays of goods in transit, the Nigeria country office was liaising with the Ministry of Budget and National Planning to comply with the new procedures and to facilitate speedy clearance of imported UNICEF items. The Nepal country office agreed to strengthen inventory management to minimize potential losses due to obsolescence and delay in transit. UNICEF also stated that measures to be implemented included the monitoring of inventory expiring within nine months by the programme sections and country management teams to ensure timely distribution, and updating VISION records for inventory that appeared to be in transit. In addition, inventory counts would be conducted twice a year, obsolete stocks written off and a warehouse assessment would be undertaken to provide recommendations for improvements to warehousing operations.

131. UNICEF agreed with the Board and stated that it had already identified this area as needing improvement. It also stated that it had launched a project to facilitate the automation of goods receipt by country offices.

132. **The Board recommends that UNICEF: (a) monitor its stock levels more closely to adhere to the extant stipulations relating to stock held for more than two years; and (b) closely follow up on items that are in transit for prolonged periods.**

133. **The Board also recommends that the Supply Division: (a) ensure coordination among freight forwarding agents, country offices and implementing partners for capturing real time data in VISION to strengthen supply chain management with updated information; and (b) update the information in VISION regarding the status of delivery of supplies without further delays.**

Delay in initiating action on Property Survey Board recommendations

134. With a view to ensuring the relevance of stocks maintained, the Supply Division released a division procedure (DP 041) in January 2014 for monitoring the life cycle of standard stock materials, identifying slow-moving stocks and reviewing their relevance to inventory. The material owners were to send proposals to the Property Survey Board thereafter, along with recommendations for their disposal.

135. The Supply Division also released a division procedure (DP 021) in April 2015 detailing the procedure to be followed in handling stocks nearing the end of their shelf lives. Accordingly, unallocated materials were to be referred to the Property Survey Board while their shelf lives were still current.

136. The Board noted that unallocated and slow-moving items were being identified periodically and referred to the Property Survey Board for decision. The recommendations of the Property Survey Board were being forwarded to the Director of the Supply Division for approval. Where the value of the item exceeded $5,000, the cases were being forwarded to the Comptroller for approval. Upon

receipt of approval from the Comptroller, the cases were flagged for further action so as to manage stocks in a controlled, safe and economic way.

137. The Board noted that 18 items carrying a submission value of $0.69 million referred to and recommended by the Property Survey Board as needing further action were awaiting approval from the Comptroller for periods ranging from 1 to 11 months as of the end of December 2015.

138. The Board also found that no time frame had been prescribed for consideration and disposal of Property Survey Board recommendations by the Comptroller. Thus, the absence of timely approval/disposal of Property Survey Board recommendations by the Comptroller was fraught with the risk of eroding the shelf life of the inventory and the possibility of affecting programme implementation, besides incurring additional storage costs when items were held for long periods.

139. UNICEF acknowledged that write-off approvals had been taking a longer than optimal time and it was taking steps to correct the process in 2016. The new process would allow the Supply Division to dispose of impaired supplies in a timely manner while awaiting the Comptroller's approval of the write-off request.

140. **The Board recommends that UNICEF fix a timeline for the Comptroller to approve the disposal of impaired supplies and ensure compliance.**

11. Procurement and contract management

Delay in delivery of goods

141. In the previous report (see A/70/5/Add.3, paras. 81-85), the Board expressed concern regarding the negative impact on programme implementation that might be caused by delay in the delivery of goods, and recommended that UNICEF monitor the execution of purchase orders to ensure timely delivery of supplies. However, the Board continued to note cases of delay in delivery of goods, as set out in the paragraphs below.

142. The UNICEF Supply Manual states that the country office supply function includes providing end users with supplies and equipment they require, at the time required, while maintaining a follow-up system covering all phases of supply operations. The Board noted that VISION had no provision for entering actual delivery dates and that the date posted was the service entry sheet/goods receipt date, which always comes after the actual delivery date.

143. The Board noted the following cases of delay in the delivery of items ordered in regional/country offices:

(a) The Nepal country office had placed 232 purchase orders worth $57.18 million for goods during 2015, of which delivery of goods worth $20.86 million (37 per cent of the total value procured) was delayed in 69 purchase orders by up to 186 days. Of those, goods worth $8.42 million (15 per cent of the total value procured) were delayed by up to a month and goods worth $8.23 million (14 per cent of the total value procured) were delayed between one and two months, while goods worth $4.21 million (7 per cent of the total value procured) were delayed more than two months;

(b) The India country office had placed 127 purchase orders worth $4.94 million for goods in 2015, of which goods worth $945,606 (19 per cent of the total value procured) in 71 purchase orders were delivered with delays of up to 144 days. Of those, goods worth $767,167 (16 per cent of the total value procured) were delayed by up to a month and goods worth $68,246 (1 per cent of the total value procured) were delayed between one and two months, while goods worth $110,193 (2 per cent of the total value procured) were delayed more than two months;

(c) The Regional Office for South Asia had placed 18 purchase orders worth $140,266 for goods during 2015. Of those, delivery of goods worth $72,912 (52 per cent of the total value procured) was delayed in 10 purchase orders by up to 101 days, and there was a delay in 4 purchase orders of more than a month as of the time of audit in February 2016.

144. The Nepal country office stated that significant delays had been caused by the blockade on the India-Nepal border. The Regional Office for South Asia stated that the service entry sheet/goods receipt date was posted only after goods had been thoroughly inspected, therefore the time lapse between the target date and the posting date did not mean delays in delivery. The India country office stated that 15 days was a reasonable period from the actual delivery date to the posting date and furnished various reasons for delays in other cases.

145. UNICEF stated that it agreed to implement measures that would ensure the timely inspection of goods followed by the timely recording of receipt of goods in VISION. That would include monitoring undelivered purchase orders and following up with suppliers. For the India country office, UNICEF stated that supply and programme sections would continue monitoring deliveries to ensure the delivery dates stated in the purchase orders were respected by the suppliers. Suppliers would be instructed to expedite the submission of delivery notes/invoices as soon as the goods were delivered. The programme section would also ensure that invoices were settled to reduce the time frame from the receipt of goods to their recording in VISION.

146. The procurement and delivery undertaken by the Supply Division includes both emergency as well as non-emergency items. In accordance with the UNICEF Supply Manual, the Supply Division establishes emergency levels (level 1, 2 or 3) in relation to the need for additional external support for the country office. Divisional procedure (DP 010) of the Supply Division states that the Division must be able to respond promptly and efficiently to emergency calls at a moment’s notice and to prioritize more than one emergency at a time. The Emergency Coordinator assesses a sales order to decide the level of emergency, which includes rapid response emergency, emergency and other emergency.

147. The Board analysed the deliveries from the suppliers for the year 2015 and noted that:

(a) There were delays ranging between 6 and 185 days in delivery of 4,212 cases of non-emergency items valued at $2.04 billion;

(b) Emergency calls required prompt and efficient response from the Supply Division. However, analysis of data related to the delivery of emergency items for the year 2015 revealed that in 192 emergency cases (worth $52.51 million), there were delays ranging between 6 and 127 days. The Board further noticed delays of 20 to 28 days in 10 cases of Ebola-related supplies.

148. UNICEF stated that its Supply Division was currently addressing recommendations of the Board for 2014 relating to the timely delivery of supplies. It also stated that the Supply Division monitors supply performance in the timely delivery of goods through the expediting process and the key performance indicator review process, which enabled the identification of delays in the delivery of goods attributable to suppliers.

149. **The Board recommends that UNICEF ensure that the purchase orders contain realistic delivery dates, binding both on the suppliers and UNICEF, and consider any unjustified deviation seriously in the interest of programme implementation.**

Levy of liquidated damages

150. The UNICEF Supply Manual allows certain contract remedies to the Supply Division in cases of non-performance by the supplier, including levy of liquidated damages. The Supply Division is entitled to deduct liquidated damages from the supplier's outstanding invoices, if any.

151. The Board noted that the liquidated damages clause is part of the standard contractual provisions for purchase orders and long-term arrangements, and it is therefore included in a majority of purchase orders. The Board, however, found that, of a total of 4,137 cases of delays, including 17 cases of non-emergency supplies and 192 cases of emergency supplies, liquidated damages were levied or were proposed to be levied by various centres of the Supply Division in only 52 cases (14 cases by the Water Sanitation Education Centre, 2 cases by the Contracting Centre, 3 by the Medicine and Nutrition Centre and 33 by the Health Technology Centre), or less than 2 per cent.

Achievement in terms of key performance indicators

152. The Supply Division monitors the timely delivery of supplies through the following key performance indicators:

(a) Key performance indicator 3, Partner satisfaction: 95 per cent of international procurement orders are delivered at port of entry at or within the agreed upon target arrival date;

(b) Key performance indicator 4, Efficiency and effectiveness of processes: 95 per cent of all international supplier deliveries are delivered on time.

153. Output 4 of the Integrated Results and Resources Matrix of the Supply Division Office Management Plan 2014-2017 requires timely, responsive and appropriate delivery of supplies. A review of the balance scorecard shows that, for the third quarter of 2015 against this output, the achievement was only 76 per cent. In addition, in 2015, against key performance indicator 3, which requires 95 per cent of international procurement orders to be delivered at port of entry at or within the agreed upon target arrival date, the achievement of the various centres ranged between 63 and 84 per cent. With regard to key performance indicator 4, which requires 95 per cent of international supplier deliveries to be made on time, the achievement for various centres of the Supply Division ranged between 64 and 87 per cent.

154. The Board noted that, in the majority of the cases, the delivery of supplies was delayed owing to unrealistic delivery dates, ineffective communication between the

supplier and freight forwarders and reasons attributable to the suppliers as well as to freight forwarders.

155. While concurring with the audit findings on delays in delivery of supplies, the Supply Division stated that it was currently addressing recommendations of the Board for 2014 relating to the timely delivery of supplies and the application of liquidated damages by providing guidance to contracting staff. In addition, the Supply Division was monitoring supplier performance through the key performance indicator review process. The Chief of Contracting of the Supply Division communicated with the Procurement Centre Chiefs in December 2015 with the objective of improving long-term supplier performance through the enforcement of the Supply Division's right to claim liquidated damages as included in standard contractual provisions.

156. **The Board recommends that UNICEF review cases of delay and follow up with contracting staff, suppliers and freight forwarding agents to ensure timely delivery of supplies; and follow up with the country offices, in case of backlog, to ensure that delivery dates are confirmed and supplies are made without further delay.**

Acknowledgement of contracts

157. The UNICEF Supply Manual states that 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. The UNICEF Supply Manual also states that, once approved and signed internally in accordance with the applicable table of authority, the contract should be issued to the selected service provider for signature, and the contract should only be considered valid upon acknowledgement by the vendor.

158. In the Latin American and Caribbean Regional Office, the Board noted that five contracts (institutional as well as individual) valued at $121,834 were signed by vendors after assignment. The delay in signing the contracts ranged from 2 to 61 days. Similarly, in the Argentina country office, the Board noted that 9 of 12 contracts reviewed (institutional as well as individual) valued at $2.04 million were signed after assignment. The delay in signing the contracts ranged from 5 to 131 days.

159. The Latin American and Caribbean Regional Office stated that the vendors tacitly agreed to provide services through an exchange of correspondence and no contracts had been rejected by the vendors after the Director's signature. The Argentina country office stated that it would ensure the timely signature of contracts.

160. The Board observed that the legality of a contract started only on the date the contract agreement had been signed by both parties. Execution of goods and services before a formal signature risked the organization's ability to take action against a vendor for non-performance of contractual obligations and weakened its position in the event of any dispute.

161. **As agreed by UNICEF, the Board recommends that the regional and country offices assign the work of the contract only after executing the contract agreement.**

Single-source procurement

162. According to the UNICEF Supply Manual, the number of service providers invited to quote, bid or submit proposals depends on many factors, including the estimated value of the contract, the availability of service providers in the market and whether to use a single source. 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.

163. In one of the country offices, the Board noted that two contracts were issued after resorting to a single-source selection process. The contracts were for Internet service and the creation and implementation of an e-learning programme which did not fall into the category of extraordinary need.

164. The country office stated that the reason for the single-source selection was based on the past performance of the contractor.

165. The Board, however, is of the view that past performance cannot be the justification for single-source procurements, particularly since it might deprive the organization of availing itself of the competitive pricing obtained through a competitive bidding process. Moreover, past performance is not a stated reason in the Supply Manual.

166. **The Board recommends that the country office ensure adherence to the provisions of the Supply Manual relating to single-source procurements.**

12. Travel management

Open travel authorization

167. The Board, in its review of open travel authorization, noted that a total of 5,248 authorizations were outstanding. The incidence of open travel authorizations (as a percentage of total authorizations) in excess of 15 days, across regions, was not provided to the Board. However, UNICEF informed the Board that the incidence of open travel authorizations in excess of 15 days at headquarters in New York was 8 per cent in 2014 and 4 per cent in 2015. The Board reviewed 10 randomly selected travel authorizations (with travel costs in excess of $1,000) at headquarters and found that, in 9 of 10 selected sample cases, there were delays in trip closure ranging from 31 to 170 days.

168. Open trips deprive the organization of an assurance that the person conducted the travel as planned (duration/schedule) and that the purpose of the travel was met. The Board enquired whether system alerts were in place for reminding the traveller as well as the fund manager that a trip closure was pending. The Travel Section informed the Board that the onus was on the traveller. In cases in which the travel necessitated a deviation from the authorized route and such a change resulted in higher costs, the traveller would obtain written approval from the supervisor and the budget owner. However, a potential refund would remain undetected if a trip was not closed as required.

169. The Travel Section stated that several measures, including the reinforcement of policy through direct e-mails to individuals, travel seminars and webinars, had resulted in a reduction of global open travel authorizations of 50 per cent. But evidence in support of that reduction was not provided to the Board. The Section also stated that technology enhancements were under way that included an

automatic stop of further processing if more than three open travel authorizations were pending. The Board encourages UNICEF to implement that move in a timely manner.

Advance booking policy

170. UNICEF policy states that typically, the traveller and the supervisor must aim to book travel at least 14 days before the travel date. The Board analysed the available data for the New York headquarters region and found that purchases of tickets 14 days in advance were made with respect to only 35 per cent of travel bookings. UNICEF stated that changes in North American airline inventory management had rendered the conventional wisdom of booking in advance for low fares false. At UNICEF headquarters in New York, last-minute seat sales form an important part of its per unit cost reduction strategy.

171. When the Board enquired as to the use of alternate options to reduce travel costs, it was informed that, before approving duty travel, the approving authority was expected to explore alternative methods such as videoconferencing as valid substitutes for travel. However, the Board noted that UNICEF did not have a system-supported checklist for exhausting more cost-efficient (and greener) options before approving travel authorizations, which would encourage the use of alternate conference methods such as videoconferencing.

172. **The Board recommends that UNICEF review the applicability of its policy on advance booking globally in view of the changes in the travel business and revise the strategies accordingly.**

C. Disclosures by management

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

173. UNICEF reported to the Board that losses in assets of $11.26 million ($15.02 million in 2014) had been written off during 2015, including programme inventory of $9.30 million, contributions receivable of $1.50 million, Private Fundraising and Partnerships inventory of $0.25 million and other receivables of $0.21 million.

2. Ex gratia payments

174. UNICEF reported to the Board four ex gratia payments amounting to $317,486 in 2015. The ex gratia payments included $310,769 paid in the Nepal country office towards administrative arrangements made for security personnel related to residential security, a rehabilitation grant for residence/personnel effects affected by the earthquake and travel for staff employed in-country at the time of the earthquake.

3. Cases of fraud and presumptive fraud

175. 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.

176. 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 enquire 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 audits include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

177. UNICEF reported 16 cases (2014: 32 cases) of fraud or presumptive fraud to the Board during the period under review. The financial implications of the allegations amounted to $0.79 million (2014: $1.80 million), and the cases had resulted in estimated financial losses amounting to $0.79 million (2014: $0.73 million), of which UNICEF had recovered $25,146. This indicates a significant decline in the number of cases of fraud and presumptive fraud.

D. Acknowledgement

178. 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 United Nations 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 2016

Annex I

Status of implementation of outstanding recommendations as at 31 December 2015

					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 and closed*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	86/2012	(a) Analyse the parameters for determining the appropriate level of operational posts at country offices; and (b) monitor and control the use of the programme budget by country offices to cover operational expenditures not associated with specific programmes or projects.	The action plan to address this recommendation also 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 began operations in August 2015 and will be fully established at the end of 2016. Conclusions on the appropriate level of operational posts in country offices can only be made after the Centre is fully operational.	Verified. This recommendation is still under implementation with an expected time frame for completion during the fourth quarter of 2017. The recommendation is reiterated in the current report.		X		
2	142/2012	Strictly comply with the requirements of the United Nations Children's Fund (UNICEF) policy relating to the selection of consultants and individual contractors.	UNICEF has modified and reissued the respective policy to make single sourcing more restrictive. Offices were also informed of the competitive selection requirements and a consultant guide 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. In addition, UNICEF has put in place a number of mechanisms to strengthen the management of consultants and individual contractors. UNICEF updated its consultant/manager dashboard to include key performance indicators and linkages to the Virtual Integrated System of Information (VISION), including: number of contracts, number of open contracts, type of contracts, mode of selection (single-source or competitive) and total contract value. UNICEF also provided webinar sessions and online guidance to all offices in November 2015 to strengthen staff knowledge, including by clarifying reporting requirements.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	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 and closed	Under implementation	Not implemented	Overtaken by events
			This recommendation was also addressed as part of the implementation of the recommendation in paragraph 101 of the 2014 report (see A/70/5/Add.3).					

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 and closed	Under implementation	Not implemented	Overtaken by events
3	24/2013	(a) Collect donor agreements from all National Committees and ensure that all retentions of "other resources" by National Committees are made known to and approved by donors; and (b) ascertain reasons for high retention rates and take measures to maximize the regular resources from National Committees.	The Private Fundraising and Partnerships division collects donor agreements from major donors. Management stated that reporting with respect to major donors only is being monitored by the division. Strategic review processes and maintenance of donor agreements are under implementation.	Based on the response of the management and the review of documents provided, part (b) of the recommendation is considered as yet to be implemented. The recommendation is reiterated in the current report.		X		
4	28/2013	Request the 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 reserves down to reasonable levels.	UNICEF has continued to work with the five National Committees that did not have reserves policies. Since the time of the audit, three of the National Committees have shared their Board-approved policies and UNICEF is closely following up with the remaining two National Committees, where delays have been experienced as a result of vacancies in the leadership positions that approve these policies.	Verified. Based on the response of the management, the recommendation related to high levels of reserves is considered to be under implementation. The recommendation is reiterated in the current report.		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 and closed*	*Under implementation*	*Not implemented*	*Overtaken by events*
5	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 has recently designed an electronic system named e-Tools 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 a harmonized approach to cash transfers dashboard. Currently the system is being piloted in 10 countries. The harmonized approach to cash transfers functionalities and dashboard will be rolled out as part of the second release, to be completed in the first quarter of 2016. The functionalities for offices to report and for regional offices and headquarters to monitor performance of harmonized approach to cash transfers implementation have already been put in place using inSight. Key performance indicator data of country-level harmonized approach to cash transfers implementation is provided in dashboards.	Verified. This recommendation is under implementation with a time frame for completion during the first quarter of 2016. It will be verified in the next audit.		X		
6	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 allocated funds for the 2014-2017 period to strengthen the management of cash transfers through a global harmonized approach to cash transfers strategy. This strategy aimed at strengthening the sound management of cash transfers in accordance with harmonized approach to cash transfers 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 transfers processes and results, supporting improved financial management and accountability at office and national levels;	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	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 and closed	Under implementation	Not implemented	Overtaken by events
			(ii) Efficient systems are in place in UNICEF to plan, monitor and report on harmonized approach to cash transfers 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 transfers management. All planned activities that were part of the global harmonized approach to cash transfers strategy have now been implemented.					
7	48/2013	Enhance the 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 the organization's approach to financial management capacity development with accompanying guidance and tools was one of the planned activities and output of the global harmonized approach to cash transfers strategy workplan, which has now been implemented. In addition, there is ongoing work with non-governmental organizations and the inter-agency community related to the roll-out of new procedures and agreements for working with civil society organizations.	Verified. This recommendation is under implementation with a time frame for completion during the second quarter of 2016.		X		
8	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 the 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. To allow UNICEF to collect cost category information related to cash transfers to implementing partners, as part of the civil society organization procedure issuance and related process improvements, a general ledger code was created so that the amounts paid to implementing partners representing indirect costs can be tracked separately.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	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 and closed*	*Under implementation*	*Not implemented*	*Overtaken by events*
9	63/2013	(a) Consider presenting and reporting the budget for the private sector fundraising activities of its country offices in an integrated manner; and (b) continue analysing the costs of the private sector fundraising activities of its country offices to enhance efficiency and effectiveness.	(a) Following the Private Fundraising and Partnerships division's global programme budget review in September 2014, the management endorsed the proposal that the division should lead a working group comprising the division, regional offices and headquarters divisions (finance, policy and field results). The working group convened in the first quarter of 2015 and the outcomes of working group discussions were presented in a decision memo to the Executive Director, who decided that the Private Fundraising and Partnerships division's budget submission for 2016 will be presented in an integrated manner; (b) The Private Fundraising and Partnerships division stated that measures have been taken to enhance the effectiveness of fundraising. Quarterly reviews were undertaken with respect to many parameters.	(a) The recommendation will be verified in the next audit; (b) The recommendation is considered as implemented on the basis of management response.		X		
10	69/2013	Require its country offices to apply fully justified budget assumptions in preparation for resource estimation with respect to activities set out in the multi-year/ rolling workplans.	Guidance on the preparation of multi-year/rolling workplans exists for country offices and is being strengthened to include the development of budget assumptions being prepared. New guidelines will be released by April 2016. UNICEF will also continue strengthening, through training and guidance, the capacity of its country offices to implement results-based management. In addition, UNICEF has initiated an investment project to create a budget formulation module to strengthen the costing and budgeting for inputs and outputs.	Verified. This recommendation is under implementation with a time frame for completion during the second quarter of 2016.		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 and closed*	*Under implementation*	*Not implemented*	*Overtaken by events*
11	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 was revised and strengthened as part of the release of the second version of the results assessment module to strengthen the indicator for achievement of programme results. Consultations are continuously held with country and regional offices to support adequate use of the module and understanding of guidance. Support is also being provided to put in place quality assurance mechanisms at the country and regional office levels.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	X			
12	87/2013	Analyse the cause of the 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 in a timely manner all commitments requiring no further activity or transactions.	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 have been advised of this report. The Supply Manual has been updated to include a recommendation that offices run the monitoring report on a regular basis in order to enable timely closure of institutional contracts. Guidance and training has also been provided on the use of this report to monitor and close in a timely manner contracts for individual contractors.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	X			

					Status after verification			
No.	*Paragraph reference in report (A/70/5/Add.3) and financial period*	*Summary of recommendations*	*Action reported by the management*	*Board assessment*	*Implemented and closed*	*Under implementation*	*Not implemented*	*Overtaken by events*
13	13/2014	(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.	UNICEF now records a reason for all grant extensions. A monthly report that shows the reasons for all grant extensions has been created and is distributed to management, which analyses the reasons for these extensions. Should the reasons suggest that grant objectives are not being achieved in a timely manner, appropriate action will be taken.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	X			
14	18/2014	Appropriate internal controls be exercised to ensure that expenditure is limited to the agreement amounts and not exceeded.	As stated in paragraph 17 of the 2014 report (see A/70/5/Add.3), system validity checks are already in place to restrict overspending on grants to predetermined types of transactions. Spending in excess of the grant is allowed in cases such as foreign exchange gains to allow payment of existing commitments, salary payments to staff and freight costs for supplies. Amounts over the grant limit are always reviewed and adjusted as necessary. \$2.31 million of the \$2.93 million reported as overspent relates to grants that are not yet closed and whose numbers are not yet final. Adjustments are still being made to these grants and the final overspent position will be lower. Current internal controls are considered appropriate. UNICEF also stated that there was no intent to eliminate the possibility of overspending, as that would cripple operations. Overspending is necessary for purposes of foreign exchange movements, salary payments and freight. The standard operating procedures allow this and correct for the overspending.	Amount overspent has been reduced. The response of the management will be verified in the next audit. The recommendation remains under implementation.		X		

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Status after verification: Board assessment	Implemented and closed	Under implementation	Not implemented	Overtaken by events
15	27/2014	The Board reiterates its recommendation made in its report for the year 2012 (see item 1) 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.	As noted in paragraph 86 of the 2011 report (see A/68/5/Add.2), the action plan to address this recommendation also 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 Centre was planned to be established in phases from August 2015 onward. Conclusions on the appropriate level of operational posts in country offices can only be made after the Centre is fully operational. In addition, budget guidance for the 2016 and 2017 budget submissions includes guidance on cost attribution principles.	Verified. This recommendation is under implementation with a time frame for completion during the fourth quarter of 2017. The recommendation is reiterated in the current report.		X		
16	45/2014	(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	UNICEF has addressed the different parts of this recommendation as follows: (a) To strengthen the monitoring and liquidation of direct cash transfers, the review and analysis of outstanding direct cash transfers have now been included in monthly closure activities, which are performed by all UNICEF country offices. That is in addition to the existing information on the dashboards available to management, which provides the current status of all outstanding direct cash transfers and allows for follow-up and monitoring by country and regional offices. (b) UNICEF has analysed the sources of data on the harmonized approach to cash transfers-related indicator on the dashboards. In order to improve the accuracy and reliability of the data, changes have been made to the harmonized approach to cash transfers status report that provides data to the dashboards. The changes include adding and removing some indicators and improvements to the presentation and sources of data. These changes are expected to be reflected on the dashboards by the end of the fourth quarter of 2015.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	X			

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented and closed	Under implementation	Not implemented	Overtaken by events
		Certification of Expenditure 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.	(c) Country office management teams are the first level of monitoring of completion of assessments and assurance activities. This monitoring is already in place and is required under the UNICEF harmonized approach to cash transfers procedures. To enable the monitoring of implementation at a regional and global level as required by the UNICEF harmonized approach to cash transfers procedures, a detailed monitoring tool (the harmonized approach to cash transfers status report) has been put in place within its internal monitoring system. Formal reporting of the status of implementation of the harmonized approach to cash transfers framework, including completion of required assessments and assurance activities, is required from each office on a semi-annual basis. All country and regional offices have reported the status of implementation of the harmonized approach to cash transfers framework for the first half of 2015 and detailed reports on regional and global levels have been prepared by headquarters. The reports highlight the rate of completion of assurance activities in accordance with the minimum requirements of the UNICEF harmonized approach to cash transfers procedures as well as the risk assessment completion rate. The reporting on the status of harmonized approach to cash transfers implementation, including regional and global reporting, will continue on a semi-annual basis and monitored on global and regional levels. (d) UNICEF has enhanced the accounts closure instructions/guidance referred to in paragraph 44 of the 2014 report (see A/70/5/Add.3) to require documentation of Funding Authorization and Certification of Expenditure forms received but not liquidated by accounts closure as a result of valid delays in review and approval of the forms. This documentation will form the					

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Status after verification: Board assessment	Implemented and closed	Under implementation	Not implemented	Overtaken by events
			basis of any adjustments made to the “advances of cash assistance” balance.					
17	50/2014	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.	UNICEF now more closely monitors the submission of progress reports for public sector resource partners. This is done by regularly running the relevant inSight report to monitor progress reports coming due at the end of a particular month, or are overdue, and following up with the programme implementing offices as needed to encourage timely report submission. UNICEF has also implemented measures to reduce dashboard inaccuracies with regard to donor reports, principally through ensuring accurate and complete data entry in VISION.	Verified and agreed with management’s action. The recommendation is considered as implemented and closed.	X			
18	57/2014	(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.	UNICEF has continued to work with the five National Committees that did not have reserves policies. Since the time of the audit, three of the National Committees have shared their Board-approved policies, and UNICEF is closely following up with the remaining two National Committees, where delays have been experienced as a result of vacancies in the leadership positions that approve these policies. UNICEF also continues the systematic review of reserves levels and engages with National Committees when required. After the review of the four National Committees cited in table II.5 of the 2014 report (see A/70/5/Add.3), reserves levels for three National Committees have been accepted as reasonable based on Board-approved policies and national laws. Detailed discussions are being held with the remaining National Committee, which has committed to reducing reserves by the end of 2015.	The recommendation is under implementation in accordance with the assessment of the action taken by UNICEF. The recommendation is reiterated in the current report.		X		

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented and closed	Under implementation	Not implemented	Overtaken by events
19	69/2014	(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.	UNICEF is currently implementing a software platform (PRIME) which will replace the hard copy/text-based integrated monitoring and evaluation plan. PRIME is being implemented progressively in UNICEF regions and will require multiple aspects of quality assurance throughout the year, which will ensure that integrated monitoring and evaluation plan activities are realistic and improve the completion rate of activities. UNICEF revised guidance on annual workplans and annual management plans, which was included in the Programme Policy and Procedure Manual that was issued in the fourth quarter of 2015. This guidance includes the responsibilities of UNICEF offices, timelines and procedures for the preparation and submission of workplans.	Verified. This recommendation is under implementation with a time frame for completion during the second quarter of 2016. The recommendation is reiterated in the current report.		X		
20	75/2014	(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.	Stock monitoring activities by country and regional offices have been steadily improving and are supported by the supply chain monitoring and visibility dashboard. The UNICEF Supply Division and regional offices have delivered five regional workshops on monitoring the UNICEF supply chain, training more than 160 staff members. The workshops included specific elements to help facilitate and increase the regular monitoring of stock levels and take action on stock held for more than two years. Moreover, the UNICEF Supply Division and the Division of Financial and Administrative Management are also working on a global high-level monitoring process that includes following up with country offices and regional offices where necessary. In addition, the Supply Division has included an indicator regarding the ageing of programme supplies in country office-controlled warehouses in its balanced scorecard, which is monitored on a monthly basis. The results of this indicator show a significant improvement since 2014:	The Board noted during its audit that these weaknesses still continue. The recommendation therefore remains under implementation.		X		

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Implemented and closed	Under implementation	Not implemented	Overtaken by events
			according to data from the third quarter of 2015, less than 4.5 per cent of controlled programme supplies in country office warehouses were in stock for more than two years; the figure was 11 per cent in 2014. The same workshops included specific elements to help facilitate and increase the regular monitoring of goods in transit. Moreover, the dashboards include specific action points for country offices to address transactions listed as goods in transit in VISION but which have actually been delivered to the consignee. UNICEF headquarters will continue to regularly monitor the goods in transit, and has created a working group to improve the current status and reporting of goods in transit.					
21	85/2014	(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.	The different parts of this recommendation will be addressed as follows: (a) UNICEF is developing an online procurement training course that will include guidance on the placing of purchase orders after requirements have been projected by programme sections to ensure that processes are as streamlined and efficient as possible. This course will be made available to all UNICEF staff; (b) UNICEF has updated the report used to monitor purchase orders to include additional elements/indicators that will allow more effective monitoring of the execution of purchase orders; (c) UNICEF is revising the procedure on expediting purchase orders and related shipments to include guidance on the consistent enforcement of liquidated damages on the applicable contracts; (d) UNICEF has developed a guidance document providing advice to country offices on considerations and options with regard to including performance securities in construction	This recommendation is under implementation with a time frame for completion during the fourth quarter of 2016.		X		

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented and closed	Under implementation	Not implemented	Overtaken by events
			contracts. With respect to liquidated damages, liquidated damages are part of the standard contractual provisions included in the majority of Supply Division solicitation documents. In accordance with recent processes implemented in the Division, any exceptions where liquidated damages are not included because of market specificities are adequately justified and documented in the procurement strategy, if applicable, and in the solicitation document prior to its release. The review process for release of documents includes ensuring that standard terms and conditions are included in the solicitation document or that their absence is adequately justified and documented in consideration of market specificities. In addition, relevant division procedures are planned to be updated in the second quarter of 2016 to include the requirement that a liquidated damages clause will be included in all long-term agreements and provide clear criteria/guidance for the occasions where such a clause is not appropriate.					
22	98/2014	(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.	The different parts of this recommendation will be addressed as follows: (a) UNICEF is revising its procedure on expediting purchase orders and related shipments to include guidance on the consistent enforcement of liquidated damages on the applicable contracts to ensure vendor responsibility and performance; (b) 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 have been advised of this report. The supply manual has been updated to include a recommendation that offices run the monitoring report on a regular basis in order to enable timely closure of institutional contracts. Guidance and training has also been provided on the use of this report to monitor and close in	This recommendation is under implementation with a time frame for completion during the fourth quarter of 2016.		X		

No.	Paragraph reference in report (A/70/5/Add.3) and financial period	Summary of recommendations	Action reported by the management	Board assessment	Status after verification: Implemented and closed	Under implementation	Not implemented	Overtaken by events
			a timely manner contracts for individual contractors.					
23	101/2014	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.	UNICEF has put in place a number of mechanisms to strengthen the management of consultants and individual contractors. UNICEF updated its consultant/manager dashboard to include key performance indicators and linkage to VISION, including: number of contracts, number of open contracts, type of contracts, mode of selection (single-source/competitive) and total contract value. UNICEF also provided webinar sessions and online guidance to all offices in November 2015 to strengthen staff knowledge, including clarification of reporting requirements. To track the number of single-source selections in offices, the relevant field in VISION has been made mandatory. UNICEF has also explained during the webinars the instances where single-source section is justified, and the required documentation. The online guidance also reflects this clarification. UNICEF will continue to monitor global status on the use of single-source selection and to provide further guidance to offices on its use as part of the oversight role of the Division of Human Resources. Offices were reminded to keep single-source selection to a minimum in compliance with the policy, and to also obtain approvals and provide documentation in the relevant note for record.	Verified and agreed with management's action. The recommendation is considered as implemented and closed.	X			
	Total	**23**			**9**	**14**		
	Percentage	**100**			**39**	**61**		

Annex II

Statement showing budgets, their sources of funds and levels of aggregation

Budget	*Duration*	*Sources of funds*	*Levels of aggregation*	*Approving document/framework*
1. Country programme budgets	Varying: multi-year	Regular resources and other resources — regular	Outcomes and aggregate amount for the budget duration presented to the Executive Board. No yearly breakdown of annual amounts provided in budgets, but these are available in the Virtual Integrated System of Information (VISION)	Stand-alone country programme documents submitted to the Executive Board in line with respective country programme duration
2. Emergency appeal budgets	Annual	Other resources — emergency		External: inter-agency appeals — consolidated appeal process, flash appeals, etc. Internal: Humanitarian Action for Children All are publically available documents
3. Global and Regional Programme budget	Multi-year: 2014-2017	Regular resources and other resources — regular	Outcomes and aggregate amount for the budget duration presented to the Executive Board. No yearly breakdown of annual amounts provided in budgets, but these are available in VISION	Submitted as part of the integrated budget for the duration of the Strategic Plan period
4. Emergency Programme Fund	Annual	Regular resources		Executive Board has approved a ceiling and the annual budget is established as part of the financial estimates document and communicated in the regular resources planning memorandum issued on an annual basis

Budget	*Duration*	*Sources of funds*	*Levels of aggregation*	*Approving document/framework*
5. Institutional budget	Annual		Sources of funds for components (a) to (d), by year	Submitted as part of the integrated budget for the duration of the Strategic Plan period
(a) Development effectiveness		Regular resources and other resources — regular (based on donor agreements[a])		
(b) Management		Regular resources and cost recovery[b] from other resources — regular and other resources — emergency		
(c) United Nations development coordination		Regular resources and other resources — regular (based on donor agreements[a])		
(d) Special purpose		Regular resources and cost recovery[b] from other resources — regular and other resources — emergency		
6. Private Fundraising and Partnerships budget	Annual	Regular resources		Submitted on an annual basis to the first regular session of the Executive Board

Source: Financial statements of 2015 and information furnished by management.

[a] The donor agreements that specify the use of funds for 5 (a) and 5 (c) were not provided for audit.

[b] Cost recovery of up to 8 per cent is charged on other resources — regular and other resources — emergency funds to meet institutional budget requirements.

Annex III

Achievement of planned outputs of the annual workplan of the Education Section, 2014-2015, status as of 2015

Target number of indicators: 20

Fully achieved

- Annual workplan developed with budget, midyear review and office management plan for the timely preparation and submission of reports

100 per cent not achieved

- Guidance on early learning delayed owing to vacant staff posts
- Guidance and support on secondary education delayed; started in late 2015, target for completion mid-2016
- Staff training on skills in commissioning evaluations
- Staff recruitment through new annual education talent pool exercise
- Number of education focus areas in Global Partnership for Education post-2015
- Number of education focus areas in Sustainable Development Goal framework indicators
- Establish new funding mechanisms for Education in Emergencies

Greater or equal to 50 per cent achieved

- Graduates from Harvard on course in leadership in equity in education: 194 against a target of 200
- Page views per month on education team site: 9,060 against a target of 10,490
- Emergencies supported through surge capacity by Education Section: 80 per cent against a target of 90 per cent
- Countries approved for Global Partnership for Education funding with support from headquarters: 6 against a target of 15
- Strategic joint initiatives to advance agreed United Nations Girls' Education Initiative policy: 4 against a target of 5

Less than 50 per cent achieved

- Peer review on girls' education and implementation in 10 countries: no peer reviews done; only draft education targeted priorities within the Gender Action Plan
- Strengthening education system data on inclusive education covering disabilities: 2 countries against a target of 10
- Support in implementation of the Monitoring Results for Equity System (MoRES): 10 partners against a target of 20
- Regional office staff recruitment process: 5 against a target of 20
- High-level analytical pieces prepared and disseminated: 2 against a target of 14

	• Initiatives of testing and implementing or scaling innovative approaches in education through innovation funds: 6 against a target of 22
No data available	• Support for development of conflict-sensitive education sector plans to be determined by February 2015 against a target of 6; it is unclear whether the support in education sector analyses in five countries were on conflict-sensitive education sector plans

Annex IV

Significant achievements in 2015 of the Afghanistan and Sierra Leone country offices under the education outcome of the UNICEF Strategic Plan, 2014-2017

A. Significant achievements of the Afghanistan country office

- Reaching out to 45,000 out-of-school children (41 per cent girls) through support for community-based education by establishing more than 1,700 community-based schools and accelerated learning centres in 10 priority provinces and deprived districts
- Enhancing the skills of more than 450 school principals with regard to creating child-friendly schools and school improvement plans
- Finalizing and releasing the School Improvement Plan Guidelines to improve the learning environment and make schools child friendly
- Providing 2.9 million children with teaching and learning materials in 33 provinces
- Supporting the Ministry of Education in providing provincial trainings to accelerate the implementation of the Global Partnership for Education
- Developing the child-friendly schools module now being integrated into the teacher training curriculum
- Advocating for girls' education, which resulted in the revival of the Girls' Education Working Group, and concluding an agreement with the Ministry of Education to develop a comprehensive policy and strategy to address the issue of gender disparities in education

B. Significant achievements of the Sierra Leone country office

- Supporting the establishment of an education information management system to strengthen the country's data-collection and reporting mechanisms
- Supporting the Ministry of Education, Science and Technology in the training of 9,000 teachers with regard to Ebola virus disease prevention, psychosocial support and the implementation of the Safe School Protocols
- Supporting 10 local and international non-governmental organizations in accelerating school enrolment, retention and completion, and ensuring a safe learning environment countrywide
- Supporting the Ministry of Education, Science and Technology in the national broadcasting of the Emergency Education Radio Programme to ensure children continue to access learning through radio lessons
- Contributing to intersectoral collaborations and partnerships with health and sanitation organizations
- Providing technical support to develop the first national early childhood development policy, minimum standards for early childhood care and education and an early childhood care and education curriculum

Chapter III
Certification of the financial statements

Letter dated 31 March 2016 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 judgments;

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.

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
UNICEF

Statement by management on internal control over financial reporting

31 March 2016

1. Management through the UNICEF Financial Regulations and Rules, approved by the Executive Board, is responsible for establishing and maintaining adequate internal control over financial reporting for UNICEF. To carry out its operations in an orderly, ethical, efficient and effective way, UNICEF adopted the Internal Control-Integrated Framework (2013) of the Committee of Sponsoring Organizations of the Treadway Commission.

2. Through an established regulatory framework, the Comptroller ensures that the UNICEF financial records are maintained to permit accurate and timely financial reporting.

3. The Fund's internal control over financial reporting includes those policies and procedures that:

(a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets;

(b) Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IPSAS standards, and that revenue and expenses of the organization are being made only in accordance with appropriate authorizations by management;

(c) Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use and disposition of its assets that could have a material effect on the financial statements.

4. In accordance with the UNICEF Financial Regulations and Rules and its policy on fraud, all cases of suspected or reported actual fraud are investigated by the investigations function under the Office of Internal Audit and Investigations. The Internal Audit function has a mandate to provide independent assurance to management and the Executive Board with regard to UNICEF operations and activities. The Office of Internal Audit and Investigations is a key component of the Fund's independent internal oversight system and is critical to the functioning of the organization's sound control environment.

5. UNICEF establishes committees which provide an oversight function to key business processes, such as the Contracts Review Committee, the Property Survey Board, the Financial Advisory Committee and central review bodies. UNICEF also works with other United Nations agencies and partners to review assessments of the public financial management environment within which UNICEF will provide cash transfers. Additional oversight activities are also carried out by external entities such as the Audit Advisory Committee, the Advisory Committee on Administrative and Budgetary Questions and the Joint Inspection Unit.

6. The above oversight, governance and internal control framework gives management assurance regarding the effectiveness of internal control over financial reporting.

7. The above statement has not been subject to an audit or an examination by the United Nations Board of Auditors.

(*Signed*) Thomas **Asare**
Comptroller
UNICEF

Chapter IV
Financial overview

Financial statement discussion and analysis

Introduction

1. UNICEF was established by the General Assembly of the United Nations in 1946. 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, Hungary and Switzerland and at regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand. UNICEF helps governments and other partners overcome the obstacles that poverty, violence, disease and discrimination place in the path to realizing children's rights. UNICEF mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build the capacity of countries to form appropriate policies and deliver services for children and their families.

2. This financial statement discussion and analysis has been provided by the Comptroller of UNICEF on behalf of management and should be read in conjunction with the UNICEF financial statements for 2015. The present financial statements are prepared for the calendar year 2015 in accordance with UNICEF Financial Regulations and Rules and the International Public Sector Accounting Standards (IPSAS). The financial statement discussion and analysis is provided to enable readers of the financial results of UNICEF to have a better understanding of the meaning behind the numbers. In particular, the financial statement discussion and analysis informs stakeholders as to how financial resources are being managed.

Overview of operations and operating environment

3. The activities of UNICEF are financed by voluntary contributions from governments, private organizations and individuals. Some of these contributions are earmarked for 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.

4. 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.

5. UNICEF continues to support countries, communities and families to realize the rights of all children, paying particular attention to the most disadvantaged. In 2015, UNICEF continued to offer incremental support to seven countries which had been designated by the Executive Director as requiring a level-3 emergency response. The Emergency Programme Fund was used to support level-3 responses and, owing to its high utilization, the ceiling of the Emergency Programme Fund was increased in the first regular session of 2015 to $75 million. The Executive Board extended and expanded the Vaccine Independence Initiative and its revolving fund to a ceiling of $100 million for the period 2016-2020 to facilitate procurement of critical programme supplies.

6. The scale of humanitarian crises in 2015 continued at high levels, making it one of the most challenging operating environments in which to implement programmes to meet the objectives set out in the 2014-2017 UNICEF Strategic Plan. The Ebola outbreak in 2014, for which UNICEF mounted its largest-ever supply operation, has shown some positive indications of being resolved, with affected countries being declared Ebola free as of the end of 2015. Humanitarian crises in Iraq, South Sudan, the Syrian Arab Republic, Yemen and surrounding countries continued in 2015 and UNICEF continued to respond, with significant results for children.

7. Responses to humanitarian crises in war zones provide an exceptionally challenging environment for UNICEF staff members, who continue to respond with exceptional courage to implement programmes and to support the delivery of humanitarian responses in dangerous environments.

Objectives and strategies

8. The Executive Director obtained approval from the Executive Board of a four-year medium-term strategic plan and integrated budget. The financial plan provides detailed financial projections of (a) estimated future financial resources for each year of the plan period; (b) estimated yearly levels of costs; and (c) working capital levels required for the liquidity of UNICEF.

9. The Fund’s strategic plan for 2014-2017 has the objective and theme of advancing the rights of every child, especially the most disadvantaged. The plan also sets organizational efficiency and effectiveness targets, with a special focus on management strategies to improve efficiency and effectiveness through strengthened business operations. A key issue in the strategic plan includes performance targets for humanitarian preparedness, response and building resilience. A priority for UNICEF in humanitarian action is to support effective preparedness and response to humanitarian crises.

10. UNICEF is subject to a Board-imposed liquidity requirement. 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 2015.

11. On 25 September 2015, the General Assembly adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of the post-2015 development agenda, and set out 17 Sustainable Development Goals with specific targets for each goal. In its midterm review, UNICEF confirmed that the strategic plan was in broad alignment with the Sustainable Development Goals, and at the same time took measures to make the necessary adjustments for the remaining period of the strategic plan. The preparation of the Fund’s next strategic plan, for 2018-2021, will be fully shaped by the Sustainable Development Goals, together with other global commitments, with sustainability as a key issue.

12. UNICEF continues to be committed to improving organizational efficiency and effectiveness, including by launching the Global Shared Services Centre in October 2015 in Budapest. The establishment of the Centre is expected to improve

the integrity of financial information as well as remove the burden of transactional processing from country offices so that more focus is put on programme implementation and the monitoring of implementing partners.

Analysis of financial statements

Overview of 2015 financial results

13. UNICEF revenue includes regular resources (core funds), other resources (non-core funds), investment revenue and other revenue. Total revenue in 2015 was $5.01 billion (2014: $5.17 billion), reflecting a decrease of $160 million over the 2014 revenue period. Total expenses increased by $537 million to a total of $5.10 billion (2014: $4.56 billion) in 2015. In 2015, UNICEF had a deficit of revenue over expenses of $75 million, compared with a surplus of $572 million in 2014.

14. UNICEF had total assets of $8.79 billion (2014: $8.77 billion). Total liabilities were $4.16 billion (2014: $4.30 billion). In accordance with the Financial Regulations and Rules approved by its Executive Board, UNICEF held $591 million (2014: $550 million) in cash reserves and $3.89 billion (2014: $4.01 billion) as accumulated surplus. This confirms that UNICEF has sufficient assets to meet its short- and long-term liabilities.

15. The strengthening of the United States dollar, the Fund's functional currency, continues to present challenges to UNICEF, especially as revenue is received in currencies other than United States dollars. UNICEF continues to monitor foreign exchange rates with a view to mitigating some of the adverse effects of foreign exchange on regular resources.

Financial performance

Revenue

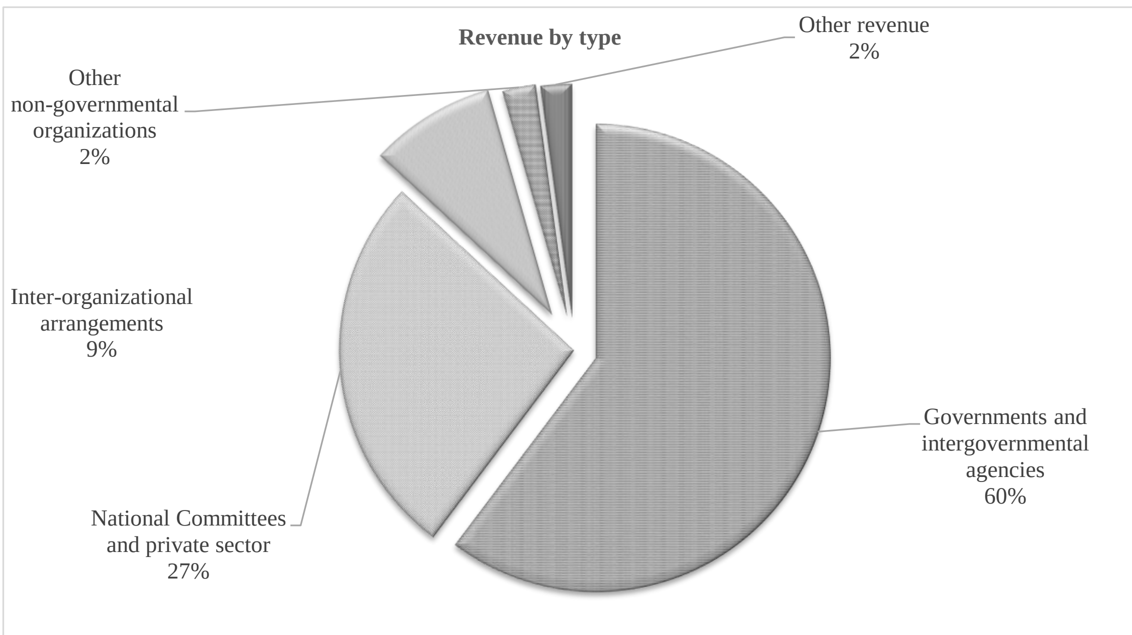
16. As noted above, total revenue decreased by 3 per cent ($160 million) in 2015 compared with the previous year, driven mostly by a decline in voluntary contributions and revenue from the sale of greeting cards.

Statement of financial performance: revenue
(Thousands of United States dollars)

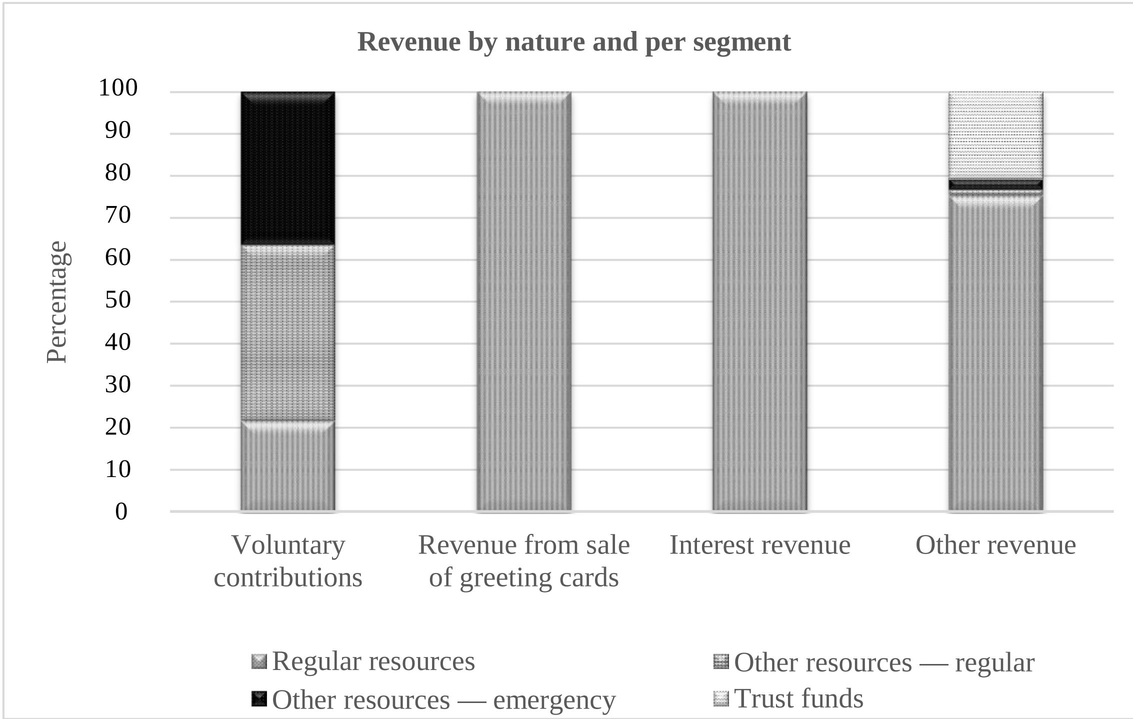
			Variance	
	2015	*2014*	*United States dollars*	*Percentage*
Revenue				
Voluntary contributions	4 903 352	5 032 420	(129 068)	-3
Revenue from sale of greeting cards	8 801	42 696	(33 894)	-79
Interest revenue	35 031	29 755	5 276	18
Other revenue	62 373	64 417	(2 044)	-3
Total revenue	**5 009 557**	**5 169 288**	**(159 731)**	**-3**

17. The main type of revenue continues to be voluntary contributions from governments, private organizations and individuals, which accounted for 98 per cent (2014: 98 per cent) of total revenue. The remaining 2 per cent (2014: 2 per cent) of the revenue was generated by interest in the amount of $35 million (2014: $30 million), procurement services for partners in the amount of $42 million (2014: $38 million), miscellaneous activities in the amount of $14 million (2014: $18 million) and royalties and sales of greeting cards and products amounting to $9 million (2014: $43 million).

18. UNICEF revenue is mostly sourced from government and intergovernmental agencies, which contribute 60 per cent of the revenue; the private sector (National Committees and others), which contributes 27 per cent; inter-organizational arrangements, which contribute 9 per cent; other non-governmental organizations, which contribute 2 per cent; and 2 per cent contributed by other sources. The chart below indicates revenue by type for 2015.



19. Contributions from the National Committees for UNICEF, which are non-governmental organizations that promote child rights in 34 industrialized countries and raise funds for UNICEF programmes worldwide, increased to $1.12 billion (2014: $1.06 billion) combined for both core and other resources. The chart below indicates percentage revenue by nature and per segment.



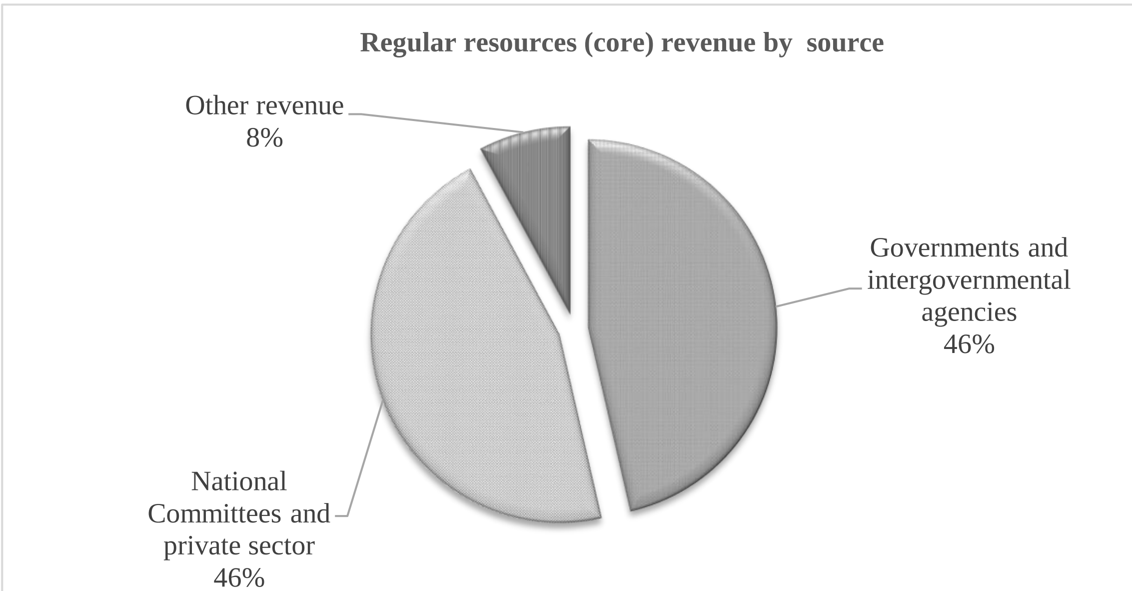
20. In 2015, approximately 50 per cent of the Fund's voluntary contributions were in currencies other than the United States dollar. As a result of the appreciation of the dollar against other currencies, the Fund's contributions were negatively affected, leading to foreign exchange loss, realized and unrealized, of $94 million. In accordance with the UNICEF Financial Rules and Regulations, these losses are reflected against revenue.

21. Depreciation of the euro against the United States dollar is the largest contributor to the net loss of $94 million, accounting for 48 per cent of the total. Other currencies contributing to the realized loss of $102 million are the pound sterling, the Swedish krona, the Canadian dollar and the Norwegian krone. The unrealized gain of $8 million relates mainly to the Swedish krona, the pound sterling and the yen, which were offset by unrealized losses in the Norwegian krone.

22. Voluntary contributions to regular resources (unearmarked or "core" funds) were $1.07 billion (2014: $1.19 billion), which was a decrease of $122 million (10 per cent) in 2015 compared with 2014. Voluntary contributions to other resources (earmarked funds) were $3.84 billion (2014: $3.85 billion) in total, the same level as in 2014, with increases in other resources — emergency offset by decreases in other regular resources.

23. In 2015, regular resources (core) which include contributions to regular resources and other revenue of $1.16 billion (2014: $1.31 billion), accounted for 23 per cent (2014: 25 per cent) of total revenue. Private-sector donations and other revenue constituted 54 per cent (2014: 49.5 per cent) of revenue for regular resources at $621 million (2014: $646 million), while contributions from governments constituted 46 per cent (2014: 50.5 per cent) of revenue for regular resources at $537 million (2014: $660 million).

24. Revenue for regular resources has been either flat or decreasing over the past number of years. In 2015, for the first time, revenue for regular resources contributed by the private sector and other revenue sources exceeded contributions from Member States and intergovernmental agencies. The declining of core resources is a risk to the ability of UNICEF to achieve its objectives and to respond to emerging emergencies in a timely manner. The chart below indicates regular resources (core) revenue for 2015 by source.



25. “Other resources” is split into two parts: regular (development) and emergency resources. Other resources — regular voluntary contributions revenue during the year was $2.06 billion (2014: $2.27 billion), a decrease of $213 million, and other resources — emergency voluntary contributions revenue was $1.78 billion (2014: $1.58 billion), an increase of $201 million.

26. Other resources — regular revenue decreased by 9 per cent compared with 2014, mostly owing to a decrease of 20 per cent from governments, but the impact was slightly offset by an increase of 3 per cent in other resources — regular from the private sector and by an increase of 23 per cent in inter-organizational arrangements. Foreign exchange loss on other resources — regular revenue increased to $86 million (2014: $76 million).

27. Other resources — emergency revenue increased by 13 per cent to $1.79 billion, primarily as a result of increased contributions from government and intergovernmental organizations as well as private-sector fundraising by National Committees to support emergencies across the world and especially in the Middle East. Foreign exchange loss on other resources — emergency revenue was $8 million for 2015 (2014: $13 million).

Expenses

28. The major categories of expenses included cash assistance of $1.77 billion (2014: $1.51 billion), transfer of programme supplies of $1.03 billion (2014: $851 million) and employee benefits expenses of $1.19 billion (2014: $1.13 billion).

Statement of financial performance: expenses
(Thousands of United States dollars)

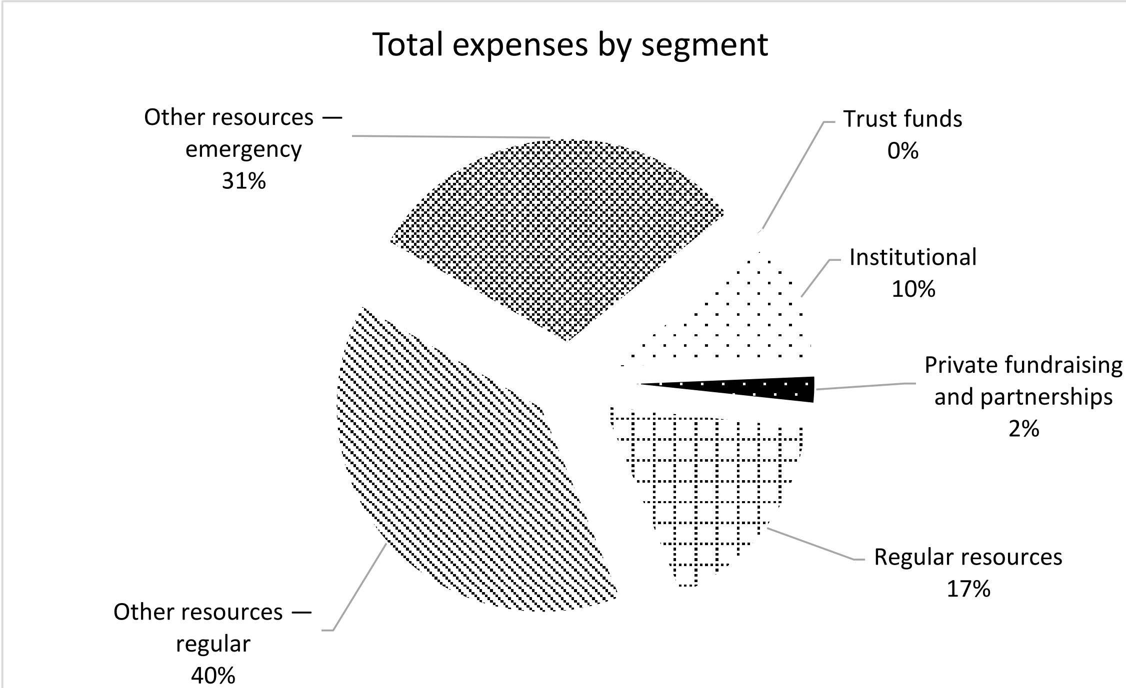
	2015	2014	Variance: United States dollars	Variance: Percentage
Expenses				
Cash assistance	1 766 374	1 512 034	254 340	17
Transfer of programme supplies	1 032 913	851 497	181 416	21
Employee benefits expenses	1 185 784	1 129 549	56 235	5
Depreciation and amortization	22 587	18 597	3 990	21
Other programme-related expert services	341 603	305 676	35 927	12
Other expenses	743 046	737 316	5 730	1
Finance costs	3 342	3 547	(205)	-6
Total expenses	**5 095 649**	**4 558 216**	**537 433**	**12**
Gains/(losses), net	10 553	(38 514)	49 067	-127

29. Total expenses increased by 12 per cent compared with 2014, mostly driven by programme implementation activities. The increase reflects increased programmatic activities, including the provision of programme supplies and transfers of cash assistance mainly in the Middle East and North Africa region and the Western and Central Africa region, as expected, based on increased budgets specifically related to earmarked resources and on responses to emergencies in countries in those regions.

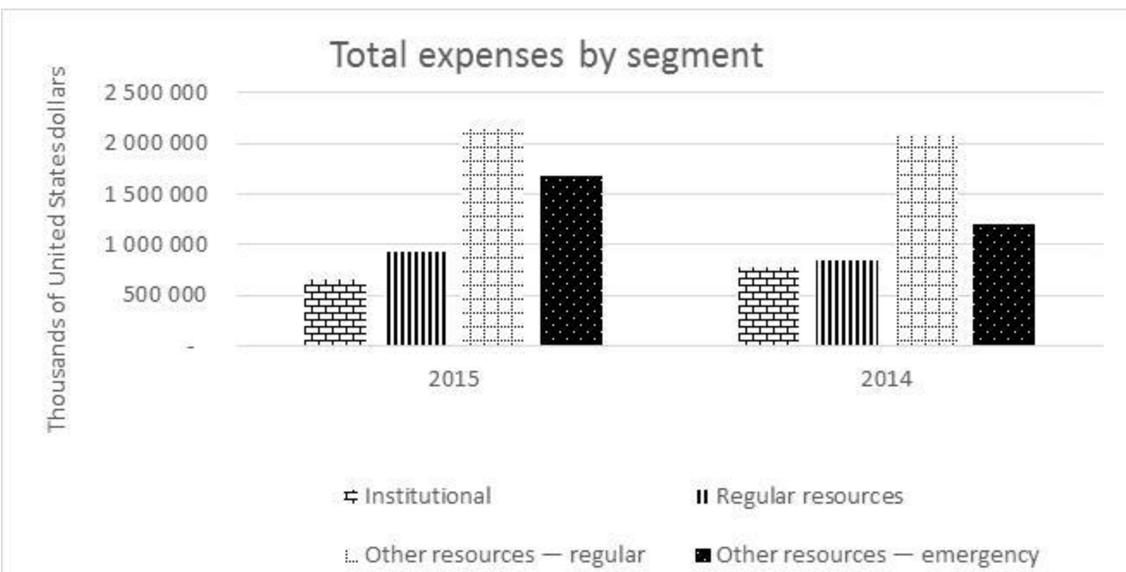
30. Approximately 35 per cent or $1.77 billion (2014: 33 per cent or $1.51 billion) of UNICEF expenses in 2015 were in the form of cash assistance to implementing partners — governments and non-governmental organizations. In addition, UNICEF provided essential supplies to vulnerable communities, including those affected by the ongoing crises in Iraq, the Syrian Arab Republic and South Sudan, among others, at a total value of $1.03 billion, or 20 per cent, of total expenses (2014: $851 million or 19 per cent).

31. Remaining expenses were concentrated in three categories: programme-related expert services of $342 million (2014: $305 million), travel-related expenses for both programme activities and administrative activities of $150 million (2014: $145 million) and distribution costs for programme supplies of $111 million (2014: $115 million).

32. The total expenses related to the institutional business segment were reduced by $109 million, or 14 per cent, to $668 million (2014: $777 million), mostly due to the deferment of the implementation of long-term management initiatives and investment projects. Expenses related to regular resources were $932 million (2014: $860 million), expenses related to other resources — regular were $2.15 billion (2014: $2.07 billion) and expenses related to other resources — emergency were $1.69 billion (2014: $1.20 billion), with the main reasons for the increases being the increased programme activities as discussed in paragraphs 29-31. Expenses related to employee benefits have increased by only 5 per cent, which is a much lower rate of increase than all other expenses. The chart below indicates the percentage of expenses by segment.



33. Across all resource types, UNICEF outflows were concentrated in three major categories: cash assistance, programme supplies (such as vaccines, medical supplies and educational materials) and technical support and policy advice to its partners. Twenty country programmes accounted for more than half of total expenses in 2015, at $2.84 billion (2014: $2.28 billion). The chart below indicates the total expenses by segment compared with the prior year.



34. During 2015, UNICEF incurred a net gain of $11 million (2014: $39 million loss) mainly owing to foreign exchange gains arising from trading activities and to

transactions in foreign currencies other than the United States dollar of $9 million (2014: $40 million loss) and other gains of $2 million (2014: $1 million).

35. The major source of foreign exchange losses in the major donor currencies category were contributions received from governments and intergovernmental organizations, other assets and treasury investments. Because of the appreciation of the United States dollar, UNICEF has recorded gains in liabilities (accounts payable, other liabilities). However, those gains do not offset the losses in contributions. This basically confirms the true nature of UNICEF operations: the receipt and spend currencies are not the same.

36. UNICEF engages in various foreign currency trades, including forward contracts, to minimize exposure to fluctuations in foreign exchange rates. Total gains from foreign exchange trades in investment portfolios for the year were $27 million. There was also an exchange loss, as a result of the conversion to United States dollars for reporting purposes of cash in bank accounts and equivalent cash balances, of $23 million and other assets of $12 million. The following table shows the sources of foreign exchange gains and losses.

Foreign exchange gains and losses per category, 2015

(Thousands of United States dollars)

Category	*Assets*	*Liabilities*	*Investments*	*Total*
Other assets	(11 645)	–	–	(11 645)
Payables and other liabilities	–	15 169	–	15 169
Investments	–	–	27 489	27 489
Cash balances	(22 727)	–	–	(22 727)
Total (loss)/gain — realized/unrealized	**(34 372)**	**15 169**	**27 489**	**8 286**

Net assets

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

38. In accordance with the Financial Regulations and Rules approved by its Executive Board, UNICEF held $591 million (2014: $550 million) in cash reserves and $3.89 billion (2014: $4 billion) as accumulated surplus. The cash reserves are held for future activities and expenses (mainly for after-service health insurance, capital assets and separations).

39. The level of net assets indicates that UNICEF is financially sound and is able to meet its short-term and long-term liabilities.

Financial position

Assets

40. At the end of 2015, the Fund’s total assets were valued at $8.79 billion (2014: $8.77 billion). The following table summarizes the assets position for UNICEF.

Statement of financial position: assets
(Thousands of United States dollars)

			Variance	
	2015	*2014*	*United States dollars*	*Percentage*
Assets				
Advances of cash assistance	759 873	679 256	80 617	12
Cash and cash equivalents	867 768	1 586 784	(719 016)	-45
Investments (current and non-current)	3 665 679	2 841 634	824 045	29
Inventories	432 711	458 831	(26 120)	-6
Receivables (current and non-current)	2 122 113	2 187 450	(65 337)	-3
Other assets (current and non-current)	725 672	793 291	(67 619)	-9
Intangible assets	7 677	7 885	(208)	-3
Property and equipment	212 492	212 448	44	0
Total assets	**8 793 985**	**8 767 579**	**26 406**	**0**

Cash advances

41. Cash advances to implementing partners that had not been liquidated at year-end were valued at $760 million (2014: $679 million). During 2015, a write-off of $0.50 million (2014: $0.44 million) was recorded in relation to old cash advances that had not been liquidated.

Receivables

42. As of the end of 2015, UNICEF recognized contributions receivables of $2.08 billion (2014: $2.14 billion) to be received in 2016 and subsequent years. Deferred revenue of $1.56 billion (2014: $1.53 billion) was recorded as a liability and recognized as other resources contributions intended for use in programme implementation in future years. Other receivables constituting mostly value-added tax receivables were $41 million (2014: $48 million).

Property and equipment

43. Property controlled by the organization at year-end had a net book value of $172 million (2014: $173 million) and equipment a further $40 million (2014: $39 million) for total fixed assets of $212 million (2014: $212 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.

Cash and investments

44. Cash and investments of $4.53 billion (2014: $4.43 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 $2.66 billion (2014: $2.68 billion) or held on behalf of third parties ($529 million (2014: $365 million)).

45. UNICEF has a responsibility to ensure that its funds are invested in a way that supports short-term liquidity and also promotes the long-term sustainability of UNICEF operations. The investment philosophy and strategies assure the preservation of capital by minimizing exposure to undue risk or loss or impairment while maintaining a reasonable expectation of fair return or appreciation.

46. UNICEF manages its investment portfolio risk through the use of various financial instruments. The short-term investment strategy is designed to focus on safety and liquidity while capturing reasonable rates of return. This is done by investment in highly rated financial assets in cash and cash equivalents, short-term investments and emerging markets. The longer term strategy is based on investing in long-term investments, with the main instrument being traded bonds.

47. Risk in the emerging markets portfolio is mitigated through the use of a limit of $30 million in functional emerging market currencies and by transacting only with partners that have been pre-approved by the Financial Advisory Committee. In addition, UNICEF transacts in emerging markets only for investments for currencies where UNICEF has large spending needs, thereby reducing foreign exchange risk. As at 31 December 2015, the emerging markets portfolio had a balance of $13 million.

48. As at 31 December 2015, UNICEF does not hold on its statement of financial position any assets related to forward contracts derivatives with all positions in forward contracts closed before the reporting date. Exchange gains related to forward contract activity during the year amounted to $21 million, which contributed to the increase in net gains in the statement of financial performance compared with 2014.

Available cash

49. Cash reserves for long-term employee liabilities such as after-service health insurance and other Board-approved reserves totalled $591 million (2014: $550 million).

50. The regular resources cash balance as at 31 December 2015 was $700 million (2014: $724 million). Of that amount, $233 million (2014: $191 million) was either committed or due for payment at year-end, leaving a balance of approximately $467 million (2014: $534 million), which is equivalent to approximately three months of regular resources expenditure.

51. UNICEF met the requirement of a prudent level of liquidity for regular resources, defined as the equivalent of expenditure for three to six months or about $300 million to $600 million. That prudent guideline concurs with the general practice of non-profit organizations, including the United Nations system.

52. Total available cash balance for other resources as at 31 December 2015 was $2.66 billion. Of that amount, $1.28 billion was either committed or due for payment at year-end, leaving a balance of approximately $1.29 billion (2014: $1.56 billion).

Inventory

53. The total value of UNICEF inventory, including goods in transit worldwide, was valued at $427 million (2014: $458 million) at the end of 2015. 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 activities.

54. Inventory consists of goods in transit of $132 million, inventory on loan and programme construction in progress of $25 million, inventory held in country office warehouses of $208 million, inventory held in Supply Division hubs and warehouses of $57 million and inventory adjustments for impairment.

55. Country office inventory can be further broken down into non-emergency supplies and pre-positioned supplies. Pre-positioned supplies are supplies held on standby in case of an emergency, and because of that they are typically kept on hand longer than programme supplies. Pre-positioned supplies held throughout the world were valued at $52 million as at 31 December 2015, compared with $45 million in 2014.

Liabilities

56. Total current and non-current liabilities stood at $4.16 billion (2014: $4.30 billion) at year-end, resulting in net assets of $4.63 billion (2014: $4.47 billion) and reflecting further strengthening of the financial position of UNICEF.

Statement of financial position: liabilities

(Thousands of United States dollars)

			Variance	
	2015	*2014*	*United States dollars*	*Percentage*
Liabilities				
Accounts payable	329 806	277 863	51 943	19
Deferred revenue (current and non-current)	1 561 717	1 534 713	27 004	2
Funds held on behalf of others	948 140	908 018	40 122	4
ASHI and other employee benefits (current and non-current)	1 136 241	1 298 294	(162 053)	-12
Other liabilities and provisions (current and non-current)	187 055	280 255	(93 200)	-33
Total liabilities	**4 162 959**	**4 299 143**	**(136 184)**	**3**

57. Deferred revenue of $1.56 billion (2014: $1.53 billion), employee benefits of $1.14 billion (2014: $1.30 billion) and funds held on behalf of third parties of $948 million (2014: $908 million) represent the majority of the Fund's liabilities.

58. Deferred revenue is made up of a combination of voluntary contributions received in advance and revenue of multi-year voluntary contributions agreements relating to future reporting periods.

59. An actuarial study carried out by an external firm in March 2016 estimated the Fund's after-service health insurance liability at $928 million (2014: $1.08 billion) and other end-of-service entitlements at $105 million (2014: $113 million) as of the end of the year. To date, UNICEF has accumulated $577 million (2014: $539 million) in its after-service health insurance and separation reserves and continues to set aside additional funds, primarily through payroll surcharges.

60. As noted above, the outstanding liabilities as at 31 December 2015 include $948 million (2014: $908 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.

Budgetary performance

61. The statement of comparison of budget to actual amounts for the year ended 31 December (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, statement V is prepared and presented on a modified cash basis. Note 5 of the financial statements contains the definitions of the various budget classifications.

Changes from original to final budget

62. 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 intended for the 2015 calendar year. In 2015, the total final budget of $5.4 billion was 19 per cent lower than the total original budget of $6.6 billion. The difference mainly resulted from unfunded emergency appeals.

63. 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 Emergency Programme Fund operates as a standing biennial fund that gives UNICEF the authority to allot up to $35 million for emergencies. The final budget of the Emergency Programme Fund represents resource requirements for humanitarian actions for which contributions have not yet been raised.

Budget utilization

64. The total budget utilized in 2015 was $5.11 billion, or 93 per cent of the final budget.

65. The utilized budget funded from regular resources was $810 million for country programmes and $48 million for global and regional programmes, with a final budget utilization of 97 per cent and 96 per cent respectively.

66. The utilized budget funded from other regular resources was $2.0 billion for country programmes and $107 million for global and regional programmes, with a final budget utilization of 93 per cent and 90 per cent respectively. The utilized budget funded from other emergency resources was $1.6 billion, with a final budget utilization of 96 per cent. Variances between the final budget and the actual budget 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, which are affected by the programming environment in which UNICEF operates.

67. The actual budget utilization of the Emergency Programme Fund equals the final budget allotments advanced from the Emergency Programme Fund to support humanitarian actions for which contributions have not yet been made by donors. The utilized budget of $15 million for 2015 is fully reimbursable in 2016 when contributions become available. Once reimbursed, the funds can be reissued up to the Board-approved ceiling of $35 million. During 2015, funds from the Emergency Programme Fund were issued for the amount of $37 million, in addition to $14 million carried over from the prior year in the form of residual budgets and commitments. Overall reimbursements from offices in 2015 were $34 million. The residual budget carried forward to 2016 is $2 million.

68. The utilized institutional budget was $469 million, with a final budget utilization of 83 per cent. That was mainly driven by the deferred implementation of investment projects, 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 the changing exchange rate of the United States dollar against local currencies.

69. Of the approved budget available for private-sector fundraising and partnerships, 87 per cent was utilized. That reflects savings driven by lower-than-expected expenses related to the closure of the cards and products operations and savings from staff costs. Furthermore, investment funds expenditure was lower than the 2015 approved budget by 1.6 million, or 3 per cent.

Four-year International Public Sector Accounting Standards financial performance results summary and trend analysis

70. One of the benefits of introducing IPSAS is the ability to compare information and be able to review long-term trends within that information. The table below presents the four-year financial performance results since the implementation of IPSAS financial statements (from 2012 to 2015).

Statement of financial performance

(Thousands of United States dollars)

	2015	*2014*	*2013*	*2012*
Revenue				
Voluntary contributions	4 903 352	5 032 420	4 694 809	3 790 880
Revenue from sale of greeting cards	8 801	42 696	69 621	74 500
Interest revenue	35 031	29 755	29 244	29 461
Other revenue	62 373	64 417	59 494	50 446
Total revenue	**5 009 557**	**5 169 288**	**4 853 168**	**3 945 287**

	2015	2014	2013	2012
Expenses				
Cash assistance	1 766 374	1 512 034	1 330 550	1 105 939
Transfer of programme supplies	1 032 913	851 497	695 104	628 817
Employee benefits expenses	1 185 784	1 129 549	1 082 795	1 022 818
Depreciation and amortization	22 587	18 597	13 491	8 440
Other programme-related expert services	341 603	305 676	267 618	206 163
Other expenses[a]	743 046	737 316	695 765	646 554
Finance costs	3 342	3 547	3 740	3 590
Total expenses	**5 095 649**	**4 558 216**	**4 089 063**	**3 622 321**
Gains/(losses), net	10 553	(38 514)	4 535	3 497
Net (deficit)/surplus	**(75 539)**	**572 558**	**759 570**	**319 469**

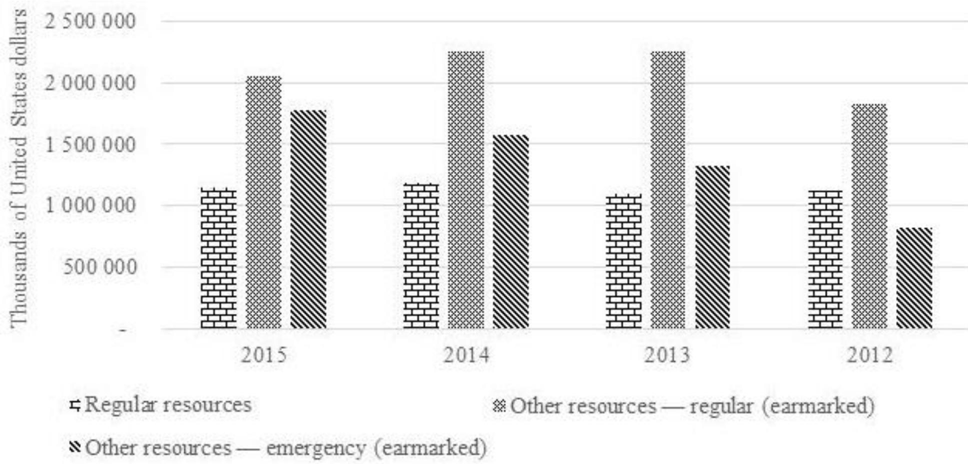
[a] Certain amounts related to this category for 2014, 2013 and 2012 have been reclassified to conform to the current presentation.

Four-year trend for revenue

71. The trend for revenue over the past four years indicates that revenue sharply increased in 2013, showed a modest increase in 2014 and decreased in 2015. The other notable trend is the reduction in the revenue from the sale of greeting cards and gifts. That decrease was mainly due to the change in the business model, in which UNICEF is now outsourcing the sale of greeting cards and products while putting in place agreements to earn revenue through licensing agreements. The associated retention commissions and cost of goods sold have decreased from $36.02 million in 2012 to $2.53 million in 2015.

72. Interest revenue has been stable from 2012 to 2014, and showed a modest increase in 2015 owing to the firming interest rate market in 2015. Other revenue also remained stable, mostly driven by revenue for agency fees from procurement services. The chart below shows the four-year trend for revenue from voluntary contributions, by segment:

Voluntary contributions revenue by segment

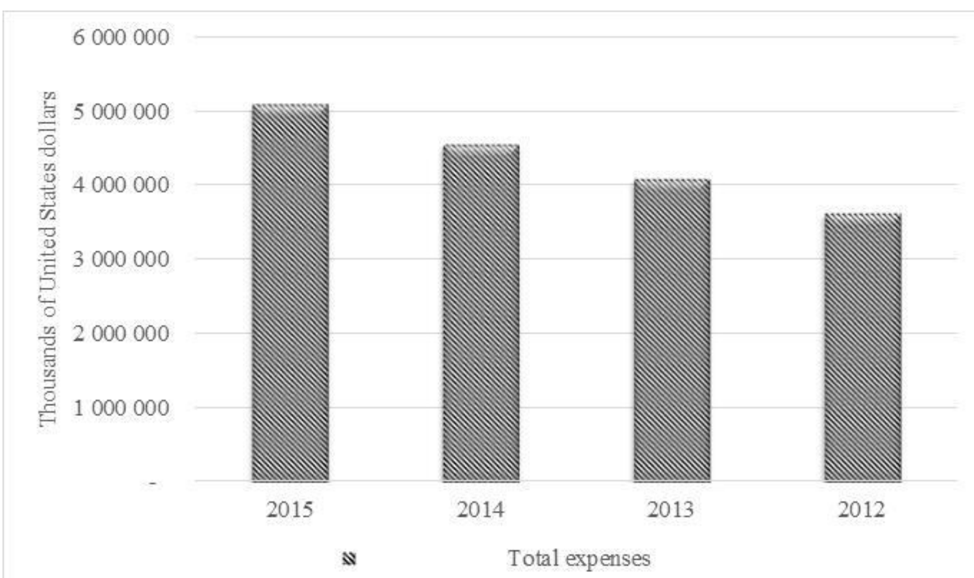


73. Regular resources show a declining trend from 2012 to 2015, in comparison to the sharp increase in earmarked funds, especially those related to emergencies.

Four-year trend for expenses

74. The trend for expenses over the past four years indicates that expenses have been increasing steadily, following the trend of revenues. However, expense recognition is a lagging indicator of the level of implementation of programmes. Due to accrual accounting, expenses can only be recorded once they have occurred. The chart below shows the four-year trend for expenses by nature for the five major expense categories:

Total expenses, four-year trend



75. There has been a sharp increase in cash assistance to implementing partners. UNICEF has focused on implementing the harmonized approach to cash transfers and has increased its use of implementing partners for programmes. The implementing partners include governments, local civil society and non-governmental organizations (local and international).

76. Countries with the highest increases in cash assistance distributed to implementing partners for programme activities include the Democratic Republic of the Congo, Ethiopia, Iraq, Jordan, Lebanon, Nigeria and Zimbabwe.

77. The other notable increase is in programme supplies. The increasing expense related to programme supplies over the four-year period indicates that UNICEF has ramped up activities to support vulnerable communities and has acted on the emergencies and humanitarian events that have taken place over the last four years.

78. Most of the increase in programme supplies is attributable to programme supplies distributed to Afghanistan, Chad, the Democratic Republic of the Congo, Ethiopia, Iraq, Nigeria, Sierra Leone, South Sudan and the Syrian Arab Republic. These are countries that either had emergencies or were bordering countries or regions that had emergencies.

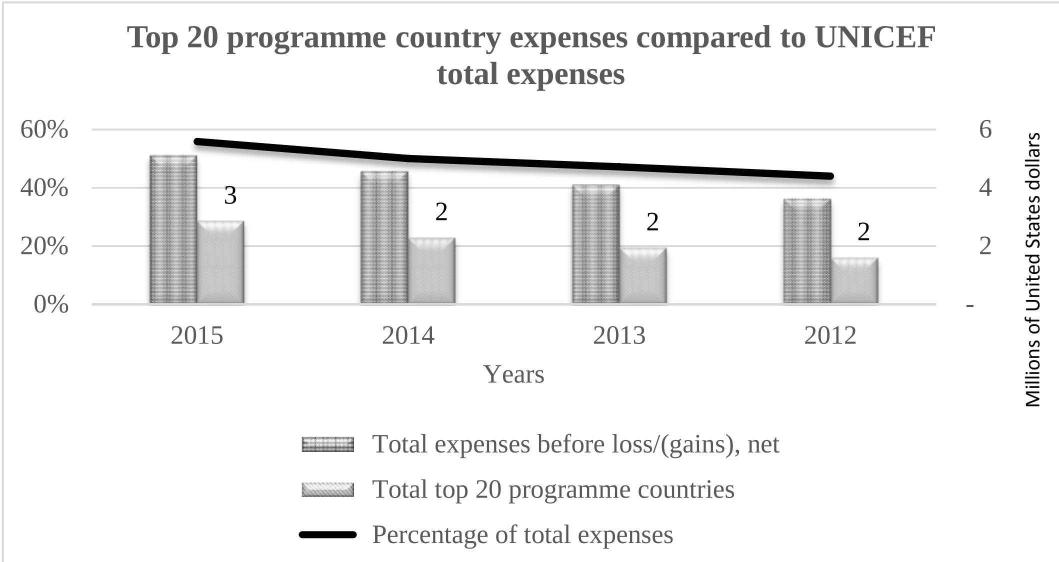
79. There has also been a modest increase in other programme-related expert services. Those include technical support provided by external consultants to implement programmes, including programme evaluation services, studies/research survey services, other programme services activities and other professional and expert services related to programme activities.

80. The trend in increase in other expenses has stayed largely the same at 4 to 6 per cent year-on-year.

81. Employee benefits expenses increased at a much lower rate compared with total expenses (16 per cent over four years compared with 41 per cent). That indicates a tight control of financial management with a focus on efficiencies and effectiveness over other expenses and employee benefits.

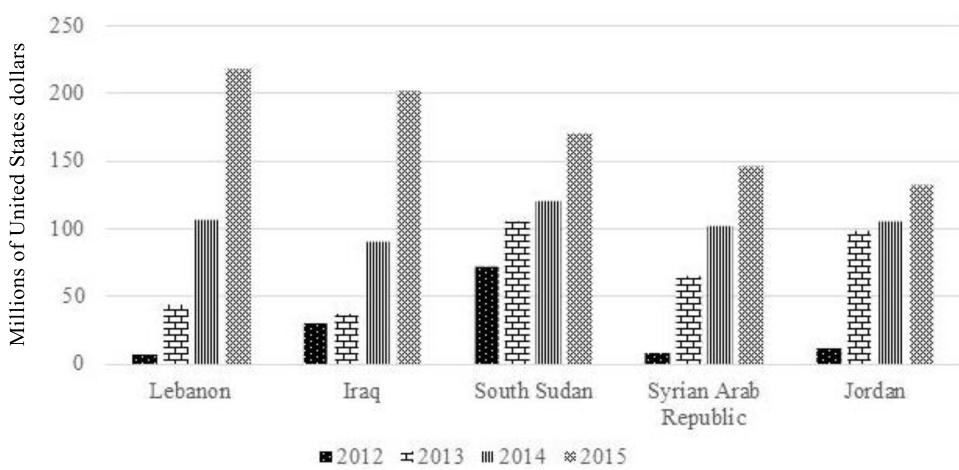
82. The chart below shows the four-year trend for expenses for the top 20 programme countries:

Top 20 programme country expenses compared to UNICEF total expenses



83. The top 20 programme countries, based on 2015 expenses, constituted 56 per cent of total expenses in 2015 compared with 44 per cent in 2012. The trend for total expenses in the top 20 programme countries indicates the increased support for emergencies, especially in the Middle East. The chart below shows the trends for programme countries with the highest increase in expenses for 2012-2015:

Countries with the highest increase in expenses, 2012-2015



84. There is a marked increase in support provided to Lebanon, Iraq, the Syrian Arab Republic and Jordan related to the emergency and humanitarian situations in Iraq and the Syrian Arab Republic. In addition, the trend for South Sudan shows increased support as a result of the emergency situation in South Sudan.

Forward-looking statements disclosure

85. The management discussion and analysis include forward-looking statements and information about the organization's outlook, direction, operations and future financial results that are subject to risks, uncertainties and assumptions. As a result, actual results in the future may differ materially from any conclusions made from a forecast or projection in such forward-looking statements. Therefore, forward-looking statements should be considered carefully and should not be unduly relied upon.

Outlook for 2016 and beyond

86. The post-2015 development agenda concluded with the General Assembly approving 17 Sustainable Development Goals. It is expected that going forward there will be some realignment in the delivery model so that the organization can be in the best possible position to contribute to the Goals, all of which will improve, specifically, the rights of children and ensure equity for children, especially the most disadvantaged.

87. For the future, key strategic considerations include the following:

(a) The adoption of the Sustainable Development Goals and the agreement on climate change set out at the Conference of the Parties to the United Nations Framework Convention on Climate Change, which commit Member States to sustainable development with a special focus on climate change;

(b) The role of UNICEF in building a more sustainable future for children through action on climate change, as children are the most disproportionately affected by the impact of climate change;

(c) Increased responsibility for UNICEF to protect children living through escalating conflicts and natural disasters in order to give each child a fair chance;

(d) As part of its role in supporting governments and implementing programmes, UNICEF will need to hold itself and other key partners mutually accountable for achieving set results under the Sustainable Development Goals.

88. Meeting the above key strategic considerations will require appropriate resource mobilization and resource planning to support countries in adapting to climate change through resilient development, and require increased advocacy by UNICEF to hold all stakeholders accountable.

89. UNICEF is also taking steps to ensure that, at the same time it implements its programmes, it remains carbon neutral and takes steps to be more climate friendly. UNICEF has purchased carbon credits through the United Nations Framework Convention on Climate Change to offset its emissions. Actions have also been taken to install more energy-efficient equipment.

90. To contribute to the above in the future, UNICEF has established a levy on travel to fund the greening initiative for UNICEF which will, among other activities, fund the greening of UNICEF operations and make UNICEF offices accessible to those living with disabilities.

91. The continued stagnation in voluntary contributions for regular resources, especially as a proportion to earmarked resources, remains a concern. The Fund's

ability to contribute to the Sustainable Development Goals and to the thematic areas relies on the availability of regular resources.

Key risks, uncertainties and risk-management strategy

92. UNICEF must manage a number of risks, and these risks are regularly reviewed by management with the view of implementing risk mitigation strategies. The risks are further described below.

Key financial risks

93. UNICEF is exposed to the following risks related to its portfolio of financial instruments: credit risk, interest rate risk, market risk and liquidity risk. Credit risk arises principally from cash and cash equivalents, investments, receivables from contributions and other receivables. UNICEF holds bank accounts in more than 140 countries, which exposes the organization to significant default risk.

94. Through its policies and procedures, UNICEF ensures that market risks are identified, measured, managed and regularly reported to management and the Financial Advisory Committee. UNICEF enters into forward contracts on currencies of major donors to hedge for fluctuation in foreign exchange rates for donations. UNICEF also applies "natural hedges" by holding foreign currencies in order to cover forecasted foreign currency cash outflows in revenue-side currencies. 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. More detailed discussion on the risk management related to investments and cash and cash equivalents is available in note 30 to the 2015 financial statements, Financial risk management.

95. UNICEF has large amounts of contributions receivable that are for amounts due for voluntary contributions. To mitigate this risk, the organization has developed a grants monitoring report that shows information on expenses incurred in excess of cash received and outstanding receivables so that the status of expenditures can be monitored against cash received. The organization has a good record of collecting amounts that are outstanding, but risks still exist.

96. UNICEF has long-term liabilities related to future employee benefits liabilities. To mitigate this risk, an actuarial valuation of the employee benefits liabilities is done to determine those liabilities. As a result of the actuarial valuation, funding rates are set to fund the long-term liabilities. As of 2016, UNICEF will also be engaging an external investment manager to manage the after-service health insurance funds set aside in the insurance reserve, with the objective of earning returns that will contribute to the long-term funding of the after-service health insurance liability.

Key organization risks

97. UNICEF is exposed to operational risks arising from its systems and functions. The interdependencies among its operating units, and among its risk factors in general, could adversely affect its activities, with exposure to financial losses as a consequence. Operational risks include the risks of losses resulting from inadequate or failed internal processes, people and systems, and from external events that could negatively affect the organization.

98. UNICEF is exposed to the risk of fraud and misuse of resources. Instances of fraud and misuse of resources not only divert funds from programme beneficiaries, but also could potentially undermine public trust in the ability of UNICEF to operate by decreasing the opportunity to obtain already scarce resources available to support children. The above exposure is managed through compliance with the code of ethics, the existence of a whistle-blower protection policy and the investigation capabilities of the Office of Internal Audit and Investigations.

99. The Fund's risk in information communications technology systems and information security can threaten the confidentiality, integrity and availability of UNICEF financial and programmatic information. The information technology security section provides overall security policy and guidance to UNICEF and focuses on threats and vulnerabilities to a business unit's information assets.

100. Increasing pressure on official development assistance budgets from traditional donors has increased the risk of being unable to fundraise as UNICEF competes with other organizations for funding. While the overall resource envelope is increasing, significant risks are associated with the declining regular resources (core) that fund its institutional costs and allow the organization flexibility in programme implementation and innovation. The growing role of the private sector in funding development and humanitarian activities, coupled with the implementation of a resource mobilization strategy, would ensure that UNICEF has access to diversified sources of funding to ensure that its operations are not significantly affected.

101. In cases where UNICEF is unable to demonstrate visible programme results, it may be exposed to the risk of loss of donor confidence and consequent loss of revenue. UNICEF has developed a strategy that includes a clear vision of how it intends to achieve the results presented in the country programme documents, with detailed attention given to results statements and indicators. This is monitored by its Field Results Group under the oversight of the Deputy Executive Director for Field Results.

102. UNICEF operates in a challenging global security environment as it responds to humanitarian crises and increased emergencies. Constant threats to UNICEF staff, partners and resources may negatively affect programme delivery owing to increased restrictions on movement and access. That also leads to difficulty in recruiting and retaining quality staff, particularly in very high-risk areas. The Office of Emergency Programmes coordinates the Fund's global security activities in close consultation with the Department of Safety and Security and other United Nations security management organizations, and continually provides strategic security advice and analysis to senior management and staff.

103. UNICEF strongly believes that it has considerable control over the majority of the risks and the resources required to manage them at an acceptable level. Detailed mitigation plans have been developed for these significant risks and are monitored closely at the enterprise level. There is also close cooperation among the oversight mechanisms within UNICEF, with a view to paying close attention to all potential risks and ensuring the formulation of appropriate mitigation measures.

Chapter V
Financial statements for the year ended 31 December 2015

United Nations Children's Fund
I. Statement of financial position as at 31 December
(Thousands of United States dollars)

	Note	2015	2014
Current assets			
Cash and cash equivalents	6	867 768	1 586 784
Contributions receivable	7	1 531 694	1 588 160
Other receivables	7	40 084	46 667
Advances of cash assistance	8	759 873	679 256
Inventories	9	432 711	458 831
Investments	10	2 575 900	1 630 490
Other assets	11	691 065	758 635
Total current assets		**6 899 095**	**6 748 823**
Non-current assets			
Contributions receivable	7	548 990	551 576
Other receivables	7	1 345	1 046
Investments	10	1 089 779	1 211 143
Property and equipment	12	212 492	212 448
Intangible assets	13	7 677	7 885
Other assets	11	34 607	34 657
Total non-current assets		**1 894 890**	**2 018 755**
Total assets		**8 793 985**	**8 767 578**
Current liabilities			
Accounts payable and accrued liabilities	14	329 806	277 863
Deferred revenue	15	1 013 407	983 817
Funds held on behalf of third parties	16	948 140	908 018
Other liabilities	17	37 585	109 047
Employee benefits liabilities	18	101 894	102 579
Provisions	19	30 602	35 244
Total current liabilities		**2 461 434**	**2 416 568**
Non-current liabilities			
Deferred revenue	15	548 310	550 896
Employee benefits liabilities	18	1 034 347	1 195 715
Other liabilities	17	118 868	135 964
Total non-current liabilities		**1 701 525**	**1 882 575**
Total liabilities		**4 162 959**	**4 299 143**
Accumulated surpluses	20	3 891 773	4 008 649
Reserves	20	739 253	459 786
Net assets		**4 631 026**	**4 468 435**

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	*2015*	*2014*
Revenue			
Voluntary contributions	21	4 903 352	5 032 420
Revenue from greeting cards and products	22	8 801	42 696
Interest revenue	23	35 031	29 755
Other revenue	24	62 373	64 417
Total revenue		**5 009 557**	**5 169 288**
Expenses			
Cash assistance	26	1 766 374	1 512 034
Transfer of programme supplies	26	1 032 913	851 497
Employee benefits expenses	27	1 185 784	1 129 549
Depreciation and amortization	12, 13	22 587	18 597
Other programme-related expert services	28	341 603	305 676
Other expenses	28	743 046	737 316
Finance costs	23	3 342	3 547
Total expenses		**5 095 649**	**4 558 216**
Gains/(losses) net	**25**	**10 553**	**(38 514)**
Net (deficit)/surplus		**(75 539)**	**572 558**

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)

	2015	*2014*
Net assets as at 1 January	**4 468 435**	**4 104 155**
Actuarial gains/(losses) recognized directly in net assets	239 629	(206 689)
Changes in fair value of available-for-sale financial assets	(1 261)	(1 589)
Prior-period adjustment	(238)	–
(Deficit)/surplus for the period	(75 539)	572 558
Net assets as at 31 December	**4 631 026**	**4 468 435**

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)

	2015	*2014*
Cash flows from (used in) operating activities		
Net (deficit)/surplus	(75 539)	572 558
Adjustments to reconcile (deficit)/surplus to net cash flows		
Depreciation and amortization	22 587	18 597
Gain on sale or disposal of property and equipment	(2 267)	(869)
Unrealized (gain)/loss on foreign exchange	(12 920)	74 954
Impairments, write-offs	10 924	14 825
Interest received	(35 032)	(29 755)
Revenue adjustments	90 417	(84 463)
Contributions in kind — net	(14 620)	(11 279)
Actuarial gain	239 629	(206 689)
Other adjustments	(71 335)	1 615
Changes in assets		
Decrease/(increase) in inventories	26 120	(74 986)
Decrease in contributions receivable	59 051	140 119
Decrease in other receivables	6 284	1 214
Increase in advances from cash assistance	(80 618)	(118 716)
Decrease/(increase) in other assets	67 620	(293 267)
Changes in liabilities		
Increase in accounts payable	51 942	21 643
Increase/(decrease) in deferred revenue	27 005	(130 633)
Increase in funds held on behalf of third parties	40 121	315 812
(Decrease)/increase in employee benefits liabilities	(162 052)	279 389
(Decrease)/increase in provisions	(4 642)	7 073
(Decrease) in other liabilities	(85 160)	(108 567)
Net cash used in operating activities	**97 515**	**388 575**
Cash flows from (used in) investing activities		
Purchases of investments	(6 137 047)	(9 101 977)
Maturities and sale of investments	5 313 002	8 651 940
Interest received	23 157	23 912
Purchases of property and equipment	(27 498)	(30 948)
Proceeds on sale of property and equipment	2 628	1 809
Purchases of intangible assets	(2 134)	(3 543)
Net cash used in investing activities	**(827 892)**	**(458 807)**
Cash flows used in financing activities		
Payment of finance lease liabilities	(6 734)	(6 734)
Net cash used in financing activities	**(6 734)**	**(6 734)**
Effect of exchange rate changes on cash and cash equivalents	18 095	11 795
Net (decrease) in cash and cash equivalents	**(719 016)**	**(65 171)**
Cash and cash equivalents		
Beginning of year	1 586 784	1 651 955
End of year	867 768	1 586 784

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

United Nations Children's Fund
V. Statement of comparison of budget to actual amounts 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	801 059	835 298	809 605	25 693
Other resources: regular	5	2 463 912	2 099 417	1 957 336	142 081
Total		**3 264 971**	**2 934 715**	**2 766 941**	**167 774**
Other resources: emergency	5	**2 598 297**	**1 674 747**	**1 609 075**	**65 673**
Emergency (regular resources)		**35 000**	**15 265**	**15 265**	–
Global and regional programmes					
Regular resources		45 106	49 710	47 821	1 890
Other resources: regular		129 400	118 611	106 591	12 020
Total		**174 506**	**168 321**	**154 412**	**13 910**
Institutional budget					
Development effectiveness		137 430	151 189	129 067	22 122
Management		373 664	370 687	312 130	58 557
Special purpose		21 583	33 525	21 996	11 529
United Nations development coordination		9 096	6 892	5 898	994
Total		**541 773**	**562 293**	**469 091**	**93 202**
Private Fundraising and Partnerships budget		**111 300**	**111 300**	**96 872**	**14 428**
Grand total	5	**6 725 847**	**5 466 641**	**5 111 656**	**354 987**

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

United Nations Children's Fund
Notes to the 2015 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, Hungary, Italy, Japan and Switzerland, as well as regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

Note 2
Statement of approval of the Executive Director

1. The financial statements were certified by the Comptroller on 31 March 2016, as required by the UNICEF Regulations and Rules, and transmitted for issue by the Executive Director on 31 May 2016.

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 judgments

5. The preparation of financial statements in accordance with IPSAS requires UNICEF management to make judgments, 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 benefits liabilities.

7. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and which 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 judgment. Many UNICEF contribution agreements with donors include general stipulations; for those that include conditions, deferred revenue is recognized;

(b) Note 18, Employee benefits 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 Fund's best judgment and estimates. 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 the 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

8. The International Public Sector Accounting Standards Board has issued five new standards as of 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. Detailed assessment of the impact of the new IPSAS standards has been carried out, and the new standards will not have a significant impact on the Fund's financial statements.

E. Reclassification

9. In order to improve the transparency and usefulness of the information presented, "Other programme-related expert services" is shown on the statement of financial performance. For the prior period, the amount was aggregated with "Other expenses" and shown separately in note 28, Other programme-related expert services and other expenses.

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 receivable	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 at fair value through surplus or deficit if it is designated as such upon initial recognition or is classified as held for trading (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 (free-standing derivatives) which 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 contracted only with creditworthy counterparties pre-approved 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 the Fund's claims to the unused cash assistance funds remaining with implementing partners after the completion or termination of a project. They 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 payment up front. Prepayments are recorded as a current asset until goods and/or 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 Rules and Staff Regulations of the United Nations. The 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 composed of traded bonds. They are initially recorded at fair value 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 de-recognized, the gain or deficit accumulated in net assets is reclassified as 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 the 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 intragovernmental 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 of 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 within 9 months, or breaches the performance obligation, those amounts, as well as any unused funds, are followed up by UNICEF with the implementing partners and, as required, 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.

Inventory

23. 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, is stated at the lower of cost or net realizable value. Cost is determined using a weighted average cost formula.

24. The cost of inventory includes costs incurred in acquiring the inventory and other costs incurred in bringing them to their existing location and condition (e.g., 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.

25. 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

26. 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.

27. 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.

28. 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.

29. 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.

30. 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

31. 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).

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

Intangible assets

33. 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.

34. 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

35. 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 the 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.

36. 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

37. 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)

38. 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, Other liabilities).

39. 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

40. Funds held on behalf of third parties represent liabilities in respect of assets held by or for UNICEF under agency agreements.

41. 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 or for 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.

42. 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

43. UNICEF recognizes the following categories of employee benefits:

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

Short-term employee benefits

44. 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. Owing to the short-term nature of such entitlements, the liability is not discounted for the time value of money.

Post-employment benefits

45. Post-employment benefits are those payable after completion of or separation from employment, excluding termination payments.

Defined-contribution plan

46. 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 participate in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

47. 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. Therefore, UNICEF has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS 25: Employee benefits. The Fund's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Defined-benefit plans

48. The defined-benefit plans of UNICEF include after-service health insurance and certain end-of-service entitlements. The Fund's 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.

49. 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.

50. 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

51. Other long-term employee benefits 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.

52. 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

53. 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, if 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

54. 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.

55. 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.

56. 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.

57. 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, Other liabilities).

Provisions

58. 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 the 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.

59. 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.

60. Other provisions include a provision for medical insurance for active employees (see note 19, Provisions).

Revenue recognition

Voluntary contributions

61. 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 nominal consideration provided directly in return to the donor. The resources are to be applied towards advancing the Fund’s mission.

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

63. 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.

64. 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 before the start date of a signed agreement or the formal exchange of letters are recorded as "contributions received in advance", while receivables related to future years are presented separately as "deferred revenue".

65. 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.

66. 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.

67. 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.

68. 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

69. Pledges of donations to UNICEF are received at 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 referred to above. Until that time, the pledges are disclosed as contingent assets in note 33, Contingencies.

Contributions in kind

70. 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.

71. 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

72. 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.

73. 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

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

Transfers of cash assistance and programme supplies

75. 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 reported to but not processed by UNICEF (see note 8, Advances of cash assistance, and note 26, Transfer of programme supplies and cash assistance).

Commitments

76. 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 that 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

77. 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

78. 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

79. 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.

80. 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

81. 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 budget; (d) Emergency Programme Fund; (e) institutional budget; and (f) Private Fundraising and Partnerships budget.

82. 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.

83. Country programme budgets are multi-year budgets funded from regular and other resources and submitted individually (each country programme as a separate document) for approval by the Executive Board. The multi-year budgets are annualized by the respective offices and maintained in the financial system. The duration of the country programmes varies from three to six years. The Global and Regional Programme budget is also a multi-year budget submitted as part of the integrated budget for approval by the Executive Board. The duration of the Global and Regional Programme budget is aligned with the duration of the Strategic Plan. Similar to the country programme budgets, the multi-year budget is annualized and maintained in the financial system by the respective offices.

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 and submitted to the Executive Board for review and approval on an annual basis.

85. The institutional budget is a multi-year budget that is submitted as part of the integrated budget for approval by the UNICEF Executive Board. The duration of the institutional budget is also aligned with the duration of the Strategic Plan. The institutional budget is also broken down by cost classification, which comprises the following categories as disclosed in statement V:

(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 and the Emergency Programme Fund are annually approved budgets. An original budget as defined by IPSAS as "the initial approved budget for the budget period". Multi-year budgets need to be broken into annual allocations in order to identify the original budget for each year. Automatic carryovers of unused budgets form part of the original budget for the subsequent year. For UNICEF, within the context of statement V, the original annual budget is:

(a) For annually approved budgets: the amount as originally approved;

(b) For multi-year budgets:

(i) The "other resources" programme budget is annualized and maintained in the financial system. In aggregate, the annualized amounts are within the board approved ceiling/budget;

(ii) For regular resources programme budgets and the institutional budget: the annual initial allotment and any residual budgets (allotments) that have been automatically carried over from prior years.

The final budget is defined as:

(a) The original budget as defined above;

(b) All subsequent changes to the budget approved by the Executive Board or in accordance with a delegated authority from the Board.

87. While the Fund's 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 appear on 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: the 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 from the sale of property and equipment and payment of finance lease liabilities are not included in the 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*	*2015*	*2014*
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(5 111 654)	–	–	–	(5 111 654)	(4 868 092)
Basis differences	159 491	(827 892)	(6 734)	–	(675 135)	12 044
Exchange rate changes on cash and cash equivalents	–	–	–	18 095	18 095	11 795
Entity differences	40 121	–	–	–	40 121	(390 205)
Presentation differences	5 009 557	–	–	–	5 009 557	5 169 287
Net cash flows from the statement of cash flows	**97 515**	**(827 892)**	**(6 734)**	**18 095**	**(719 016)**	**(65 171)**

2. Statement V 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 2015.

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	22 773	25 494	25 201	293
East Asia and the Pacific	60 925	63 586	62 074	1 512
Eastern and Southern Africa	213 650	218 690	209 439	9 252
Latin America and the Caribbean	31 923	36 080	34 618	1 463
Middle East and North Africa	42 076	47 333	46 702	631
South Asia	158 377	160 659	156 064	4 624
Western and Central Africa	271 336	283 457	275 537	7 920
Subtotal	**801 060**	**835 299**	**809 605**	**25 695**
Other resources — regular				
Central and Eastern Europe and Commonwealth of Independent States	79 996	53 904	52 848	1 056
East Asia and the Pacific	201 813	166 245	159 774	6 471
Eastern and Southern Africa	865 447	681 640	642 116	39 524
Latin America and the Caribbean	106 735	85 472	78 287	7 185
Middle East and North Africa	272 347	184 228	177 058	7 171
South Asia	397 448	266 954	240 706	26 248
Western and Central Africa	540 126	660 974	606 548	54 427
Subtotal	**2 463 912**	**2 099 417**	**1 957 337**	**142 082**
Total country programme budget	**3 264 972**	**2 934 716**	**2 766 943**	**167 777**
Other resources — emergency				
Central and Eastern Europe and Commonwealth of Independent States	76 064	75 010	70 936	4 074
East Asia and the Pacific	93 614	60 939	51 248	9 691
Eastern and Southern Africa	474 912	264 114	252 317	11 796
Latin America and the Caribbean	31 225	17 258	16 243	1 015
Middle East and North Africa	787 741	740 072	713 345	26 727
South Asia	227 147	98 884	93 356	5 528
Western and Central Africa	763 159	388 410	391 035	(2 626)
Global	144 434	30 061	20 594	9 468
Total other resources — emergency budget	**2 598 296**	**1 674 748**	**1 609 074**	**65 673**

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)

	2015	*2014*
Cash at bank and on hand — convertible	164 134	267 307
Cash at bank and on hand — non-convertible	19 972	25 960
Cash at bank in money market demand accounts	157 542	141 285
Term deposits and other (90 days or less)	526 120	1 152 232
Total cash and cash equivalents	**867 768**	**1 586 784**

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*	*2015*	*2014*
Gross current receivables						
Unearmarked	17 603	69	198 840	(131)	216 381	273 865
Earmarked	1 156 923	26 371	101 709	30 310	1 315 313	1 314 295
Total current contributions receivable	**1 174 526**	**26 440**	**300 549**	**30 179**	**1 531 694**	**1 588 160**
Gross non-current receivables						
Unearmarked	2 759	–	680	–	3 439	23 693
Earmarked	494 331	225	40 000	10 995	545 551	527 883
Total non-current contributions receivable	**497 090**	**225**	**40 680**	**10 995**	**548 990**	**551 576**
Total contributions receivable	**1 671 616**	**26 665**	**341 229**	**41 174**	**2 080 684**	**2 139 736**

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 clauses, 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

as well as the Fund's exposure to credit and currency risks related to those receivables is disclosed in note 30, Financial risk management.

Other receivables
(Thousands of United States dollars)

	2015	*2014*
Current other receivables		
Receivables from sales of greeting cards and products	6 666	20 003
Value-added tax receivables	16 353	12 126
Receivables from staff members	4 887	7 603
Receivables from other United Nations agencies	4 010	2 034
Unused transfers of cash assistance due from implementing partners	1 919	3 163
Other	8 628	6 699
Impairment	(2 379)	(4 961)
Total current other receivables	**40 084**	**46 667**
Non-current other receivables	**1 345**	**1 046**
Total other receivables	**41 429**	**47 713**

Other receivables

2. The exposure of UNICEF 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)

	2015	*2014*
Advances of cash assistance by region		
Central and Eastern Europe and Commonwealth of Independent States	33 167	16 996
East Asia and the Pacific	38 958	62 503
Eastern and Southern Africa	178 341	200 900
Latin America and the Caribbean	21 083	25 276
Middle East and North Africa	190 359	161 247
South Asia	83 974	75 025
Western and Central Africa	216 234	216 330
Transfers to United Nations agencies and other organizations at Headquarters	4 803	1 907
Adjustment	(7 046)	(80 928)
Total advances of cash assistance by region	**759 873**	**679 256**

1. The adjustment included in the above table represents an accrual for where implementing partners have incurred valid expenses as at 31 December 2015 and reports had been received but not processed by UNICEF at the reporting date. The portion of the accrual where implementing partners had incurred valid expenses as at 31 December but not submitted the supporting reports has been discontinued from 2015.

Note 9
Inventories

(Thousands of United States dollars)

	2015	*2014*
Programme supplies	432 711	458 831
Total inventories	**432 711**	**458 831**

1. Inventories include goods in transit to UNICEF or directly to implementing partners where terms with the supplier indicate that title has transferred to UNICEF but physical goods have not yet arrived at the designated end destination. The total value of items in transit was $132.31 million (2014: $167.40 million).

Note 10
Investments

(Thousands of United States dollars)

	2015	*2014*
Current investments		
Term deposits (greater than 90 days)	2 349 732	1 450 233
Traded bonds	206 122	–
Structured deposits	20 046	180 257
Total current investments	**2 575 900**	**1 630 490**
Non-current investments		
Traded bonds	1 089 779	1 211 143
Total non-current investments	**1 089 779**	**1 211 143**
Total investments	**3 665 679**	**2 841 633**

1. 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)

	2015	*2014*
Current other assets		
Education grant advances to staff members	11 511	10 800
Prepaid expenses and other assets	149 115	148 156
Other procurement services	522 002	543 235
Promissory notes	8 437	56 444
Total current other assets	**691 065**	**758 635**
Non-current other assets		
Promissory notes	32 690	32 690
Other assets	1 917	1 967
Total non-current other assets	**34 607**	**34 657**
Total other assets	**725 672**	**793 292**

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

2. UNICEF acts as a procurement agent for various foundations and governments. Other procurement services assets of $522.00 million (2014: $543.24 million) represent partner funds for procurement services for which UNICEF has sole drawing rights, based on the terms of the agreements. A corresponding liability is recorded in note 16, Funds held on behalf of third parties, and note 17, Other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

3. UNICEF has entered into secured promissory note agreements with a related party to facilitate the procurement services process on long-term arrangements. The outstanding principal amount of the notes is $41.13 million (2014: $89.13 million). The promissory notes do not accrue interest and are due in annual instalments over three years.

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*	*Total 2014*
Cost								
Balance as 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
Disposals, transfers and adjustments	–	72	–	(708)	(1 401)	(1 105)	651	(2 491)
Balance as at 31 December	**83 712**	**94 000**	**10 674**	**11 817**	**17 275**	**10 096**	**29 025**	**256 599**
Accumulated depreciation								
Balance as 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
Impairment	–	–	–	–	–	–	14	14
Disposals, transfers and adjustments	–	(369)	–	(312)	(1 202)	(461)	537	(1 807)
Balance as at 31 December	**–**	**13 881**	**1 443**	**5 913**	**9 240**	**5 913**	**7 761**	**44 151**
Carrying value as at 31 December	**83 712**	**80 119**	**9 231**	**5 904**	**8 035**	**4 183**	**21 264**	**212 448**

(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*	*Total 2015*
Cost								
Balance as at 1 January	83 712	94 000	10 674	11 817	17 275	10 096	29 025	256 599
Additions	–	3 804	3 713	4 019	3 088	2 226	10 648	27 498
Disposals, transfers and adjustments	(2 615)	(42)	175	(4 845)	(2 666)	(4 786)	625	(14 154)
Balance as at 31 December	**81 097**	**97 762**	**14 562**	**10 991**	**17 697**	**7 535**	**40 298**	**269 943**
Accumulated depreciation								
Balance as at 1 January	–	13 881	1 443	5 913	9 240	5 913	7 761	44 151
Depreciation	–	5 054	1 339	1 694	2 723	2 148	7 224	20 182
Disposals, transfers and adjustments	–	23	27	(3 242)	(1 219)	(2 465)	(6)	(6 882)
Balance as at 31 December	**–**	**18 958**	**2 809**	**4 365**	**10 744**	**5 596**	**14 979**	**57 451**
Carrying value as at 31 December	**81 097**	**78 804**	**11 753**	**6 626**	**6 953**	**1 940**	**25 319**	**212 492**

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

2. Included within buildings are $3.39 million (2014: $5.82 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)

	2015	*2014*
Land	80 000	80 000
Buildings	60 589	63 628
Total	**140 589**	**143 628**

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 (2014: $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 180 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 $22.51 million (2014: $19.80 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 programme-related expert services and other expenses).

Note 13
Intangible assets

(Thousands of United States dollars)

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

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licences and copyrights*	*Intangibles under development*	*Total 2015*
Cost					
Balance as at 1 January	1 081	10 439	16	223	11 759
Additions	552	–	28	1 698	2 278
Transfers	–	362	–	(362)	–
Disposals	(42)	–	(11)	–	(53)
Balance as at 31 December	**1 591**	**10 801**	**33**	**1 559**	**13 984**
Amortization					
Balance as at 1 January	299	3 574	1	–	3 874
Amortization	261	2 139	5	–	2 405
Disposals	28	–	–	–	28
Balance as at 31 December	**588**	**5 713**	**6**	**–**	**6 307**
Carrying value as at 31 December	**1 003**	**5 088**	**27**	**1 559**	**7 677**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2015	*2014*
Accounts payable	169 775	160 294
Accrued liabilities	160 031	117 569
Total accounts payable and accrued liabilities	**329 806**	**277 863**

1. 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. Deferred revenue and contributions received in advance are as follows:

(Thousands of United States dollars)

	2015	*2014*
Contributions received in advance of a specified period	**28 411**	**1 015**
Deferred revenue		
Balance as at 1 January	1 533 698	1 655 554
Additions	2 085 102	2 829 520
Revenue recognized	(2 085 494)	(2 951 376)
Balance as at 31 December	**1 533 306**	**1 533 698**
Total	**1 561 717**	**1 534 713**

(Thousands of United States dollars)

	2015	*2014*
Current portion	984 996	982 802
Long-term portion	548 310	550 896
Total deferred revenue	**1 533 306**	**1 533 698**

2. Contributions received in advance of a specified period consist of cash contributions which 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 which 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 on the basis of the due date, revenue from contributions is recognized for the specified period for which the funds are intended.

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance as at 1 January 2015	Funds received	Funds disbursed	Movement of accruals	Balance as at 31 December 2015
Procurement services					
Governments	288 527	532 227	(487 440)	–	333 314
Inter-organizational arrangements	87 559	59 444	(80 767)	–	66 236
Non-governmental organizations	507 088	1 208 113	(1 176 640)	–	538 561
National Committees	(3)	34	(30)	–	1
Other arrangements					
Others	33 841	173 465	(176 440)	–	30 866
Accruals	(8 994)	–	–	(11 844)	(20 838)
Total funds held on behalf of third parties	**908 018**	**1 973 283**	**(1 921 317)**	**(11 844)**	**948 140**

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

Note 17
Other liabilities

(Thousands of United States dollars)

	2015	2014
Current other liabilities		
Unearned income	19 317	18 017
Finance lease liabilities	3 604	3 393
Other liabilities	14 664	87 637
Total current other liabilities	**37 585**	**109 047**
Non-current other liabilities		
Finance lease liabilities	48 144	51 754
Other liabilities	70 724	84 210
Total non-current other liabilities	**118 868**	**135 964**
Total other liabilities	**156 453**	**245 011**

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 related to long-term agreements represent situations where UNICEF has committed to procure minimum order quantities for vaccines under

firm long-term agreements. These amounts due under the long-term agreements are backed by other assets issued by a related party that match the due dates of the payables (see note 11, Other assets, and note 34, Related parties).

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 2015.

(Thousands of United States dollars)

	2015	*2014*
Undiscounted minimum lease payments		
Not later than one year	6 728	6 734
Later than one year and not later than five years	26 914	26 914
Later than five years	37 007	43 735
Total undiscounted minimum lease payments	**70 649**	**77 383**
Present value of minimum lease payments		
Not later than one year	3 604	3 392
Later than one year and not later than five years	16 883	15 865
Later than five years	31 262	35 884
Total present value of minimum lease payments	**51 749**	**55 141**
Future finance charges	**18 900**	**22 242**

Note 18
Employee benefits liabilities

(Thousands of United States dollars)

	2015	*2014*
Current employee benefits liabilities		
Home leave	7 610	5 935
Annual leave	85 433	87 734
Other end-of-service entitlements	1 510	828
Other employee benefits	7 341	8 082
Total current employee benefits liabilities	**101 894**	**102 579**
Non-current employee benefits liabilities		
Home leave	792	866
Other end-of-service entitlements	105 049	113 702
After-service health insurance[a]	928 440	1 081 082
Other employee benefits	66	65
Total non-current employee benefits liabilities	**1 034 347**	**1 195 715**
Total employee benefits liabilities	**1 136 241**	**1 298 294**

[a] After-service health insurance in this table includes liability for the after-service health insurance component of the Medical Insurance Plan.

A. Defined-benefit plans

1. UNICEF offers to its employees and former employees the defined-benefit plans set out below.

2. The after-service health insurance 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.

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

4. 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 portion of the liability is presented separately from the after-service health insurance liability in the tables below.

5. End-of-service entitlements comprise repatriation expenses, which include grant, travel and shipping costs.

6. The 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.

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

8. 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 benefits 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*	*2015 total*	*2014 total*
Balance as at 1 January	706 375	107 697	374 706	1 967	1 190 745	918 990
Current service cost	24 985	7 781	21 906	192	54 864	42 352
Interest cost on benefit obligation	27 180	3 478	14 479	63	45 200	43 035
Actuarial losses/(gains) on benefit obligation	(145 139)	(10 527)	(84 831)	868	(239 629)	206 689
Benefits paid (net of participant contributions)	(9 390)	(10 146)	(1 831)	(207)	(21 574)	(20 321)
Balance as at 31 December	**604 011**	**98 283**	**324 429**	**2 883**	**1 029 606**	**1 190 745**

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*
2015 actual contributions	28 241	27 743	17 378	73 362
2014 actual contributions	27 858	26 855	15 636	70 349

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*
2015 actual contributions	n/a	n/a	4 206	4 206
2014 actual contributions	n/a	n/a	4 146	4 146

9. 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*	*2015*	*2014*
Current service cost	24 985	7 781	21 906	192	54 864	42 352
Interest cost on benefit obligation	27 180	3 478	14 479	63	45 200	43 035
Total expense included in surplus	**52 165**	**11 259**	**36 385**	**255**	**100 064**	**85 387**

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*	*2015*	*2014*
Current period	(145 139)	(10 527)	(84 831)	868	(239 629)	206 689

10. 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)

	2015	*2014*
Funding of reserves		
Actuarial liabilities recognized in the statement of financial position	1 029 606	1 190 745
Other liabilities and provisions recognized in the statement of financial position	92 789	94 623
Funding	(577 327)	(539 200)
Funding deficit	**(545 068)**	**(746 168)**

B. Actuarial valuation

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

12. An actuarial valuation conducted by UNICEF actuaries in 2015 (as at 31 December 2015) was used for the closing balances on 31 December 2015. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

13. The census data provided to the actuary and used in the calculations for the defined-benefit plans as at 31 December 2015 represented employee data as at 31 December 2015.

14. The next formal full valuation is expected to be conducted in 2017 (as at 31 December 2017). The valuation for 2016 will be performed by the actuaries using 2015 census data and updating for changes in major actuarial assumptions.

15. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in the table under paragraph 8 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

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

17. **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 (2014: 2.25 per cent) was used for the 31 December 2015 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.

18. **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.

19. Based on the analysis for 2015, the single equivalent discount rate is 3.96 per cent (2014: 3.83 per cent) as at 31 December 2015, and a discount rate, rounding to the nearest 25 basis points, would equal 4.00 per cent (2014: 4.00 per cent). The United Nations agencies selected a 3.96 per cent discount rate for use in that valuation (2014: 3.83 per cent).

20. **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.

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

22. **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.

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

2015	*2015 (percentage)*	*2014 (percentage)*
Discount rate		
Rate at 1 January	3.83	4.73
Rate at 31 December	3.96	3.83
Rate of inflation	2.25	2.25
Expected rate of medical cost increase		
Medical inside the United States[a,b]	6.40	6.30
2024 and onwards medical inside the United States[c]	4.50	4.50
United States dental[b]	4.90	5.00
2024 and onwards United States dental[c]	4.50	4.5
Expected rate of salary increases (declining from age 20 to age 60)	**9.60-4.50**	**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 2015, rate extended to 2024.

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

	2015		2014	
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	0.01032	0.00072	0.01176
Female	0.00037	0.00766	0.00037	0.00860

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

	2015		2014	
Rate of retirement	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.25	0.80	0.15	0.73
Female	0.25	0.90	0.13	0.75

Sensitivity analysis

24. 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	(101 867)	n/a	(9 538)	(57 470)	n/a	(203)
Impact of: 1 per cent decrease	130 462	n/a	10 465	76 201	n/a	663
Health-care cost trend rates						
Impact of: 1 per cent increase	133 651	13 655	n/a	77 696	8 430	n/a
Impact of: 1 per cent decrease	(103 681)	(10 128)	n/a	(59 386)	(6 200)	n/a

C. Multi-employer pension plans

25. UNICEF recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;

(b) Post-employment benefits;

(c) Other long-term employee;

(d) Termination benefits.

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

27. The Pension Fund 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 obligations, plan assets and costs to individual organizations participating in the plan. UNICEF and the Pension Fund, in line with the other participating organizations of the Pension Fund, are not in a position to identify the United Nations Children's Fund's proportionate share of the defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, UNICEF has treated the Pension Fund as if it were a defined-contribution plan in line with the requirements of IPSAS 25. UNICEF contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

28. 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.

29. 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.

30. The most recent 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 of 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent.

31. 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.

32. 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 the present report, the General Assembly had not invoked the provision of article 26.

33. The General Assembly, in its resolution 70/244 adopted on 23 December 2015, decided that the mandatory age of separation for staff recruited before 1 January 2014 would be raised by the organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. In the same resolution, the Assembly approved, with effect from 1 January 2016, as recommended by the International Civil Service Commission, a revised base/floor scale of gross and net salaries for staff in the Professional and higher categories. Also in the same resolution, the Assembly approved proposals on the common system compensation package that would come into force on 1 July 2016. The proposals are currently being evaluated as to their impact on the financial statements, specifically as they relate to actuarial valuation of employee benefits liabilities.

34. During 2015, UNICEF contributions paid to the Pension Fund amounted to $144.27 million (2014: $137.68 million).

35. 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.

36. 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)

	2015	*2014*
UNICEF contributions	144 271	137 684
Participants' contributions	72 451	69 174
Total contributions	**216 722**	**206 858**

Note 19
Provisions

(Thousands of United States dollars)

	For returns of unused funds	*Other provisions*	*Total*
Balance as at 1 January 2015	33 405	1 839	35 244
Movement in provision	(4 861)	219	(4 642)
Balance as at 31 December 2015	**28 544**	**2 058**	**30 602**

1. A provision is reported for unused funds to be returned to donors, as determined for all projects where the related grants have expired 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 as at 1 January 2014	**3 472 609**	**118 234**	**(600)**	**2 000**	**115**	**370 753**	**58 599**	**76 860**	**5 585**	**631 546**	**4 104 155**
Surplus/(deficit)	572 558	–	–	–	–	–	–	–	–	–	572 558
Actuarial gains/(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 as 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**
Surplus/(deficit)	(75 539)	–	–	–	–	–	–	–	–	–	(75 539)
Actuarial gains/(losses)	–	239 629	–	–	–	–	–	–	–	239 629	239 629
Prior-period adjustments	(238)	–	–	–	–	–	–	–	–	–	(238)
Changes in fair value of available-for-sale financial assets	–	–	(1 261)	–	–	–	–	–	–	(1 261)	(1 261)
Transfers to/from the fund	(41 099)	–	–	–	–	21 318	7 199	9 609	2 973	41 099	–
Balance as at 31 December 2015	**3 891 773**	**151 174**	**(3 450)**	**2 000**	**115**	**411 410**	**73 128**	**92 788**	**12 088**	**739 253**	**4 631 026**

Net assets consist of "accumulated surpluses" and "reserves". Reserves consist of "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 benefits 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 $22.0 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 $2.0 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 its locally recruited active staff members (in both 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)

	2015	*2014*
Voluntary cash contributions		
Governments and intergovernmental agencies	2 894 306	3 150 172
Inter-organizational arrangements	435 741	503 534
National Committees	1 117 140	1 061 885
Others	391 006	277 267
Total voluntary cash contributions	**4 838 193**	**4 992 858**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	55 955	47 294
Inter-organizational arrangements	–	34
National Committees	6 620	2 100
Others	11 603	10 742
Total voluntary in-kind contributions	**74 178**	**60 170**
Total voluntary contributions	**4 912 371**	**5 053 028**
Less: returns to donors of unused contributions	(9 019)	(20 608)
Total voluntary contributions (net)	**4 903 352**	**5 032 420**

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

National Committees

2. The voluntary cash contribution revenue of $1,117.14 million (2014: $1,061.89 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 $1,450.78 million (2014: $1,396.15 million). Of that amount, $333.64 million (2014: $334.26 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 blankets and therapeutic food, at a total value of $74.18 million (2014: $60.17 million). In-kind contributions also include rights to use assets such as land and buildings valued at $22.51 million (2014: $19.80 million).

(Thousands of United States dollars)

	2015	2014
Earmarked/unearmarked classification of voluntary contributions		
Regular resources	1 066 514	1 191 230
Foreign exchange gains/(losses)	947	(2 240)
Total regular resources (net)	**1 067 461**	**1 188 990**
Other resources — regular	2 141 805	2 340 707
Foreign exchange losses	(86 403)	(76 725)
Total other resources — regular (net)	**2 055 402**	**2 263 982**
Other resources — emergency	1 788 697	1 592 480
Foreign exchange losses	(8 208)	(13 032)
Total other resources — emergency (net)	**1 780 489**	**1 579 448**
Total voluntary contributions (net)	**4 903 352**	**5 032 420**

Note 22
Revenue from greeting cards and products

(Thousands of United States dollars)

	2015	2014
Gross proceeds from sale of greeting cards and products	210	36 743
Royalties from sale of greeting cards and products	8 591	5 953
Total revenue from greeting cards and products	**8 801**	**42 696**

1. Through the licensing of the UNICEF brand for greeting cards and products, UNICEF generates additional funds for programmes of cooperation in developing countries. Proceeds from licensing are accrued on the basis of revenue and expenditure reports received at year-end. In 2015, the total revenue was $8.80 million (2014: $42.70 million) and the related cost of sales was $2.53 million (2014: $20.04 million).

2. UNICEF has agreements with a number of greeting card 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 come directly to UNICEF through country offices.

3. UNICEF has phased out in-house card and product operations and has fully transitioned to a licensing and locally sourced business model. The intent of the new strategy is to deliver proceeds from cards and products at lower levels of cost while maintaining the brand visibility associated with UNICEF cards and products.

Note 23
Interest revenue and finance costs

1. UNICEF generates interest revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities and bank accounts. Interest revenue for 2015 is $35.03 million (2014: $29.76 million). Finance costs of $3.34 million (2014: $3.55 million) resulted from finance lease liabilities.

Note 24
Other revenue

(Thousands of United States dollars)

	2015	*2014*
Procurement services	41 549	37 641
Warehouse goods transfers revenue	7 154	9 226
Miscellaneous revenue	13 670	17 550
Total other revenue	**62 373**	**64 417**

1. UNICEF undertakes procurement services for governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. Procurement services commitments to governments and other development partners totalling $1,750.00 million (2014: $1,650.00 million) were made in 2015.

2. UNICEF recognized revenue of $41.55 million (2014: $38.19 million) related to management of procurement services through recovery of expenses and other direct charges incurred in providing those services to third parties. The direct expenses and other charges related to management of procurement services total $35.01 million (2014: $35.50 million), largely composed 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 warehouse goods transfers revenue of $7.15 million (2014: $9.23 million) is related to the reimbursement of direct sales of goods to third parties from the UNICEF warehouse in Denmark. An additional $6.63 million (2014: $8.94 million) in expenses related to the direct sale of goods to third parties from the warehouse in Denmark is disclosed separately in note 28, Other programme-related expert services and other expenses.

Note 25
Net gains and losses

(Thousands of United States dollars)

	2015	*2014*
Net foreign exchange gains/(losses)	8 286	(39 485)
Net fair value gains and losses on:		
Structured deposits	–	87
Net gains on sale of traded bonds	–	15
Net gains on sale of property, plant and equipment	2 265	869
Other gains	2	–
Total net gains/(losses)	**10 553**	**(38 514)**

Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*2015*	*2014*
Gains	9 707	68 355	78 062	30 897
Losses	(23 197)	(46 579)	(69 776)	(70 382)
Total net gains	**(13 490)**	**21 776**	**8 286**	**(39 485)**

1. In addition to the above, a realized foreign exchange loss of $101.96 million (2014: $13.52 million) and an unrealized gain of $8.30 million (2014: loss of $78.47 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*	*2015*
2015			
Assistance by region			
Eastern and Southern Africa	491 023	240 301	731 324
Western and Central Africa	483 301	352 854	836 155
East Asia and Pacific	123 947	48 198	172 145
South Asia	162 098	97 328	259 426
Middle East and North Africa	457 437	246 382	703 819
Latin America and Caribbean	52 264	14 069	66 333
Central and Eastern Europe and Commonwealth of Independent States	44 407	33 950	78 357
Transfers to United Nations agencies and other organizations at headquarters	22 048	(169)	21 879
Subtotal	**1 836 525**	**1 032 913**	**2 869 438**
Movement in accrual	(70 151)	–	(70 151)
Total transfers by region	**1 766 374**	**1 032 913**	**2 799 287**

(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
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 accrual	10 767	–	10 767
Total transfers by region	**1 512 034**	**851 497**	**2 363 531**

1. Movement in accrual 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 movement in accrual for expenses incurred for which the reports had not been submitted was discontinued in 2015.

Note 27
Employee benefits expenses

(Thousands of United States dollars)

	2015	*2014*
Salaries and wages	712 363	686 546
Contribution to the United Nations Joint Staff Pension Fund	144 271	137 248
Increase in after-service health insurance expenses	49 645	46 398
Increase in other post-employment employee liabilities	10 910	10 618
Increase in other long-term employee benefits liabilities	18 006	19 214
Other personnel expenses	250 589	229 525
Total employee benefits expenses	**1 185 784**	**1 129 549**

Note 28
Other programme-related expert services and other expenses

(Thousands of United States dollars)

	2015	*2014*
Programme-related professional and expert services	341 603	305 676
Total other expenses	**341 603**	**305 676**

1. Programme-related expert services expenses of $341.60 million (2014: $305.68 million) are made up of third party professional and technical consulting costs for programmatic activities.

Other expenses
(Thousands of United States dollars)

	2015	*2014*
Media production services	19 138	16 369
Advertising, promotion and public relation	5 478	8 223
Printing, binding, editing and translation	14 289	13 494
Management and operational services	48 637	82 085
Warehousing and logistical services	39 363	28 309
Personnel support	16 084	32 931
External audit	1 084	1 027
Travel	150 368	144 568
Distribution	111 329	115 273

	2015	*2014*
Rental and leasing	80 908	79 382
Retentions commissions and cost of greeting cards and products	2 526	20 040
Repairs and other maintenance	32 859	32 398
Supplies and materials	45 685	35 923
Investment funds for market development	38 922	31 865
Communication	20 824	21 419
Other operating expenses	69 241	46 979
Write-offs and inventory shortages	11 164	13 168
Utilities	17 882	19 870
Procurement services (note 24)	6 627	8 940
Professional development	8 026	10 161
Insurance	2 853	2 873
Impairment loss	(241)	1 657
Total other expenses	**743 046**	**737 316**

2. Other operating expenses comprise headquarters-related United Nations common service costs of $21.9 million (2014: $17.84 million) and other office operating expenses such as bank charges, moving expenses, hospitality and others of $19.87 million (2014: $29.14 million). Information technology development, maintenance and expert services costs of $27.44 million are included in other operating expenses.

3. Write-offs recorded in 2015 include inventory, receivables and property and equipment totalling $11.16 million (2014: $13.17 million), recorded in write-offs and shortages. In 2015, write-offs included greeting cards inventory of $0.56 million (2014: $1.86 million) recorded under "Retentions commissions and cost of greeting cards and products".

4. In 2015, $174.49 million (2014: $286.56 million) in total other expenses relate to management and business support costs. The remaining $910.19 million (2014: $756.43 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 $4.85 million (2014: $1.66 million) representing impairment relating to 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)

Financial assets	*Loans and receivables*	*Fair value through surplus or deficit*		*Total carrying value*	*Total fair value*	
		Available-for-sale	*Designated as such upon initial recognition*		*2015*	*2014*
Cash and cash equivalents	867 768	–	–	867 768	867 768	1 586 784
Term deposits	2 349 732	–	–	2 349 732	2 349 732	1 450 233
Traded bonds	–	1 295 901	–	1 295 901	1 295 901	1 211 143
Structured deposits	–	–	20 046	20 046	20 046	180 257
Promissory notes	41 127	–	–	41 127	41 127	89 134
Contributions receivable	2 080 684	–	–	2 080 684	2 080 684	2 139 736
Other receivables	41 429	–	–	41 429	41 429	47 713
Total financial assets	**5 380 740**	**1 295 901**	**20 046**	**6 696 687**	**6 696 687**	**6 705 000**

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)

Financial liabilities	*Other financial liabilities (amortized cost)*	*Total carrying value*	*Total fair value*	
			2015	*2014*
Financial liabilities				
Accounts payable	329 806	329 806	329 806	277 863
Funds held on behalf of third parties	948 140	948 140	948 140	908 018
Finance lease	51 749	51 749	51 749	55 147
Other liabilities	104 704	104 704	104 704	171 847
Total financial liabilities	**1 434 399**	**1 434 399**	**1 434 399**	**1 412 875**

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 in 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*	*2015*	*2014*
Assets					
Financial instruments at fair value through surplus or deficit, including:					
Structured deposits	–	20 046	–	20 046	180 257
Available-for-sale financial assets	1 295 901	–	–	1 295 901	1 211 143
Total	**1 295 901**	**20 046**	–	**1 315 947**	**1 391 400**

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 140 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 influenced mainly 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*	*2015*	*2014*
Cash and cash equivalents							
Cash	–	117 734	8 839	12 700	44 833	184 106	434 552
Term deposits	143 544	230 482	–	309 636	–	683 662	1 152 232
Subtotal	**143 544**	**348 216**	**8 839**	**322 336**	**44 833**	**867 768**	**1 586 784**
Investments							
Term deposits	237 580	676 534	1 194 877	240 741	–	2 349 732	1 450 233
Traded bonds	325 151	775 967	194 783	–	–	1 295 901	1 211 143
Structured deposits	10 976	9 070	–	–	–	20 046	180 257
Subtotal	**573 707**	**1 461 571**	**1 389 660**	**240 741**	**–**	**3 665 679**	**2 841 633**
Total	**717 251**	**1 809 787**	**1 398 499**	**563 077**	**44 833**	**4 533 447**	**4 428 417**

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*	*Non-current*	*Foreign exchange losses*	*2015*	*2014*
Contributions receivables	210 359	26 013	10 517	1 352 543	548 990	(67 738)	2 080 684	2 279 855
Other receivables	–	–	–	44 267	1 345	(4 183)	41 429	48 297
Total	**210 359**	**26 013**	**10 517**	**1 396 810**	**550 335**	**(71 921)**	**2 122 113**	**2 187 449**

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 2015

(Thousands of United States dollars)

	Gross receivable as at 31 December 2015	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written-off as uncollectible*	*Net receivable as at 31 December 2015*	*Net receivable as at 31 December 2014*
Contributions receivable	2 083 871	(1 690)	–	(1 497)	2 080 684	2 139 736
Other receivables	44 017	(2 379)	–	(209)	41 429	47 713
Total	**2 127 888**	**(4 069)**	**–**	**(1 706)**	**2 122 113**	**2 187 449**

8. Promissory notes are raised against cash and guaranteed grant agreements held by the International Bank for Reconstruction and Development (IBRD) on behalf of Gavi, the Vaccine Alliance. Counterparty default risk is mitigated by the fact that Gavi, the Vaccine Alliance, is not relieved of obligations to pay under the promissory note even if IBRD fails to comply with the demand to transfer funds to UNICEF. The promissory notes are secured against Gavi, the Vaccine 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*	*2015 total carrying value*	*2014 total carrying value*
Accounts payable	109 659	–	–	31	48 999	1 085	6 058	3 943	169 775	160 294
Accrued liabilities	–	–	–	–	–	–	–	–	160 031	117 569
Total	**109 659**	**–**	**–**	**31**	**48 999**	**1 085**	**6 058**	**3 943**	**329 806**	**277 863**

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 comprise 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 via 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 it 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, expenses, assets and liabilities 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;

(c) Regarding assets and liabilities: all currencies used at UNICEF country offices, including the euro, the pound sterling, the Swiss franc, the Swedish krona, the Norwegian krone and the Japanese yen, among many others.

17. UNICEF has opted not to apply hedge accounting, although it applies "natural hedges" by holding foreign currencies in order to cover forecasted 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*	*Yen*	*Other*	*2015*	*2014*
Cash and cash equivalents	694 516	111 510	1 680	5 956	7 608	10	373	46 115	867 768	1 586 784
Term deposits	2 349 732	–	–	–	–	–	–	–	2 349 732	1 450 233
Traded bonds	1 295 901	–	–	–	–	–	–	–	1 295 901	1 211 143
Structured deposits	9 086	10 960	–	–	–	–	–	–	20 046	180 257
Promissory notes	41 114	13	–	–	–	–	–	–	41 127	89 134
Receivables from contributions	685 251	754 696	224 693	45 477	98 970	90 785	37 053	143 759	2 080 684	2 139 736
Other receivables	19 254	(11 676)	(233)	1 154	(5)	714	(5 526)	37 747	41 429	47 713
Total financial assets	**5 094 854**	**865 503**	**226 140**	**52 587**	**106 573**	**91 509**	**31 900**	**227 621**	**6 696 687**	**6 705 000**
Accounts payable	(292 894)	(14 393)	(261)	(769)	(10)	–	(1 211)	(20 268)	(329 806)	(277 863)
Funds held on behalf of third parties	(948 564)	425	–	–	–	–	–	(1)	(948 140)	(908 018)
Other liabilities	(157 510)	(1 025)	–	–	–	–	(8)	2 090	(156 453)	(226 994)
Total financial liabilities	**(1 398 968)**	**(14 993)**	**(261)**	**(769)**	**(10)**	**–**	**(1 219)**	**(18 179)**	**(1 434 399)**	**(1 412 875)**
Net exposure	**3 695 886**	**850 810**	**225 879**	**51 818**	**106 563**	**91 509**	**30 681**	**209 442**	**5 262 288**	**5 292 125**

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 at the reporting date, the Fund's financial assets subject to fixed interest rates included 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)

	2015	*2014*
Fixed rate instruments	4 191 799	3 993 866
Other financial instruments	2 504 888	2 711 134
Total financial assets	**6 696 687**	**6 705 000**

Sensitivity analysis: foreign currency

20. The following table shows the sensitivity of net assets and surplus/deficits to the 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 2015	*Strengthening of United States dollar by 10 per cent*	*Weakening of United States dollar by 10 per cent*
Euro	(351 825)	351 825
Pound sterling	(231 941)	231 941
Swiss franc	(8 652)	8 652
Swedish krona	(115 578)	115 578
Norwegian krone	(82 109)	82 109
Japanese yen	(70 253)	70253
Total	**(860 358)**	**860 358**

21. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2015 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 2015. 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	1 304 003		
Plus 100 basis points	1 282 398	(21 604)	1.68
Minus 30 basis points	1 309 818	5 815	0.44

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 by 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 the fair values of forward exchange contracts were nil in 2015 (2014: nil) 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 2015 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 limited only 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 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 2015.

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 2015. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2015	*2014*
Commitments for purchase of property and equipment (including finance leases)		
Buildings	40	357
Leasehold improvements	–	–
Vehicles	8 542	6 612
Furniture and fixtures	54	102
Communications and information technology equipment	1 748	2 576
Other capital commitments		
Intangible assets	33	886
Total capital commitments	**10 417**	**10 533**
Operating commitments		
Contracts for purchase of supplies and other goods	287 103	274 548
Contracts for purchase of services	369 379	300 608
Commitments to transfer cash to implementing partners	98 869	68 276
Commitments to transfer supplies to implementing partners	313 240	246 778
Total operating commitments	**1 068 591**	**890 210**
Total commitments	**1 079 008**	**900 743**

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 table above.

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 2015.

(Thousands of United States dollars)

	2015	*2014*
Long-term agreements for goods	5 517 660	6 862 861
Long-term agreements for services	276 212	794 276
Total long-term agreements	**5 793 872**	**7 657 137**

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 $159.42 million (2014: $124.68 million).

Contingent liabilities

2. 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.

3. 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.

4. As at 31 December 2015, 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 that 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 34 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)

	2015		*2014*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 117 140	279 911	1 061 885	319 363
Voluntary in-kind contributions	6 620	1 198	2 100	–
Total	**1 123 760**	**281 109**	**1 063 985**	**319 363**

3. Of the total voluntary cash contributions received in 2015, $478.41 million were regular resources, $188.42 million were other resources — emergency and $450.32 million were other resources — regular. The voluntary in-kind contributions of $6.62 million (2014: $2.10 million) comprised $5.69 million in other resources — emergency, with the remaining $0.93 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 2015, excluding proceeds from licensing activities, were $1,450.78 million (2014: $1,396.15 million). Of that amount, $333.64 million (2014: $334.26 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 $1,117.14 million (2014: $1,061.89 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 $201.35 million (2014: $174.36 million) as at 31 December 2015.

Supported deliveries

7. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $120.50 million (2014: $82.34 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]	*2015*	*2014*
Key management personnel	34	5 984	1 564	(423)	7 125	8 688
Close family members	1	60	–	–	60	255
Total	**35**	**6 044**	**1 564**	**(423)**	**7 185**	**8 943**

[a] The decrease in post-employment and other long-term benefits is as a result of a decrease 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 or advances granted to key management personnel and their close family members that were not available to other categories of staff in accordance with the 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 efforts of the United Nations to achieve a better world for all. UNICEF is engaged extensively in the inter-agency financial and operating mechanisms of the United Nations, 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 (UNAIDS)

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. The funds provided by UNAIDS, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $11.33 million (2014: $12.60 million).

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 the 17 votes on its Partnership Council, an advisory body to the Alliance's 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 and 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 country level, and is currently the coordinating

agency for the local donor group in 14 countries and the supervising entity in 2. UNICEF has influenced the Global Partnership for Education to support the inclusion of countries in fragile situations. The funds provided by the Global Partnership for Education, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $57.85 million (2014: $76.45 million).

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 level. The funds provided by the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $30.09 million (2014: $33.13 million).

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 holds 1 permanent seat, out of 18, on its Board of Directors, and can also appoint 1 alternate Board member. UNICEF plays an important role in the provision of vaccines and immunization supplies for countries through the UNICEF Supply Division and provides technical assistance to governments in the preparation of applications to the Alliance and the implementation of Alliance-supported programmes. An agency fee for the management of these procurement services is recorded in note 24, Other revenue.

19. Gavi, the Vaccine Alliance, makes funds available to UNICEF through escrow accounts and has entered into promissory note agreements with UNICEF. As at 31 December 2015, the total amount of outstanding promissory notes was $41.13 million (2014: $89.13 million), disclosed in note 11, Other assets.

20. As also disclosed in note 11, UNICEF holds funds of $522.13 million (2014: $543.24 million), which represent amounts deposited into an irrevocable escrow account for which UNICEF has security of interest and sole drawing rights based on the terms of the agreements. A corresponding liability is recorded in note 16, Funds held on behalf of third parties, and in note 17, Other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

21. UNICEF also manages funds provided by Gavi, the Vaccine Alliance, which are recorded in voluntary contributions in support of global and country-specific programmes, and amount to $61.08 million (2014: $69.99 million).

Micronutrient Initiative

22. The Micronutrient Initiative was incorporated on 4 July 2001, in Canada, with the primary objective of solving malnutrition. UNICEF is a significant partner of the Micronutrient Initiative because of shared objectives with regard to malnutrition. UNICEF holds 1 seat, out of 13, on the Micronutrient Initiative Board

of Directors. Funds provided by the Micronutrient Initiative, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $18.5 million (2014: $12.99 million).

Revenue realized from other related parties as at 31 December
(Thousands of United States dollars)

	2015	*2014*
UNAIDS	11 335	12 602
Global Alliance for Improved Nutrition	–	–
Global Partnership for Education	57 849	76 447
Gavi, the Vaccine Alliance	61 085	69 993
Global Fund to Fight AIDS, Tuberculosis and Malaria	30 097	33 127
Micronutrient Initiative	18 504	12 990
Total	**178 870**	**205 159**

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 intercountry 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 intercountry 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 intercountry programme, UNICEF adjusts the fund balance for reserves, capital requirements and relevant assets and liabilities.

Other resources — regular and other resources — emergency segments

12. The other resources — regular segment 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. The other resources — emergency segment includes 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 intercountry 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 contains other smaller grants 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 guest houses is used solely for maintenance and upkeep of the guest house 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*	*2015*
Segment assets							
Current segment assets							
Cash and cash equivalents[a]	867 768	–	–	–	–	–	867 768
Inter-segment activity[b]	(3 242 108)	–	2 041 330	669 665	531 113	–	–
Investments	2 575 900	–	–	–	–	–	2 575 900
Inventories	62 540	2 231	173 200	194 740	–	–	432 711
Contributions receivable	–	216 381	782 279	533 034	–	–	1 531 694
Other receivables	11 778	8 774	15 672	3 635	225	–	40 084
Advances of cash assistance	–	124 118	348 123	287 632	–	–	759 873
Other assets	31 185	9 499	6 140	3 319	640 922	–	691 065
Non-current segment assets							
Investments	1 089 779	–	–	–	–	–	1 089 779
Contributions receivable	–	3 439	476 126	69 425	–	–	548 990
Property and equipment	170 430	24 384	6 239	11 427	12	–	212 492
Intangible assets	4 447	3 017	123	90	–	–	7 677
Other receivables	967	4	12	6	356	–	1 345
Non-current other assets	1 917	–	–	–	32 690	–	34 607
Total segment assets, 2015	**1 574 603**	**391 847**	**3 849 244**	**1 772 973**	**1 205 318**	**–**	**8 793 985**
Total segment assets, 2014	**1 558 774**	**484 414**	**3 884 750**	**1 615 682**	**1 223 958**	**–**	**8 767 578**

[a] For both risk management and efficiency reasons, all cash and investments are held and managed centrally and are therefore included within the institutional segment.

[b] 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*	*2015*
Segment liabilities							
Current segment liabilities							
Accounts payable	52 315	13 818	53 789	42 407	167 477	–	329 806
Deferred revenue	–	19 972	759 778	233 657	–	–	1 013 407
Funds held on behalf of third parties	–	–	–	–	948 140	–	948 140
Other liabilities	6 007	6 812	–	–	24 766	–	37 585
Employee benefits	101 737	38	104	15	–	–	101 894
Provisions	2 058	–	19 460	9 084	–	–	30 602
Non-current segment liabilities							
Deferred revenue	–	2 759	476 127	69 424	–	–	548 310
Employee benefits	1 034 347	–	–	–	–	–	1 034 347
Other liabilities	48 144	–	–	–	70 724	–	118 868
Total segment liabilities, 2015	**1 244 608**	**43 399**	**1 309 258**	**354 587**	**1 211 107**	**–**	**4 162 959**
Total segment liabilities, 2014	**1 427 989**	**103 059**	**1 249 806**	**293 691**	**1 224 598**	**–**	**4 299 143**
Net assets, 1 January 2015	**512 140**	**–**	**2 634 944**	**1 321 991**	**(640)**	**–**	**4 468 435**
Surplus/(deficit) for the year	(72 075)	–	(94 937)	96 634	(5 161)	–	(75 539)
Actuarial gains/(losses) recognized directly in the reserves	239 629	–	–	–	–	–	239 629
Changes in fair value of available-for-sale financial assets	(1 261)	–	–	–	–	–	(1 261)
Prior-period adjustment	–	–	–	(238)	–	–	(238)
Movement between funds	9	–	(19)	(1)	11	–	–
Net assets, 31 December 2015	**678 442**	**–**	**2 539 988**	**1 418 386**	**(5 790)**	**–**	**4 631 026**
Net assets, 31 December 2014	**512 140**	**–**	**2 634 944**	**1 321 991**	**(640)**	**–**	**4 468 435**

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*	*Total 2015*
Segment revenue							
Voluntary contributions	–	1 067 461	2 055 402	1 780 489	–	–	4 903 352
Revenue from greeting cards and products	–	8 801	–	–	–	–	8 801
Interest revenue	–	35 031	–	–	–	–	35 031
Other revenue	–	46 950	932	1 604	12 887	–	62 373
Internal cost recovery	256 980	–	–	–	–	(256 980)	–
Internal direct attribution	101 665	–	–	–	–	(101 665)	–
Total segment revenue, 2015	**358 645**	**1 158 243**	**2 056 334**	**1 782 093**	**12 887**	**(358 645)**	**5 009 557**
Total segment revenue, 2014	**368 076**	**1 305 530**	**2 269 049**	**1 580 173**	**14 536**	**(368 076)**	**5 169 288**
Segment expenses							
Transfers of cash assistance	–	235 803	834 436	696 135	–	–	1 766 374
Transfer of programme supplies	–	106 322	452 219	474 372	–	–	1 032 913
Employee benefits expenses	479 164	276 191	268 994	161 101	334	–	1 185 784
Depreciation and amortization	10 918	6 696	2 026	2 942	5	–	22 587
Other programme-related expert services	–	94 394	198 092	47 662	1 455	–	341 603
Other expenses	174 458	212 644	394 653	303 682	16 254	(358 645)	743 046
Finance costs	3 342	–	–	–	–	–	3 342
Total segment expenses, 2015	**667 882**	**932 050**	**2 150 420**	**1 685 894**	**18 048**	**(358 645)**	**5 095 649**
Total segment expenses, 2014	**777 450**	**860 236**	**2 067 491**	**1 203 298**	**17 817**	**(368 076)**	**4 558 216**
Gains and (losses), net 2015	1 947	9 020	(850)	435	1	–	10 553
Gains and (losses), net 2014	(44 369)	3 498	1 204	1 150	3	–	(38 514)
Net surplus/(deficit), 2015	**(307 290)**	**235 213**	**(94 936)**	**96 634**	**(5 160)**	**–**	**(75 539)**
Net surplus/(deficit), 2014	**(453 743)**	**448 792**	**202 762**	**378 025**	**(3 278)**	**–**	**572 558**

Note 36
Post-balance sheet events

1. A decision memo was signed establishing an after-service health insurance asset investment management committee to oversee the two external managers engaged by UNICEF and the United Nations Development Programme (UNDP) jointly to manage the investment portfolio that will fund the organizations' after-service health insurance obligations. As at 31 December 2015, the final agreement between UNICEF and the external investment managers had not yet been signed and no amounts had been placed with the external managers, however, in 2016 an initial amount of $200 million is planned to be transferred to the external investment managers.

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