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United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2013

and

Report of the Board of Auditors

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Note

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

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Contents

Letters of transmittal

Letter dated 29 May 2014 from the Executive Director of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2013. 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 2014 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 2013, 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*) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2013, 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 flow (statement IV), the statement of comparison of budget to actual amounts (statement V) and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers such internal control as is relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2013 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 Fund's 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*) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of China
(Lead Auditor)

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the United Republic of Tanzania

30 June 2014

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 2013. The audit was carried out through field visits to four UNICEF country 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 issued an unqualified audit report on the financial statements for the period under review, as reflected in chapter I.

Overall conclusion

During the period under review, UNICEF worked to address the Board's previous concerns and continued to improve its governance, risk management and programme and operations management at its headquarters and field offices so as to maintain sound internal control, enhance accountability under the framework of results-based management and promote good governance structures globally. The Board, nevertheless, identified a number of opportunities for further improvements, relating to cash transfers to implementing partners, cost management and programme management.

Key findings

Oversight of National Committees by the Fund

The Board previously highlighted serious issues in the implementation of the cooperation agreements with National Committees and in the Fund's monitoring and oversight of National Committee activities. UNICEF has undertaken concerted efforts to address the Board's previous concerns, such as developing new joint strategic plans to outline a road map for achieving a 75 per cent contribution rate; requesting National Committees to reduce their high unrestricted reserve balances; and revising the revenue and expenditure reports to provide more detailed information. As a result, the overall retention rate of National Committees decreased from 28 per cent in 2012 to 24 per cent in 2013. Meanwhile, there remain some opportunities for further improvements. For example, there are significant differences across National Committees with regard to retention rates by resource types (earmarked or unearmarked), and some National Committees lack a reserve policy.

Implementing partners

Cash assistance to implementing partners is the Fund's major input into its country programmes. In 2013, expenses through cash assistance totalled $1.33 billion. The Board reviewed the selection, monitoring and evaluation of implementing partners and noted the following deficiencies:

(a) **Selection of implementing partners**. Currently, UNICEF has no detailed guidance on how to select suitable civil society organization implementing partners for its vetting process, and no measures or indicators of what might constitute an acceptable level of partner capacity and expertise. This may expose UNICEF to the risk of selecting inappropriate partners and to increased risks of poor value for money and fraud;

(b) **Monitoring of implementing partner activities**. UNICEF has not yet established a global monitoring system with respect to the implementation of the harmonized approach to cash transfers, capturing information on the capacity assessments and assurance activities undertaken by its country offices. In general, the Board noted that capacity assessment and assurance activities such as macroassessments, microassessments, spot checks and scheduled audits were insufficient against the requirements or workplans;

(c) **Evaluation of implementing partners**. UNICEF has not established a formal performance assessment framework for its implementing partners to assess the programmatic and financial capacity of its implementing partners and to use as a reference source for future cooperation.

Cost management

In a climate of fiscal constraint, UNICEF needs to have an effective cost management system to ensure the cost-effective delivery of its mandate. Reliable and complete financial and management information, as well as clear cost classifications, are the basis for effective cost management. The Board identified the following areas for improvement:

(a) **Cost management of civil society organization partners**. The percentage of direct programme support costs in relation to programme expenditure varies significantly across country offices and civil society organization implementing partners. Because UNICEF does not record actual expenses by cost category in relation to cash transfers to civil society organization implementing partners, it cannot compare and analyse the relevant programme support costs of different partners in different countries and challenge costs that appear to be unjustified;

(b) **Private sector fundraising expenses of country offices**. Within UNICEF country offices, there were significant variances in the percentage of private sector fundraising expenses compared with gross revenue (ranging from 8 per cent to 47 per cent, with an average of 18 per cent). UNICEF does not analyse why the expenses relating to its country offices' private sector fundraising activities vary so greatly, although there appear to be opportunities to enhance the efficiency and effectiveness of such activities;

Programme and project management

(a) **Absence of baselines and targets for indicators in the strategic plan's results framework**. The UNICEF strategic plan for 2014-2017 lacked baselines and targets for the results indicators. In these circumstances, the justification for the allocation of resources to the programme areas is unclear, and it is difficult to measure and assess the Fund's achievements, which compromises the effectiveness of its results-based management;

(b) **Deficiencies in the implementation of the results assessment module in the UNICEF enterprise resource planning system (VISION).** The results assessment module of VISION is currently used to monitor the status and likelihood of achieving results, the related challenges and any revisions to mitigate them. However, the statements of progress and indicator status of some programme results were not updated in a timely manner in the module for annual review, compromising effective programme management.

Recommendations

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

(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 ascertain reasons for high retention rates and take measures to maximize the regular resources from National Committees;**

(b) **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 the reserves down to reasonable levels;**

(c) **Enhance the process of implementing partner selection by establishing specified and workable criteria in the implementing partner mapping process;**

(d) **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;**

(e) **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;**

(f) **Establish an organization-wide approach to assessing the results and performance of its partnerships;**

(g) **Establish the means to collect cost category information relating to cash transfers to implementing partners, and analyse the programme support and indirect costs of implementing partners to find opportunities for minimizing such costs and enhance the efficiency of cash transfers;**

(h) **Continue analysing the costs of the private sector fundraising activities of its country offices to enhance efficiency and effectiveness;**

(i) **Establish baselines and targets for all indicators in the strategic plan in a timely manner in accordance with good practice in the area of results-based management;**

(j) **Update the statement of progress and indicator status towards the achievement of programme results in the results assessment module in a timely manner.**

Follow-up of previous recommendations

The Board had no major overall concern about the status of the 26 recommendations that it had made for 2012. The Board noted that 73 per cent had been fully implemented (69 per cent for the previous year) and 27 per cent were under implementation (24 per cent for the previous year). The Board comments in the present report on the recommendations under implementation.

A. Mandate, scope and methodology

1. The United Nations Children's Fund (UNICEF) is mandated by the General Assembly to advocate the protection of children's rights, to help meet the basic needs of children and to expand the opportunities of children to enable them 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 establish appropriate policies and deliver services for children and their families.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2013, 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 2013 and its financial performance and cash flows for the financial period then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body. The audit included a general review of financial systems and internal controls, and an examination of the accounting records and other supporting evidences to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of accounts and financial transactions, the Board reviewed UNICEF operations under UNICEF financial regulation 14.1, particularly the oversight of National Committees, cash transfers to implementing partners, cost management and programme management.

5. 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.

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

B. Findings and recommendations

1. Follow-up of previous recommendations of the Board

7. Of the 26 recommendations made for the year 2012, 19 (73 per cent) had been fully implemented and 7 (27 per cent) were under implementation. For the previous year, by way of comparison, 69 per cent of the recommendations made had been fully implemented, 24 per cent were under implementation and 7 per cent had been overtaken by events. The majority of the seven recommendations under implementation by the time of audit related to the oversight of National Committees, budget management and cash transfers that were of an ongoing nature.

Details regarding actions taken in relation to the 2012 recommendations are included in the present report and summarized in the annex thereto.

8. The Board had no major overall concerns with regard to the implementation of the recommendations, but would like to draw attention to the issue of funding operational expenditures from the programme budget. In its previous report (A/68/5/Add.2), the Board noted that some UNICEF country offices used programme budgets to fund operational expenditures. This year, the proportion of operational posts at the country offices continued to vary significantly, but UNICEF has no defined parameters for determining appropriate levels of operational posts at country offices. UNICEF indicated that it would establish a global shared service centre to carry out a range of operational transactions for all offices. It would determine and monitor the appropriate levels of operational posts at country offices in successive budget preparation processes after the centre had been established. The Fund's initial analysis is that it will be able to reduce the number of posts required for transaction processing, with an annual net savings of about $20 million.

2. Financial statements and financial reporting

9. Total revenue in 2013 amounted to $4.85 billion, mainly from voluntary contributions from Governments, intergovernmental organizations and non-governmental organizations. Expenses, which amounted to $4.09 billion, were concentrated in three major categories: cash assistance ($1.33 billion), supply assistance ($0.7 billion) and employee, depreciation and other expenses ($2.06 billion). This resulted in a net surplus of $0.76 billion.

10. As at 31 December 2013, UNICEF total assets amounted to $7.76 billion, of which $4.04 billion, or 52 per cent, comprised cash and term deposits as well as investments (see table II.1). The large amount of cash holding at year-end was intended mainly for programme activities to be carried out in 2014 and thereafter.

Table II.1
Cash and term deposits and investments as at 31 December 2013
(Thousands of United States dollars)

Cash and term deposits	3 479 805
Investments	563 748
Total	**4 043 553**

Source: Financial statements of UNICEF.

11. The ratios set out in table II.2 show that the overall financial position of UNICEF is sound. Current assets are more than three times greater than current liabilities, and total assets are more than two times greater than total liabilities. The ratios also indicate that UNICEF has sufficient cash reserves to meet current (short-term) liabilities.

Table II.2
Financial ratios

Description of ratio	*31 December 2013*	*31 December 2012*
Current assets: current liabilities[a]	3.20	4.03
Total assets: total liabilities[b]	2.12	2.20
Cash and cash equivalents: current liabilities[c]	0.82	0.77

Source: UNICEF financial statements.

[a] A high ratio reflects the ability of UNICEF to meet short-term obligations. Higher ratios indicate high liquidity.

[b] A high ratio indicates a strong solvency position.

[c] A high ratio reflects the extent of cash available to settle current debts.

3. Implementation of the International Public Sector Accounting Standards

12. UNICEF completed its second year under IPSAS. The Board had previously recommended that UNICEF identify the objectives and benefits of adopting IPSAS. In response to this recommendation, UNICEF documented the benefits of IPSAS implementation and issued a status report on benefits realization in October 2013 (updated as at 31 March 2014), identifying key benefits arising from improved processes, more accurate recording and greater transparency of financial information.

13. The Board recognizes efforts made by UNICEF in the following areas:

(a) Starting in 2013, all offices, both country offices and headquarters, were reviewing their financial data on a monthly basis. Quarterly financial reports on IPSAS were submitted to the Comptroller. A dashboard had been developed to measure indicators of data quality such as incomplete bank reconciliations, old purchase orders and goods receipt, and goods in transit. The goal was to focus on risk areas and ensure timely, high-quality financial information for UNICEF management;

(b) An improved format of donor reports that incorporated elements of accrual accounting to enhance transparency had been prepared. Specifications for the new donor financial reporting system had been developed, and donor reporting would in future move to a web portal to provide donors with financial reports on a more timely basis;

(c) A system was being developed to generate deferred revenue and revenue recognition automatically in accordance with IPSAS, reducing manual processing and providing management with better information for decision-making purposes;

(d) A prototype of the new financial overview tool to facilitate the ad hoc and periodic preparation of financial information for senior management had been developed.

14. UNICEF applied the transitional provisions of IPSAS 17 (Property, plant and equipment) on an asset-class basis. For equipment acquired before 1 January 2012, only that located at the Fund's New York headquarters had been capitalized. The Board conducted an analysis of the useful life of equipment (asset class 1400-1700) in use at New York headquarters, and noted that 1,242 items of equipment (or 64 per cent by volume) had been fully depreciated as at 31 December 2013. The

duration exceeding the useful life of those items ranged from zero to 14 years, with an average of 4 years, indicating that UNICEF needed to review the criteria for determining the useful life of equipment.

15. UNICEF explained that it followed the agreed harmonized basis within the United Nations system for determining the useful lives of assets. A project was currently under way to assess the appropriateness of the current useful lives across the United Nations system. In addition, UNICEF indicated that it had performed a high-level review of the useful life during the year for all assets currently held globally, had found the impact on the financial statements and different property classes disclosed not to be significant, and agreed to continue to carry out such reviews annually.

16. **The Board recommends that UNICEF consider reassessing the useful lives of assets to reflect economic realities and fair presentation.**

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

17. National Committees, which are UNICEF partners, were established for the purpose of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. As at the end of 31 December 2013, there were 36 National Committees globally, collectively raising around one third of the Fund's annual income.

18. In its previous audit reports, the Board noted serious issues in the implementation of the cooperation agreements with National Committees and in the Fund's monitoring and oversight of National Committee activities. UNICEF has undertaken concerted efforts to address the Board's previous concerns, including the following:

(a) Developing new joint strategic plans to outline a road map for achieving a 75 per cent contribution rate and a limitation on National Committees' advocacy and education expenses;

(b) Requesting National Committees to reduce their high unrestricted reserve balances;

(c) Reviewing all National Committees' investments with requested details, revising the revenue and expenditure report to provide more detailed information, and verifying revenue derived from investment funds and strictly applying the allocation criteria for investment funds.

19. The overall retention rate of National Committees decreased from 28 per cent in 2012 to 24 per cent in 2013, which is an encouraging trend. While acknowledging UNICEF initiatives to address its concerns, the Board notes areas requiring further improvement.

Retention rate by fund types across the National Committees

20. The cooperation agreement between UNICEF and the National Committees provides that the Committees may retain up to 25 per cent of their gross proceeds to cover the costs of their activities.

21. During the period under review, 36 National Committees collected a total of $1.51 billion in gross donations, comprising $617.85 million in other resources

(earmarked) and $895.1 million in regular resources (unearmarked). The Committees retained $0.36 billion (24 per cent) of gross donations to cover expenses and transferred $1.15 billion (76 per cent) to UNICEF. Further analysis of retention rates by resource types (earmarked or unearmarked) revealed significant differences across National Committees:

(a) Of the $617.85 million in other resources (earmarked) collected by 36 National Committees in 2013, the retention rates of the National Committees ranged from zero to 87 per cent, with an average of 6 per cent. Seven National Committees had other resource retention rates of more than 25 per cent. To confirm whether donors had been informed of the retentions, the Board requested UNICEF to provide relevant donor agreements on a sample basis. However, most of those agreements were not provided to the Board, which indicates that UNICEF needs to further enhance the oversight of National Committees by collecting donor agreements;

(b) Of the $895.1 million in regular resources (unearmarked) collected by the National Committees in 2013, retention rates ranged from zero to 109 per cent (36 per cent on average). Two National Committees had regular resource retention rates of more than 100 per cent, which means that not only all regular resource revenue, but also part of the other resource revenue or reserves, were utilized by the two Committees to cover their operating expenses.

22. Although the retention rate reflected in current cooperation agreements is based on total gross proceeds rather than individual resources and the practice is not contrary to the agreements, the Board remains concerned that high retention levels with regard to other resources may not reflect the intentions of donors and that high regular resource retention rates are contrary to the Fund’s policy of maximizing regular resources for use in its programmes to aid children.

23. UNICEF explained that the significant differences were due to factors such as different fundraising market conditions, regulatory requirements and donor requirements. UNICEF is also reviewing the viability of the two National Committees with regular resource retention rates of more than 100 per cent.

24. **The Board recommends that UNICEF: (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.**

Monitoring of National Committee reserves

25. Reserves are part of the funds of National Committees that have been accumulated over time for specific purposes and remain unspent. Reserves are classified as “statutory” or “non-statutory”. Non-statutory reserves are funds maintained by a National Committee for which there is no underlying legal or regulatory requirement.

26. The Board previously highlighted the Fund’s inadequate monitoring of the reserve policies of National Committees. During the period under review, the Board noted that UNICEF had collected National Committees’ reserve policies and had requested six National Committees to reduce their reserves. As a result, the number of National Committees that had reserve balances exceeding the benchmark of three months’ expenditures decreased from 16 in 2012 to 13 in 2013. This is positive

progress, although more needs to be done. For example, one National Committee, which had an accumulated reserve of 35 per cent of its annual expenditure by the end of 2012, still transferred $303,030 into reserves in 2013.

27. The Board noted that high levels of reserve balances may be attributed to the absence of relevant policies. As at the end of 2013, 15 of the 36 National Committees had no reserve policies, and 3 of these had accumulated reserves of more than $10 million. In addition, six National Committees had reserve policies, but those policies did not fully comply with the UNICEF reserves guidance and the cooperation agreement.

28. **The Board recommends that UNICEF 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 in order to continue to bring reserves down to reasonable levels.**

5. Implementing partners

29. Cash assistance to implementing partners is one of the Fund's major inputs (together with cash transfers, programme supplies and technical assistance) into its country programmes. In 2013, total expenses of cash assistance amounted to $1.33 billion, or 33 per cent of total expenses.

Selection of implementing partners

30. The selection of implementing partners is a critical process in finding capable parties to deliver relevant programme activities. Currently, UNICEF has two types of implementing partners: government partners and civil society organization partners. It has established guidance for its country offices on how to identify potential civil society organizations and develop partnerships with them. Potential new partnerships must be subject to a vetting process. If the transfer of UNICEF resources (funds, supplies) is involved, pre-assessment of the partner's financial management capacity is mandatory.

31. The Board notes that the guidance does not specify in detail how to select the best and most suitable civil society organization implementing partner to enter into the vetting process. Furthermore, the guidance does not specify the criteria to use in assessing the partner's capacity and expertise. This exposes country offices to the risk of selecting inappropriate partners.

32. The UNICEF Office of Internal Audit and Investigations noted that the Malaysia country office did not have a systematic method of vetting and selecting civil society organizations, while partners were selected on an ad hoc basis, many of whom subsequently exhibited performance problems.

33. In addition, the Board was informed by the Office of Internal Oversight Services of one case involving fraud and misappropriation of donor funds by the personnel of one civil society organization at another United Nations entity. The civil society organization is also a UNICEF implementing partner. Further review of this organization's capacity assessment report by UNICEF revealed that the capacity assessment process was simplified, lacking a risk rating, and that the selection of this organization had not been well justified. UNICEF stopped providing funding to the civil society organization after the case had been disclosed. The case illustrates

the need for UNICEF to undertake improved due diligence with regard to civil society organization partners and to share information on implementing partners with other United Nations entities operating with the same partners in the same countries.

34. **The Board recommends that UNICEF enhance the process of implementing partner selection, by establishing specified and workable criteria in the implementing partner mapping process.**

Monitoring of implementing partner activities

Lack of a global monitoring system with regard to the harmonized approach to cash transfers

35. UNICEF adopted the harmonized approach to cash transfers[1] with three other United Nations Development Group agencies in 2005, with the objectives of reducing the transaction costs of managing cash transfers for implementing partners, and strengthening the capacity of implementing partners to manage cash resources and national capacities for management and accountability.

36. The Board recognizes the efforts undertaken by UNICEF to implement a global strategy to strengthen the implementation of the harmonized approach, including: the development of agency-specific policies and procedures; capacity-building; and leadership and follow-up. However, UNICEF has not established a monitoring system to provide real-time information on the global status of the implementation of the approach, such as the implementation of capacity assessments and assurance activities in each country office. Nor are the risks associated with implementing partners fully recorded in the management system.

37. **The Board recommends that UNICEF 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.**

Capacity assessments and assurance activities

38. Macroassessments, microassessments, scheduled audits, programmatic visits and spot checks are used to obtain assurance that cash transfers are properly utilized. The Board previously noted that at some field offices such activities were insufficient. Inadequate microassessments may impair the judgement of a country office regarding the internal control system used by an implementing partner. The functionality of such systems is the basis for determining the modalities and procedures for cash transfers as well as the scale of assurance activities, and insufficient spot checks and scheduled audits of such systems could result in failure

[1] Pursuant to General Assembly resolution 56/201, the United Nations Development Programme, UNICEF, the United Nations Population Fund and the World Food Programme adopted a common operational framework for transferring cash to government and non-government implementing partners. Implementing partners will use common forms and procedures for requesting cash and reporting on its utilization. Agencies will adopt a risk management approach and will select specific procedures for transferring cash on the basis of the joint assessment of the financial management capacity of implementing partners, as well as coordinate activities to maintain assurance as to the utilization of the cash provided.

to obtain sufficient assurance regarding the proper utilization of cash transfers to implementing partners.

39. During the period under review, UNICEF started to address this issue by revising the framework for the harmonized approach to cash transfers, in coordination with other United Nations agencies, and by developing a global strategy to strengthen the management of the approach. On the basis of field visits to four country offices, as well as a review of the implementation of the global harmonized approach to cash transfers, the Board still identified the following areas in need of further improvement:

(a) **Lack of macroassessments in some country offices**. A total of 47 (37 per cent) of the 128 country offices adopting the harmonized approach modality for cash transfers had not conducted macroassessments for the current programme cycle;

(b) **Insufficient microassessment on implementing partners**. In 20 (16 per cent) of the 128 country offices, microassessments of implementing partners receiving more than $100,000 from UNICEF in one calendar year had not been not fully conducted or completed as planned. During the field visit to the Indonesia country office, the Board noted that from 1 January to 31 October 2013, out of 23 implementing partners that had received more than $100,000 from that office, 7 (with cash transfers of $1.88 million) had not been subjected to microassessment as at 15 November 2013;

(c) **Spot checks not fully conducted**. A total of 15 out of the 128 country offices had not prepared office-wide plans for spot checks in 2013. During the field visit to the India country office, the Board noted that the office had planned 981 spot checks for the period from 1 January to 30 September 2013, of which 476 (49 per cent) had not been conducted. Similar observations were noted in the Board's field visits to the Ethiopia, Indonesia and Kenya country offices;

(d) **Lack of sufficient scheduled audits**. A total of 26 out of the 128 country offices had not prepared a plan for a scheduled audit of implementing partners receiving more than $500,000 from UNICEF in 2013. In the Kenya country office, out of 31 non-government partners that had been expected to receive cash transfers of more than $500,000 in the current programme cycle, scheduled audits had been completed for only 9 (29 per cent), with another 3 in progress. In addition, the same country office had not planned or conducted any audits of government partners in the current programme cycle.

40. **The Board recommends that UNICEF 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.**

Releasing direct cash transfers to implementing partners without appropriate authorization

41. According to supplement 3 of UNICEF financial and administrative policy 5, in exceptional situations in which the release of additional direct cash transfers to implementing partners with unliquidated cash transfers for more than six months can be justified, prior written authorization for the direct cash transfer is required from the Regional Director or Comptroller.

42. The Board noted that during the period from March to April 2014, out of $4.11 million in direct cash transfers to 33 implementing partners with balances outstanding for more than six months in 17 country offices, some $1.3 million had lacked the approval of the Regional Director or the Comptroller. A similar observation was noted during the Board's field visit to the India country office.

43. The Board was informed by the India country office that management posted direct cash transfers in the VISION system prior to transfer. As at the time of posting, the previous transfers had not been outstanding for more than six months, and thus there was no need for the approval of the Regional Director or the Comptroller. Owing to the time lag between posting and actual payment, some previous direct cash transfers had been outstanding for more than six months when the transfer was released.

44. The Board considers that the control point should be the date of the release of a direct cash transfer rather than the posting date, and that the current practice weakens internal control.

45. **The Board recommends that UNICEF consider revising the control point of the relevant module of the VISION system to ensure that its country offices obtain prior authorizations for the release of additional direct cash transfers to implementing partners with unreported cash utilization for more than six months.**

Evaluation of implementing partners

Capacity-building of implementing partners

46. The capacity-building of implementing partners is an effective way to mitigate risks of poor programme performance. The Board noted the following cases of inadequate implementing partner capacity, as well as similar concerns identified by the UNICEF Office of Internal Audit and Investigations (for example, in its report on the audit of the Congo and Uganda country offices):

(a) The inability to deliver the programme within the time frame required by the donor, leading to the extension of the grant. Of the 370 grant extensions effected in 2013, a total of 32, amounting to $29.95 million, were due to capacity shortages at implementing partners. For example, at the Indonesia country office, during the period from 1 January to 31 October 2013, nine grants with a total unspent value of $3.45 million (or 22 per cent of their total value) were extended, with the highest unspent percentage as at the extension date being 50 per cent;

(b) During the site visit to an implementing partner of the Ethiopia country office in November 2013, the Board noted that $199,432 direct cash transfers, which had been liquidated on 10 April 2013, had not been utilized by the implementing partner. The Ethiopia country office explained that it had identified this issue in its spot check in May 2013 and had requested the implementing partner to conduct the programme activities according to the workplan. However, little progress had been made by the partner by the time of audit.

47. Developing the capacities of implementing partners in programmatic areas is a core function of UNICEF, but capacity development in financial management is not a recognized area of expertise of the Fund.

48. **The Board recommends that UNICEF 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.**

Performance assessment of implementing partners

49. UNICEF has not established a formal approach to assessing the performance of its implementing partners in terms of both the achievement of results to date and the programmatic and financial performance of each partner. UNICEF headquarters does not require its country offices to carry out performance assessments of its implementing partners; it is left to country offices to decide to conduct any such assessments.

50. Without partner performance assessments, UNICEF will not have a comprehensive understanding of partners' strengths, weaknesses and capacity, all of which could form a valuable basis for the planning of future partnership cooperation.

51. **The Board recommends that UNICEF establish an organization-wide approach to assessing the results and performance of its partnerships.**

6. Cost management

52. In a climate of fiscal constraint, UNICEF needs to have an effective cost management system to ensure the effective delivery of its mandate. Reliable and complete financial and management information, as well as clear cost classifications, are the basis for effective cost management. The Board reviewed the current cost management mechanism of UNICEF and identified the following areas for improvement.

Indirect costs of civil society organization partners

53. The country programmes of cooperation that UNICEF assists are carried out with the government and civil society implementing partners of the respective countries. In 2013, total cash transfers provided to civil society organizations amounted to $573.6 million,[2] which included three major categories: (a) direct programme support costs, which are management and administrative costs that directly support the project objectives and are derived directly from the implementation of programme activities; (b) indirect programme costs, which are the partner's costs incurred in support of the collaborative programme that cannot be separately identified and traced unequivocally to the programme; and (c) programme costs.

54. The Board sampled 20 implementing partners of four country offices and reviewed 27 cooperation agreements, covering planned cash transfers totalling $8.04 million. The $8.04 million in cash transfers can be further broken down into $6.52 million in programme costs (81.1 per cent), $1.08 million in direct programme support costs (13.43 per cent) and $0.44 million in indirect programme costs (5.47 per cent).

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[2] Based on data extracted from the funds utilization analysis cube as at 7 April 2014.

55. With respect to direct programme support costs, the percentage varies across country offices and programmes/implementing partners:

(a) The average percentage of direct programme support costs in relation to total funds and value of supplies transferred to implementing partners ranges from 6 to 20 per cent in the four country offices referred to above;

(b) Within a given country office, the percentage also varies for different implementing partners. For example, in the Ethiopia country office, direct programme support costs vary from 5 to 31 per cent.

56. While recognizing that the variance might be due to differences in country contexts and programme contents, the Board considers that UNICEF needs to analyse and understand the reasons for the wide disparity. The VISION system does not support compilations of actual expenses by cost category of the cash transfers to civil society organization implementing partners, further compromising the Fund's analysis and understanding of the causes of variances.

57. **The Board recommends that UNICEF: (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**.

58. UNICEF stated that it would review the guidelines on programme cooperation agreements to strengthen guidance on project budgeting, and review how data at the expenditure type or cost category level can be gathered and analysed in a feasible and cost-effective manner.

Private sector fundraising expenses of country offices

59. Currently, income from individuals and corporations is generated through the fundraising and sales activities of the National Committees and the 43 UNICEF country offices. The Private Fundraising and Partnerships division coordinates all UNICEF private fundraising and sales activities.

60. The budget for the private sector fundraising of country offices is not presented in an integrated manner for approval to the Executive Board. The 2013 Private Fundraising and Partnerships budget included $4.1 million for country office sales activities and private fundraising activities funded by regular resources. Expenses incurred by country offices for private fundraising operations using other resources were included in the respective country programmes. As a result, associated expenses are not reflected in an integrated manner in the financial statements. For example, in statement V (statement of comparison of budget to actual amounts for the year ended 31 December), in addition to the expenses reflected under the Private Fundraising and Partnerships budget, country programme budgets contain $17.89 million in private sector fundraising expenses of 20 country offices.

61. UNICEF stated that the expected results of country offices' activities relating to fundraising in the private sector are associated with the relevant programmatic results, and that accountability for these rests fully with the country representative. However, the Board considers that budgets for the same function should be formulated and presented for approval in an integrated manner so that the governing

body can obtain an overall picture of the results to be achieved and the resources required. Similarly, the utilization of budgets for the same function should be reported in an integrated manner to enhance accountability and cost management.

62. The Board noted a significant variance in the percentages of related expenses to gross revenue, ranging from 8 per cent to 47 per cent (average of 18 per cent), in relation to UNICEF country offices' private sector fundraising activities. UNICEF has not analysed why the expenses of its country offices' private sector fundraising activities vary so greatly, nor has it sought opportunities to enhance the efficiency and effectiveness of such activities.

63. **The Board recommends that UNICEF: (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.**

64. UNICEF commented that it would continue to monitor the costs of the private sector fundraising activities of its country offices through its annual budgeting and reporting cycle to ensure optimal fundraising efficiency.

7. Programme and project management

Programme planning

65. Programme planning is the process by which an organization formulates its objectives and establishes its programme of work to meet those objectives. Effective programme planning enables an organization to set appropriate goals, develop effective plans for meeting them, and determine whether it is using its resources effectively.

66. The Board previously noted deficiencies in the UNICEF programme planning and implementation process, including the lack of key elements in the workplans and delays in the preparation and implementation of the workplans. While recognizing the Fund's efforts to strengthen its programme planning and enhance its monitoring of programme implementation, the Board identified the following areas for improvement.

Deficiencies in the formulation of the programme budget

67. The UNICEF budget includes the programme budget, the institutional budget and the Private Fundraising and Partnerships budget. At the country office level, the programme budget, in the form of a multi-year/rolling workplan, provides funds required for the implementation of programmes for women and children approved by the Executive Board in the country programme document.

68. In the Indonesia and Kenya country offices, the Board noted that the process of estimating resource requirements for activities in the multi-year workplan is not fully supported by detailed or justified assumptions, resulting in significant differences between estimated resources and actual expenditure. The Indonesia country office explained that the resource estimates were prepared at the intermediate results (output) level instead of the activity level, which provided flexibility. However, the Board considers that the preparation of budgets for intermediate results should be based on well-justified assumptions about the

resources required for the delivery of the relevant activities and the desired results. The absence of detailed activities to justify the resource estimates for workplans could compromise the effectiveness of programme and cost management.

69. **The Board recommends that UNICEF 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.**

Absence of baselines and targets for indictors in the results framework of the strategic plan

70. The UNICEF strategic plan sets out the Fund’s vision and core strategies. The plan also outlines results, such as the impact, outcomes and outputs of the work of UNICEF, plus associated indicators and risks — the starting point for effective results-based management.

71. The Board reviewed the strategic plan for 2014-2017 and noted an absence of baselines and targets for most of the results indicators. Of 18 impact indicators measuring overall progress in realizing the rights of children, the baselines of 7 indicators had not been defined and the targets for 16 indicators had yet to be determined. Additionally, for the 55 outcome indicators representing institutional and behavioural changes and the 155 output indicators directly measuring the work of UNICEF and its partners, all the baselines and targets were absent.

72. Without realistic baselines and targets for the indicators in the results framework, it is not possible to justify the resources allocated to programme areas or to measure the achievements of UNICEF. In addition, insufficient guidance is provided to the country offices in the preparation of their country programmes, which in turn may affect the realization of results.

73. **The Board recommends that UNICEF establish baselines and targets for all indicators in the strategic plan in a timely manner, in accordance with results-based management good practice.**

74. UNICEF stated that the results and key performance indicators for its strategic plan were being refined and finalized for presentation at the annual session of the Executive Board in 2014, at which baselines and targets would be established for most indicators at the outcome and output levels.

Lack of a mechanism to ensure that strategic results are embedded in the country programmes

75. The Board noted that, in the process of preparing the strategic plan, the linkage between the results set out in the plan and those of the country programmes was not clear, and it was also unclear how all the strategic results would be embedded in the country offices’ programme so that they could be realized through the implementation of country programmes. In addition, it was unclear which offices and divisions were contributing to the realization of the results, in which case accountabilities for delivery were unclear.

76. **The Board recommends that UNICEF enhance its programme planning mechanism for its next strategic plan to more directly link the results proposed in country programme documents to the proposed results in the strategic plan, in a manner that will enhance accountability**.

77. UNICEF commented that as part of the roll-out of the strategic plan, a mechanism would be established to link results and indicators of the strategic plan to those at the country level to support global reporting of results-related achievements.

Monitoring and performance evaluation of programme activities

78. Monitoring and post-performance evaluation are the mechanisms by which an organization monitors progress towards the achievements of its objectives, and they are essential if the governing body and the public are to gain a comprehensive understanding of the achievements of an organization and the efficiency and effectiveness demonstrated in the delivery of its mandate.

Deficiencies in implementation of the results assessment module in VISION

79. Currently, UNICEF headquarters and field offices use the results assessment module of the VISION system to monitor the status and likelihood of achieving results, the related challenges and any revisions to mitigate them. The Board reviewed the data generated from the module and noted that the statements of progress and indicator status with respect to some programme results were not updated in time for annual review as required by the programme guidance. A similar observation was made by the Board during the field visit to the Indonesia country office.

80. UNICEF explained that delays in the updating of programme results status were due in part to the migration of redundant data from the legacy system to the new enterprise resource planning system (VISION). To address the weakness, additional reports were provided to regional office advisers and country office management to identify the programme results with outstanding updates.

81. **The Board recommends that UNICEF update the statement of progress and indicator status towards the achievement of programme results in the results assessment module in a timely manner.**

8. Procurement management

Awarding purchase orders to "blocked" suppliers

82. The UNICEF Supply Manual provides that vendors that have been determined by UNICEF to be engaged in corrupt or fraudulent practices will be classified as ineligible vendors and therefore "blocked". The Board noted cases in which contracts had been awarded to blocked suppliers. For example, in November 2013 a supplier of bed nets and insecticides had been found guilty of "financial wrongdoings" and suspended for one month to enable UNICEF to seek additional information on the status of its corrective and preventive action. But UNICEF had issued two purchase orders to the supplier for mosquito nets, with a value of $1.22 million and $1.7 million, respectively, in December 2013. The Supply Division explained that it had alternate suppliers for bed nets, but some countries had specified certain brands of products and would not accept alternative brands.

83. **The Board recommends that the UNICEF Supply Division work with country offices and government counterparts to expand the brands of products accepted by the different countries to avoid the need to purchase items from blocked suppliers.**

9. Consultants and individual contractors

84. UNICEF utilizes temporary assistance in order to respond quickly, flexibly and effectively to organizational priorities. During 2013, UNICEF entered into 6,271 contracts with consultants and individual contractors and 11,536 institutional contracts. Expenses for consultancies and expert services in 2013 totalled $408.69 million, representing 10 per cent of UNICEF expenses in 2013.

85. The Board noted that as at 18 April 2014, a total of 3,349, or 53 per cent, of the 6,271 consultant and individual contractor contracts that had expired by the end of 2013 were still not closed. The Board sampled 150 expired consultant and individual contractor contracts and noted that 57 of them still involved open commitments, amounting to $817,584. The 57 contracts had expired between 3 and 12 months earlier. Similar cases were noted at the Indonesia and India country office and with respect to institutional contracts.

86. The delayed closure of the expired contracts could have a negative impact on the full use of available funds.

87. **The Board recommends that UNICEF 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.**

C. Disclosures by management

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

88. UNICEF reported to the Board that losses in assets of $9.6 million ($19.74 million in 2012) had been written off during 2013, including inventory of $6.36 million, composed mainly of write-off and shortage/overage of inventory in country offices. The written-off losses in assets also included $3.24 million in other assets, comprising mainly write-off of direct cash transfer receivables.

2. Ex gratia payments

89. UNICEF reported to the Board two ex gratia payments, amounting to $1.42 million, in 2013. The ex gratia payments comprised $1 million paid to qualifying national staff in duty stations subject to danger pay, and a $420,600 refund to donors stemming from mismanagement of funds relating to a programme in Pakistan.

3. Cases of fraud and presumptive fraud

90. UNICEF reported 20 cases of fraud or presumptive fraud to the Board during the period under review. The cases had resulted in estimated financial losses amounting to $193,803, of which UNICEF had recovered $48,964 (see table II.3).

Table II.3
Cases of fraud and presumptive fraud for 2013

(United States dollars)

	Number of cases before the Office of Internal Audit and Investigations	*Amount of loss*	*Amount recovered*[a]
Fraud	9	48 529.79	41 389.23
Theft	11	145 273.51	7 574.31
Total	**20**	**193 803.30**	**48 963.54**

Source: Data provided by UNICEF.
[a] From Office of Internal Audit and Investigations records.

D. Acknowledgement

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

(*Signed*) Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of China
(Lead Auditor)

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania

30 June 2014

Annex

Status of implementation of recommendations for the year ended 31 December 2013

No.	Summary of recommendation	Paragraph reference in report (A/68/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Total	Reference in the present report
1.	Comply with competitive bidding procedures and establish agreements/contracts with awarded providers	9	2012	X		1	
2.	Continue to undertake measures to ensure that the database records of property, plant and equipment are consistent with their actual status	10	2012	X		1	
3.	Enhance its monitoring of contributions to ensure the completeness and accuracy of reporting on revenue owed to UNICEF by the National Committees	24	2012	X		1	
4.	Accelerate the process of developing, updating and signing joint strategic plans with National Committees; specify the retention rates in all joint strategic plans with National Committees; and conduct annual reviews of the performance of National Committees in a timely manner	41	2012	X		1	
5.	Conduct assessments and strengthen monitoring of the administrative expenditures of the National Committees with a view to maximizing the resources to be used in UNICEF programmes for children	47	2012	X		1	
6.	Coordinate with the National Committees to ensure that advocacy and education for development costs are discretely reported and that advocacy resources are used by the Committees for the benefit of the most disadvantaged children	50	2012	X		1	
7.	Strengthen its monitoring of the reserve policies of National Committees to challenge high levels of reserves and ensure that sufficient funds are available for UNICEF to fulfil its mandates	55	2012		X	1	
8.	Continue to strengthen the monitoring of the conversion by National Committees of regular resources to other resources in order to maximize the amount of unrestricted funds for UNICEF	59	2012		X	1	
9.	Carefully monitor donations that are raised under the name of UNICEF but are not used in UNICEF programmes to avoid risk to its reputation	63	2012	X		1	

No.	*Summary of recommendation*	*Paragraph reference in report (A/68/5/Add.2, chap. II)*	*Period first reported*	*Implemented*	*Under implementation*	*Total*	*Reference in the present report*
10.	Strengthen its monitoring of Fundraising Development Programme funds and evaluate the performance of the programme to substantiate the judgement that the contribution of programme funds meets the required minimum return on investment	66	2012	X		1	
11.	Require National Committees to report periodically on their investment activities to UNICEF; and strengthen monitoring of the investment activities of National Committees to ensure compliance with a policy of low-risk investment to safeguard any assets held on behalf of UNICEF	68	2012	X		1	
12.	Ensure that its divisions and offices comply with its guidance in relation to programme budget proposals by stipulating that the required resources are fully justified by detailed activities to be carried out to achieve the planned outcomes and by historical trends	74	2012	X		1	
13.	Review its current budget preparation methodology to ensure that budgets are prepared and presented in an integrated manner so that the Executive Board may obtain an overall picture of the institutional and programme resources needed to achieve the expected objectives	80	2010-11 Para. 39	X		1	
14.	Analyse the parameters for determining the appropriate level of operational posts at country offices; monitor and control the use of the programme budget by country offices to cover operational expenditures not associated with specific programmes or projects	86	2012		X	1	
15.	Ensure that resource requirements related to management functions are presented for approval and covered under the institutional budget	90	2012	X		1	
16.	Strengthen its internal controls to ensure that thematic contributions are used as specified in the funding agreements	94	2012	X		1	
17.	Continue to improve its performance reporting mechanism to the Executive Board by linking the utilization of institutional budget resources with the achievement of the expected results	100	2012		X	1	

No.	*Summary of recommendation*	*Paragraph reference in report (A/68/5/Add.2, chap. II)*	*Period first reported*	*Implemented*	*Under implementation*	*Total*	*Reference in the present report*
18.	Require its country offices to: comply with the provisions of the UNICEF Programme Policy and Procedure Manual in relation to the preparation of workplans and annual management plans; and in coordination with implementing partners, review work and management plans to expedite implementation of planned activities to ensure that all the targets are met	106	2012	X		1	
19.	UNICEF headquarters and regional offices should continue to work with all country offices to ensure the implementation of capacity assessment and assurance activities in accordance with the Framework for Cash Transfers to Implementing Partners	111	2010-11 Para. 63		X	1	
20.	The Fund's country office in Zimbabwe should strengthen its monitoring of implementing partners to ensure that sufficient supporting evidence is maintained justifying the use of cash transfers; and UNICEF should investigate this issue and report the results to the Board of Auditors	115	2012	X		1	
21.	Continue to work with its country offices to prepare realistic integrated monitoring and evaluation plans and make every effort to improve their completion rates	119	2012	X		1	
22.	Continue to improve annual reporting by supplementing the Data Companion with more selective key indicators on programme performance in order to represent the direct actions and contributions of UNICEF through country programmes of cooperation; and improve its performance reporting by clearly linking the results achieved with the implementation of the programme activities and the utilization of relevant resources	126	2012	X		1	
23.	Improve the annual report of the Executive Director by integrating information on in-depth analysis of programme performance disparities and the impact on programme implementation; and analyse the performance disparities within country offices with respect to each strategy and provide support or guidance to those country offices whose performance falls far short of the benchmarks	132	2012	X		1	

No.	Summary of recommendation	Paragraph reference in report (A/68/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Total	Reference in the present report
24.	Ensure that its Supply Division: prepare and implement the quality control test plan on pharmaceutical and nutrition products and prepare the summary report in a timely manner; and continue to monitor the test results through yearly reports and include the test results in its performance monitoring of suppliers to ensure that only products that meet accepted standards are provided to its customers	137	2012		X	1	
25.	Strictly comply with the requirements of the UNICEF policy relating to the selection of consultants and individual contractors	142	2012		X	1	
26.	Ensure that its divisions/offices: put a clear strategy in place for a long-term regular staffing solution; and distinguish consultants and individual contractors, depending on the different nature of service offered, according to its policy on consultants and individual contractors	147	2012	X		1	
	Total		**–**	**19**	**7**	**26**	
	Percentage to total		**–**	**73**	**27**	**100**	

Chapter III
Certification of the financial statements

Letter dated 31 March 2014 from the Comptroller of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

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

I acknowledge that:

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

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

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

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*) Omar **Abdi**
Comptroller
United Nations Children's Fund

Chapter IV
Financial overview

Introduction

1. Established by the General Assembly of the United Nations in 1946, UNICEF operates in more than 150 countries and territories. UNICEF helps Governments and other partners overcome the obstacles that poverty, violence, disease and discrimination place in the path to realizing children's rights.

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

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

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

5. The present financial statements have been prepared for the calendar year 2013 in accordance with UNICEF Financial Regulations and Rules and International Public Sector Accounting Standards (IPSAS).

Financial performance

Revenue

6. Total revenue in 2013 was $4.85 billion, reflecting an increase of $908 million compared with 2012 income. The main source of revenue continued to be voluntary contributions from Governments, private organizations and individuals, which accounted for 97 per cent of total revenue. The remaining 3 per cent of revenue was generated by the sale of greeting cards and products ($70 million), interest ($29 million), procurement services for partners ($46 million) and miscellaneous activities ($13 million).

7. While contributions to regular resources (unearmarked or "core" funds) decreased by 2 per cent in 2013, other resources (earmarked funds) experienced unprecedented growth of $935 million, or 35 per cent, in one year. In 2013, for the first time, private sector sources contributed more to core resources than governments did. Other resources — regular (development) and other resources — emergency increased by $422 million and $513 million, respectively.

8. The substantial increase in contributions to other resources in 2013, which was due in part to generous funding of humanitarian programmes in the Philippines, the Syrian Arab Republic and Africa, further increased the share of other resources

(earmarked) to total income while decreasing the share of core resources to total income. In 2013, core resources accounted for 26 per cent of total income, compared with 33 per cent in 2012.

9. As in 2012, private sector donations accounted for nearly one third of UNICEF revenues in 2013. Contributions from the National Committees for UNICEF, which are non-governmental organizations that promote child rights in 36 industrialized countries and raise funds for UNICEF programmes worldwide, totalled $1.10 billion in 2013, reflecting an increase of 28 per cent compared with 2012 contributions.

Expenses

10. Total expenses increased by $467 million, from $3.62 billion in 2012 to $4.08 billion in 2013. Since a significant proportion of the revenue was received in the latter part of 2013, total expenses did not grow in tandem with revenue.

11. As in 2012, UNICEF outflows were concentrated in three major categories of its programme input: cash assistance, programme supplies (such as vaccines, medical supplies and educational materials) and technical support. Ten country programmes accounted for one third of total expenses in 2013.

12. Approximately 33 per cent of UNICEF expenses in 2013 ($1.33 billion) was in the form of cash assistance to implementing partners — Governments and non-governmental organizations (compared with 31 per cent in 2012). In addition, UNICEF provided essential supplies targeting vulnerable communities, including those affected by the ongoing crisis in the Syrian Arab Republic and Typhoon Haiyan in the Philippines, at a total value of $695 million.

13. In addition to cash assistance and essential supplies, UNICEF provides technical support and policy advice to its partners. In 2013, employee and consultancy expenses totalled $1.5 billion.

Financial position

Assets

14. At the end of 2013, UNICEF total assets were valued at $7.76 billion (2012: $5.73 billion). Cash and investments of $4.04 billion constituted a significant portion of the assets. The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects ($2.39 billion) or held on behalf of third parties ($535 million).

15. Cash reserves for long-term employee liabilities such as after-service health insurance and other Board-approved funds totalled $514 million. The regular resources cash balance as at 31 December 2013 was $700 million. Of that amount, $202 million was either committed or due for payment at year-end, leaving a balance of approximately $500 million, which is equivalent to approximately three and a half months of regular resources expenditure.

16. The total value of UNICEF inventory worldwide was valued at $384 million at the end of 2013 (2012: $270 million). Inventory is held in 189 locations in 74 countries and in the supply hub in Copenhagen. The majority of UNICEF inventory, which includes such items as therapeutic food, medical supplies,

children's clothing and school supplies, is held for short periods, as it is intended to be used for programme implementation.

17. The mission of UNICEF requires that the Fund operate and maintain inventory in high-risk and volatile locations. Despite having taken necessary precautions and safeguards, UNICEF lost inventory valued at $2.2 million in 2013, owing to looting, theft and fire. UNICEF partially recovered those losses through insurance settlements totalling $1.5 million. Additional claims are pending.

18. As at the end of 2013, UNICEF recognized contributions receivable of $2.28 billion. This represents contributions to be received in 2014 and subsequent years. Deferred revenue of $1.67 billion was recorded as a liability and recognized as other resources contributions intended for use in programme implementation in future years.

19. Property controlled by the organization at year-end had a net book value of $169 million and equipment a further $30 million, for total fixed assets of $199 million (2012: $183 million). This valuation does not include equipment purchased by country offices prior to 2012, as UNICEF elected to use the transition provision allowed under IPSAS when the Standards were first adopted in 2012.

20. Cash advances to implementing partners that had not been liquidated at year-end were valued at $561 million (2012: $557 million). During the year, a write-off of $3 million was recorded in relation to old cash advances that had not been fully accounted for. No additional provision was recorded in 2013.

Liabilities

21. Total current and non-current liabilities stood at $3.65 billion at year-end, resulting in net assets of $4.10 billion, compared with $3.12 billion in 2012, and reflecting further strengthening of the financial position of UNICEF.

22. Deferred revenue ($1.67 billion), employee benefits ($1.01 billion) and funds held on behalf of third parties ($592 million) represented the bulk of UNICEF liabilities.

23. An actuarial study carried out by an external firm in February 2014 estimated the Fund's after-service health insurance liability at $816 million and its other end-of-service entitlements at $107 million. To date, UNICEF has accumulated $506 million in its after-service health insurance and separation reserves and continues to set aside additional funds, primarily through payroll surcharges.

24. Also included in outstanding liabilities as at 31 December 2013 is an amount of $592 million. This represents 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

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

Changes from original to final budget

26. 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. As offices receive additional other resources, within the Board-approved ceiling, the final budget includes the original budget and contributions received during the year. In 2013, the total final budget of $6.86 billion exceeded the total original budget of $5.93 billion by $929 million, or 16 per cent.

27. 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 authority for UNICEF to allot up to $75 million. The final budget of the Emergency Programme Fund represents resource requirements for humanitarian actions for which contributions have not been raised.

28. For the institutional budget, the difference between the original budget and the final budget is the result of deliberate cuts in certain management expenses, such as travel.

Budget utilization

29. The total budget utilized in 2013 was $4.23 billion.

30. The utilization of final budgets funded by regular resources for country programmes and advocacy and intercountry programme was 93 per cent and 97 per cent, respectively.

31. The utilization of final budgets funded by other resources ranged from 46 per cent to 67 per cent. Budgets funded by other resources are allocated in full in the year in which contributions are recorded, although they are intended largely for use over multi-year periods. Budgets are also allocated in full even when contributions are recorded towards the end of the year. The total variance between final budget and actual amounts was $2.63 billion, of which 96 per cent related to contributions with validity dates of 2014 and beyond. Contributions booked in December 2013 represented 33 per cent of the total variance amount.

32. Unlike other budgetary authorities, the Emergency Programme Fund is expected to have a low utilization rate, as it is used to bridge funding gaps and to accelerate humanitarian actions until contributions have been raised through appeals.

33. The utilization of institutional budget resources was 92 per cent as a result of concerted efforts to reduce management costs and improve cost attribution so that resources are better aligned with results.

34. Eighty-six per cent of the final budget available for private sector fundraising and partnership was utilized, reflecting savings in staff costs and lower-than-expected cost of goods and associated operating expenses as a result of a decrease in the sale of cards and products.

(*Signed*) Anthony **Lake**
Executive Director
United Nations Children’s Fund

Chapter V

Financial statements for the year ended 31 December 2013

United Nations Children's Fund

I. Statement of financial position as at 31 December

(Thousands of United States dollars)

	Reference	*2013*	*2012*
Current assets			
Cash and cash equivalents	Note 6	1 651 955	949 795
Contributions receivable	Note 7	1 612 175	721 531
Other receivables	Note 7	47 980	59 174
Advances of cash assistance	Note 8	560 540	556 661
Inventories	Note 9	383 844	270 208
Investments	Note 10	1 941 681	2 199 181
Other assets	Note 11	235 754	229 387
Total current assets		**6 433 929**	**4 985 937**
Non-current assets			
Contributions receivable	Note 7	667 680	252 824
Other receivables	Note 7	947	428
Investments	Note 10	449 917	301 026
Property and equipment	Note 12	198 791	182 650
Intangible assets	Note 13	6 345	3 861
Other assets	Note 11	2 016	–
Total non-current assets		**1 325 696**	**740 789**
Total assets		**7 759 625**	**5 726 726**
Current liabilities			
Accounts payable and accrued liabilities	Note 14	256 220	243 712
Deferred revenue	Note 15	998 347	290 495
Funds held on behalf of third parties	Note 16	592 206	570 153
Finance lease and other liabilities	Note 17	39 482	25 691
Employee benefits liabilities	Note 18	96 335	87 061
Provisions	Note 19	28 171	19 681
Total current liabilities		**2 010 761**	**1 236 793**
Non-current liabilities			
Deferred revenue	Note 15	667 000	245 217
Employee benefits liabilities	Note 18	922 569	1 062 161
Finance lease and other liabilities	Note 17	55 140	58 439
Total non-current liabilities		**1 644 709**	**1 365 817**
Total liabilities		**3 655 470**	**2 602 610**
Accumulated surpluses	Note 20	3 472 609	2 772 128
Reserves	Note 20	631 546	351 986
Net assets		**4 104 155**	**3 124 114**

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)

	Reference	*2013*	*2012*
Revenue			
Voluntary contributions	Note 21	4 694 809	3 790 880
Revenue from greeting cards and products	Note 22	69 621	74 500
Interest revenue	Note 23	29 244	29 461
Other revenue	Note 24	59 494	50 446
Total revenue		**4 853 168**	**3 945 287**
Expenses			
Cash assistance	Note 26	1 330 550	1 105 939
Transfer of programme supplies	Note 26	695 104	628 817
Employee benefits expenses	Note 27	1 082 795	1 022 818
Depreciation and amortization	Notes 12, 13	13 491	8 440
Other expenses	Note 28	963 283	852 717
Finance costs	Note 23	3 740	3 590
Total expenses		**4 088 963**	**3 622 321**
Gains and (losses) net	Note 25	(4 635)	(3 497)
Net surplus		**759 570**	**319 469**

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)

	2013	2012
Net assets as at 1 January	**3 124 114**	**2 907 507**
Actuarial gains/(losses) recognized directly in net assets	221 561	(103 327)
Changes in fair value of available-for-sale financial assets	(1 090)	465
Surplus for the period	759 570	319 469
Net assets as at 31 December	**4 104 155**	**3 124 114**

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)

	2013	*2012*
Cash flows from (used in) operating activities		
Net surplus	759 570	319 469
Adjustments to reconcile surplus to net cash flows		
Depreciation and amortization	13 491	8 442
Loss on sale or disposal of property and equipment	(2 243)	(1 023)
Unrealized gain or loss on foreign exchange	9 130	5 268
Property and equipment impairments, write-offs	12 423	413
Interest received	(29 244)	(29 461)
Other adjustments	306 012	(6 145)
Changes in assets		
(Increase)/decrease in inventories	(113 636)	41 131
Increase in contributions receivable	(1 305 500)	(517 466)
Decrease/(increase) in other receivables	10 676	(3 134)
Increase in advances from cash assistance	(3 879)	(60 484)
Increase in other assets	(8 384)	(196 142)
Changes in liabilities		
Increase in accounts payable	12 508	123 843
Increase in deferred revenue	1 129 634	515 442
Increase in funds held on behalf of third parties	22 053	101 514
Increase in employee benefits liabilities	(222 465)	59 263
Increase/(decrease) in provisions	8 490	(359)
Increase/(decrease) in other liabilities	10 220	(6 277)
Net cash from (used in) operating activities	**608 856**	**354 294**
Cash flows from (used in) investing activities		
Purchases of investments	(2 892 856)	(4 195 141)
Maturities and sale of investments	3 001 466	3 495 723
Interest received	23 427	29 461
Purchases of property and equipment	(29 638)	(16 124)
Proceeds on sale of property and equipment	1 400	115
Purchases of intangible assets	(3 882)	(4 334)
Other cash flows from investing activities	–	(58)
Net cash from (used in) investing activities	**99 917**	**(690 358)**
Cash flows used in financing activities		
Payment of finance lease liabilities	(6 730)	(3 327)
Net cash used in financing activities	**(6 730)**	**(3 327)**

United Nations Children's Fund

IV. Statement of cash flows for the year ended 31 December (continued)

	2013	*2012*
Effect of exchange rate changes on cash and cash equivalents	117	(5 681)
Net increase/(decrease) in cash and cash equivalents	**702 160**	**(345 072)**
Cash and cash equivalents		
Beginning of year	949 795	1 294 867
End of year	1 651 955	949 795

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)

	Original budget	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Country programme budgets				
Regular resources	741 499	800 230	747 766	52 464
Other resources: regular	2 338 907	3 369 426	1 548 651	1 820 775
Total	**3 080 406**	**4 169 656**	**2 296 417**	**1 873 239**
Other resources — emergency	**1 877 055**	**1 589 352**	**1 065 921**	**523 431**
Emergency Programme Fund (regular resources)	**75 000**	**22 373**	**22 373**	–
Advocacy and programme development and intercountry programme budget				
Regular resources	17 701	17 701	17 198	503
Other resources — regular	234 829	420 589	246 925	173 664
Total	**252 530**	**438 290**	**264 123**	**174 167**
Institutional budget				
Development effectiveness	130 258	132 651	128 452	4 199
Management	366 590	357 653	319 906	37 747
Special purpose	10 921	11 418	11 313	105
United Nations development coordination	1 781	1 790	1 390	400
Total	**509 550**	**503 512**	**461 061**	**42 451**
Private fundraising and partnership budget	**132 392**	**132 392**	**114 089**	**18 303**
Grand total	**5 926 933**	**6 855 575**	**4 223 984**	**2 631 591**

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

United Nations Children's Fund

Notes to the 2013 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 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 151 countries, including at other headquarters offices in Belgium, Denmark, Italy, Japan and Switzerland, as well as regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

Note 2
Statement of approval of the Executive Director

The financial statements were certified by the Comptroller, as required by the UNICEF Regulations and Rules, and approved and authorized for issue by the Executive Director on 31 March 2014.

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 property and equipment located anywhere other than at UNICEF headquarters in New York has not been capitalized;

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

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

B. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

C. Use of estimates and critical judgements

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

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

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

8. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and 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 as the condition is satisfied, at which time revenue may be recorded. The determination of the existence of conditions for non-exchange transactions requires significant professional judgement. Although many UNICEF contribution agreements with donors include general stipulations, most do not include conditions that would preclude the recognition of revenue;

(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 judgement 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 expected long-term rate of return on plan assets, rate of compensation increase, the discount rate and the longevity of plan members. The management assumption with the greatest potential impact on the organization's defined-benefit obligation is the discount rate. The discount rate is determined by reference to the yield of a portfolio of high-quality fixed income instruments (rated AA or higher), which has the same duration as the plan's defined-benefit obligation;

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

D. Change in estimate

9. Prior to 2013, UNICEF estimated the amount of deferred revenue and contributions receivable on the basis of the largest donor contracts. During the year, UNICEF refined its methodology to include all donor contracts. This change results in the financial statements providing more reliable information on the Fund's financial position. The effect of this change in estimate is to increase the assets and liabilities in the statement of financial position, specifically contributions receivable and deferred revenue for 2013, by $865.38 million, with no impact on net assets or the net surplus for the year ended 2013. Other increases in contributions receivable, deferred revenue and revenue from voluntary contributions are a result of increased year-over-year activity in donor funding. No prior-year balances have been restated and the change in estimate is recorded prospectively consistent with the requirements of IPSAS.

E. Future accounting changes

10. The International Public Sector Accounting Standards Board has a number of projects in progress. However, there are no new standards that have been issued for adoption at a future date that would have an impact on the UNICEF financial statements.

Note 4
Significant accounting policies

Financial assets

1. UNICEF classifies financial assets into the following categories: financial assets at fair value through surplus or deficit; loans and receivables; and available-for-sale financial assets. The designation depends on the purpose for which the financial assets are acquired and is determined at initial recognition. UNICEF does not classify any financial assets as held to maturity.

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

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.

Available-for-sale financial assets

9. Available-for-sale financial assets are non-derivative financial assets composed of traded bonds. They are initially recorded at fair value plus transaction costs and are subsequently 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.

10. 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

11. 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.

12. 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.

13. 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.

14. 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.

15. 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

16. 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.

17. 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.

Inventory

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

19. 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.

20. 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 other expenses in the statement of financial performance. Reductions are determined by assessing replacement costs (see note 9, Inventories).

Property and equipment

21. 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.

22. 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.

23. 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.

24. 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.

25. 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

26. 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).

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

Intangible assets

28. 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.

29. 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

30. 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.

31. 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

32. 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)

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

34. Forward-exchange contracts in loss 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

35. Funds held on behalf of third parties represent liabilities in respect of cash held in UNICEF bank accounts under agency agreements.

36. 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 cash held in the Fund's bank account that is simply passing through the account on behalf of a third party. The liability is reduced once cash is disbursed to a supplier or otherwise, in accordance with the terms of the arrangement.

37. 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

38. UNICEF recognizes the following categories of employee benefits:

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

Short-term employee benefits

39. 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

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

Defined-contribution plan

41. 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.

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

Defined-benefit plans

43. 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.

44. 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.

45. 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

46. 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.

47. 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

48. 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. If settled within 12 months, termination benefits are reported at the amount expected to be paid; otherwise, they are reported at present value of the estimated future cash outflows.

Leases

49. 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.

50. 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.

51. 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.

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

Provisions

53. 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.

54. 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 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.

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

Revenue recognition

Voluntary contributions

56. 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.

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

58. 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.

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

60. 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.

61. For earmarked contributions with a condition attached, UNICEF recognizes an asset (cash or receivable) and a liability (contributions received in advance) 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.

62. 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.

63. 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

64. 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

65. 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.

66. 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

67. 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.

68. 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

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

Transfers of cash assistance and programme supplies

70. 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. A provision against advances is recorded at year-end for expenses incurred by implementing partners but not yet reported to UNICEF (see note 8, Advances of cash assistance, and note 26, Transfer of programme supplies and cash assistance).

Commitments

71. 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

72. 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

73. 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

74. 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.

75. 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).

Note 5
Comparison to budget

1. 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) advocacy and programme development and intercountry programme; (d) emergency programme fund; (e) institutional budget; and (f) Private Fundraising and Partnerships budget.

2. 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.

3. 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.

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

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

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

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

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

5. The emergency appeals budgets and the Private Fundraising and Partnerships budget were approved for the financial year 2013. The budgets for advocacy and programme development and intercountry programmes, the budget for the Emergency Programme Fund and the institutional budget were approved for a two-year period comprising the biennium 2012-2013. The country programme budgets are approved for varying multi-year cycles, usually between three and five years. Whenever budgets are prepared for a multi-year period, UNICEF breaks them down into annual amounts in order to provide the budget-to-actual comparison.

6. While UNICEF financial statements are prepared under the IPSAS full-accrual basis, UNICEF budgets are prepared and managed on a modified cash basis.

7. Statement V (statement of comparison of budget to actual amounts) documents the various budgets to the actual amounts incurred against them. Both budgets and actuals 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 report for the year ended 31 December 2013 and form part of these financial statements.

8. 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	20 568	25 617	21 985	3 632
East Asia and the Pacific	62 246	67 793	61 807	5 986
Eastern and Southern Africa	200 179	207 095	198 220	8 875
Latin America and the Caribbean	28 498	33 045	26 690	6 355
Middle East and North Africa	39 736	50 560	44 003	6 557
South Asia	136 915	142 817	138 085	4 732
Western and Central Africa	253 357	273 303	256 976	16 326
Subtotal	**741 499**	**800 230**	**747 766**	**52 464**
Other resources — regular				
Central and Eastern Europe and Commonwealth of Independent States	69 393	105 980	55 407	50 573
East Asia and the Pacific	224 056	316 470	144 743	171 727
Eastern and Southern Africa	683 118	1 088 943	502 231	586 712
Latin America and the Caribbean	133 825	159 895	90 211	69 684
Middle East and North Africa	203 181	281 252	124 489	156 763
South Asia	375 820	456 515	181 040	275 475
Western and Central Africa	649 514	960 371	450 530	509 841
Subtotal	**2 338 907**	**3 369 426**	**1 548 651**	**1 820 775**
Total country programme budget	**3 080 406**	**4 169 656**	**2 296 417**	**1 873 239**
Country other resources — emergency budgets by region				
Other resources — emergency				
Central and Eastern Europe and Commonwealth of Independent States	42 118	24 910	12 445	12 465
East Asia and the Pacific	178 481	158 149	56 280	101 869
Eastern and Southern Africa	432 469	284 122	222 656	61 466
Latin America and the Caribbean	25 469	53 006	42 758	10 248
Middle East and North Africa	637 497	584 437	386 659	197 778
South Asia	78 119	109 196	72 197	36 999
Western and Central Africa	475 401	350 965	262 016	88 949
Global	7 501	24 567	10 910	13 657
Total other resources — emergency budget	**1 877 055**	**1 589 352**	**1 065 921**	**523 431**

9. Actual net cash flows from operating activities, investing activities and financing activities presented in the table below reconcile with the amounts presented in the statement of cash flows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Exchange rate changes*	*2013*	*2012*
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(4 223 984)	–	–	–	(4 223 984)	(3 865 713)
Basis differences	(37 746)	99 917	(6 730)	–	55 441	(313 955)
Exchange rate changes on cash and cash equivalents	–	–	–	117	117	(5 680)
Entity differences	22 053	–	–	–	22 053	(101 514)
Presentation differences	4 848 533	–	–	–	4 848 533	3 942
Net cash flows from the statement of cash flows	**608 856**	**99 917**	**(6 730)**	**117**	**702 160**	**(345 072)**

Note 6
Cash and cash equivalents

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)

	2013	*2012*
Cash at bank and on hand — convertible	99 806	154 959
Cash at bank and on hand — non-convertible	28 406	26 996
Cash at bank in money market demand accounts	217 191	158 697
Term deposits and other (90 days or less)	1 306 552	609 143
Total cash and cash equivalents	**1 651 955**	**949 795**

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*	*2013*	*2012*
Gross current receivables						
Unearmarked	102 376	132	249 637	10	352 155	261 538
Earmarked	1 063 810	76 286	119 891	33	1 260 020	459 993
Impairment	–	–	–	–	–	–
Total current contributions	**1 166 186**	**76 418**	**369 528**	**43**	**1 612 175**	**721 531**
Gross non-current receivables						
Unearmarked	23 448	–	680	–	24 128	16 835
Earmarked	626 518	17 034	–	–	643 552	235 989
Impairment	–	–	–	–	–	–
Total non-current contributions receivable	**649 966**	**17 034**	**680**	**–**	**667 680**	**252 824**
Total contributions receivable	**1 816 152**	**93 452**	**370 208**	**43**	**2 279 855**	**974 355**

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 general termination, legislative approval or reduction clauses, or at the date when donor's notification of the amount to be disbursed to UNICEF when such clauses exist is received. Where a prerequisite for payment exists, both earmarked and unearmarked receivables are recorded when UNICEF has met the prerequisite. Ageing of receivables as well as the exposure of UNICEF to credit and currency risks related to those receivables is disclosed in note 30, Financial risk management.

Other receivables

(Thousands of United States dollars)

	2013	*2012*
Current other receivables		
Receivables from sales of greeting cards and products	27 032	35 273
Value-added tax receivables	8 384	10 846
Receivables from staff members	7 325	6 303
Receivables from procurement services	–	–
Receivables from other United Nations agencies	1 782	2 434
Unused transfers of cash assistance due from implementing partners	2 257	8 117
Other	3 274	541
Impairment	(2 074)	(5 340)
Total current other receivables	**47 980**	**59 174**
Non-current other receivables	**947**	**428**
Total other receivables	**48 927**	**59 602**

Other receivables

2. Unused transfers of cash assistance due from implementing partners represent the Fund's claims to unused cash assistance funds remaining with implementing partners after the completion or termination of a project.

3. Receivables from staff members includes interest-free advances from UNICEF to staff for up to 12 months for specified purposes, such as initial appointment or reappointment or reassignment. As those advances have an initial maturity of less than 12 months, the carrying value approximates the fair value.

4. 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)

	2013	*2012*
Advances of cash assistance by region		
Central and Eastern Europe and Commonwealth of Independent States	9 103	7 795
East Asia and the Pacific	35 854	41 463
Eastern and Southern Africa	170 653	196 858
Latin America and the Caribbean	29 006	36 502
Middle East and North Africa	122 536	70 634
South Asia	69 714	95 480
Western and Central Africa	193 362	176 710
Transfers to United Nations agencies and other organizations at Headquarters	473	575
Adjustment	(70 161)	(69 356)
Total advances of cash assistance by region	**560 540**	**556 661**

1. 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.

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

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

Note 9
Inventories

(Thousands of United States dollars)

	2013	*2012*
Programme supplies	377 310	262 144
Greeting cards and products	6 534	8 064
Total inventories	**383 844**	**270 208**

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

Note 10
Investments

(Thousands of United States dollars)

	2013	*2012*
Current investments		
Term deposits (greater than 90 days)	1 827 850	1 989 991
Structured deposits	113 831	209 190
Total current investments	**1 941 681**	**2 199 181**
Non-current investments		
Traded bonds	449 917	301 026
Total non-current investments	**449 917**	**301 026**
Total investments	**2 391 598**	**2 500 207**

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)

	2013	*2012*
Education grant advances to staff members	9 736	7 807
Prepaid expenses and other assets	226 018	221 580
Total current other assets	**235 754**	**229 387**
Non-current other assets	**2 016**	**–**
Total other assets	**237 770**	**229 387**

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

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*
2012 cost								
Balance as at 1 January	83 712	84 123	998	5 769	11 407	2 300	374	188 683
Additions	–	4 122	691	1 745	2 189	2 719	4 658	16 124
Disposals	–	–	–	(368)	(2 458)	(64)	(77)	(2 967)
Balance as at 31 December	**83 712**	**88 245**	**1 689**	**7 146**	**11 138**	**4 955**	**4 955**	**201 840**
Accumulated depreciation								
Balance as at 1 January	–	–	–	5 317	6 635	1 770	351	14 073
Depreciation	–	4 726	143	271	1 741	687	401	7 969
Impairment	–	–	–	–	–	–	–	–
Reversal of impairment	–	–	–	–	–	–	–	–
Disposals	–	–	–	(301)	(2 417)	(61)	(73)	(2 852)
Balance as at 31 December	**–**	**4 726**	**143**	**5 287**	**5 959**	**2 396**	**679**	**19 190**
Carrying value at as 31 December	**83 712**	**83 519**	**1 546**	**1 859**	**5 179**	**2 559**	**4 276**	**182 650**
2013 cost								
Balance as at 1 January	83 712	88 245	1 689	7 146	11 138	4 955	4 955	**201 840**
Additions	–	2 099	4 499	3 551	4 869	4 143	10 477	**29 638**
Disposals	–	(888)	–	(1 280)	(436)	(554)	(178)	**(3 336)**
Balance as at 31 December	**83 712**	**89 456**	**6 188**	**9 417**	**15 571**	**8 544**	**15 254**	**228 142**
Accumulated depreciation								
Balance as at 1 January	–	4 726	143	5 287	5 959	2 396	679	**19 190**
Depreciation	–	4 804	469	701	2 303	1 796	2 020	**12 093**
Impairment	–	–	–	1	10	1	–	**12**
Disposals	–	(30)	–	(1 062)	(370)	(337)	(145)	**(1 944)**
Balance as at 31 December	**–**	**9 500**	**612**	**4 927**	**7 902**	**3 856**	**2 554**	**29 351**
Carrying value as at 31 December	**83 712**	**79 956**	**5 576**	**4 490**	**7 669**	**4 688**	**12 700**	**198 791**

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

2. Included within buildings are $2.44 million (2012: $3.88 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)

	2013	*2012*
Land	80 000	80 000
Buildings	66 668	69 375
Furniture, fixtures and equipment	66	194
Total	**146 734**	**149 569**

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 (2012: $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 the 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 the 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 160 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 $18.50 million (2012: $19.86 million) as well as in-kind contributions revenue (see note 21, Revenue from voluntary contributions). Rent for all operating leases is reported within rental and leasing expense (see note 28, Other expenses).

Note 13
Intangible assets

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Intangibles under development*	*Total*
2012 cost				
Balance as at 1 January	–	–	–	–
Additions	229	3 131	974	4 334
Disposals	–	–	–	–
Balance as at 31 December	**229**	**3 131**	**974**	**4 334**
Amortization	8	465	–	473
Balance as at 31 December	**8**	**465**	**–**	**473**
Carrying value as at 31 December	**221**	**2 666**	**974**	**3 861**
2013 cost				
Balance at 1 January	229	3 131	974	4 334
Additions	606	–	3 276	3 882
Transfers	–	2 746	(2 746)	–
Balance as at 31 December	**835**	**5 877**	**1 504**	**8 216**
Amortization				
Balance as at 1 January	8	465	–	473
Amortization	92	1 306	–	1 398
Balance as at 31 December	**100**	**1 771**	**–**	**1 871**
Carrying value as at 31 December	**735**	**4 106**	**1 504**	**6 345**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2013	*2012*
Accounts payable	174 753	132 351
Accrued liabilities	81 467	111 361
Total accounts payable and accrued liabilities	**256 220**	**243 712**

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

Note 15
Deferred revenue

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

(Thousands of United States dollars)

	2013	*2012*
Contributions received in advance of a specified period	**9 793**	**22 415**
Deferred revenue		
Balance at 1 January	513 297	–
Additions	2 152 777	1 188 491
Revenue recognized	(1 010 520)	(675 192)
Balance at 31 December	**1 655 554**	**513 297**
Total	**1 665 347**	**535 712**

(Thousands of United States dollars)

	2013	*2012*
Current portion	988 554	268 080
Long-term portion	667 000	245 217
Total deferred revenue	**1 655 554**	**513 297**

2. Contributions received in advance of a specified period consist of cash contributions received, which, based on the terms of agreements, are to be used by UNICEF in future periods specified by donors. Deferred revenue consists of open contributions receivable, which, based on the terms of agreements, are to be used by UNICEF in future periods specified by donors.

3. These are released and revenue from contributions is recognized at the start date of the specified period for which funds are intended.

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance as at 1 January 2013	*Funds received*	*Funds disbursed*	*Balance as at 31 December 2013*
Procurement services				
Governments	278 165	475 996	(416 450)	337 711
Inter-organizational arrangements	173 127	113 461	(173 523)	113 065
Non-governmental organizations	10 489	1 448	(2 822)	9 115
National Committees	(2)	14	(20)	(8)
Global Alliance for Vaccines and Immunization	107 461	970 272	(951 892)	125 841
Other arrangements				
Others	913	113 261	(96 122)	18 052
Accruals	–	–	(11 570)	(11 570)
Total	**570 153**	**1 674 452**	**(1 652 399)**	**592 206**

1. Funds held on behalf of third parties represent liabilities in respect of cash held in UNICEF bank accounts under agency arrangements.

2. For standard procurement services, UNICEF is responsible for arranging and coordinating the delivery of goods or services on behalf of procuring partners (including Governments and United Nations agencies). Funds are received from procuring partners in advance to cover UNICEF commitments to suppliers and handling fees (fixed percentage).

3. Similarly, for procurement services funded by the Global Alliance for Vaccines and Immunization, UNICEF arranges and coordinates the procurement and delivery of vaccines and vaccine-related devices on behalf of the Alliance for the benefit of eligible countries. Funds are received from the Alliance in advance and kept in an escrow account for which UNICEF has a security interest and sole drawing rights. UNICEF draws funds to its own bank account prior to paying suppliers.

4. In other arrangements, UNICEF receives and disburses cash on behalf of a third party.

Note 17
Finance lease and other liabilities

(Thousands of United States dollars)

	2013	*2012*
Current finance lease and other liabilities		
Unearned income	33 235	15 071
Finance lease liabilities	3 298	3 162
Other	2 949	7 458
Total current finance lease and other liabilities	**39 482**	**25 691**
Non-current finance lease and other liabilities		
Finance lease liabilities	55 140	58 439
Total non-current finance lease and other liabilities	**55 140**	**58 439**
Total finance lease and other liabilities	**94 622**	**84 130**

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

2. The following table presents minimum lease payments payable for finance leases, the present value of minimum lease payments payable and future finance charges for 2013.

(Thousands of United States dollars)

	2013	2012
Undiscounted minimum lease payments		
Not later than one year	6 845	6 903
Later than one year and not later than five years	26 919	27 036
Later than five years	50 464	57 192
Total undiscounted minimum lease payments	**84 228**	**91 131**
Present value of minimum lease payments		
Not later than one year	3 298	3 162
Later than one year and not later than five years	14 914	14 130
Later than five years	40 227	44 309
Total present value of minimum lease payments	**58 439**	**61 601**

3. In 2013, UNICEF made payments under finance leases totalling $6.85 million (2012: $6.90 million).

Note 18
Employee benefits liabilities

(Thousands of United States dollars)

	2013	2012
Current employee benefits liabilities		
Home leave	6 134	6 206
Annual leave	85 943	75 900
Other end-of-service entitlements	1 814	3 126
Other employee benefits	2 444	1 829
Total current employee benefits liabilities	**96 335**	**87 061**
Non-current employee benefit liabilities		
Home leave	959	875
Other end-of-service entitlements	105 249	110 430
After-service health insurance[a]	816 022	950 305
Other employee benefits	339	551
Total non-current employee benefits liabilities	**922 569**	**1 062 161**
Total employee benefits liabilities	**1 018 904**	**1 149 222**

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

A. Defined-benefit plans

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

(a) **After-service health insurance**. This plan is the largest, providing 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; Van Breda/Geneva; and the medical insurance plan;

(b) **The after-service health insurance medical insurance plan.** This 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 for former locally recruited staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters locations.

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

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

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

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

6. The movement in the present value of the defined-benefit obligation for each of the defined-benefit plans, as provided in the table below, is included in the year-end employee 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*	*Total*	
					2013	*2012*
Balance as at 1 January 2013	589 789	104 922	360 516	3 275	1 058 502	884 008
Current service cost	27 451	7 345	24 778	373	59 947	50 135
Interest cost on benefit obligation	23 423	4 025	14 371	125	41 944	39 368
Actuarial losses/(gains) on benefit obligation	(76 108)	(6 543)	(137 261)	(1 649)	(221 561)	103 327
Benefits paid (net of participant contributions)	(8 430)	(8 610)	(2 507)	(295)	(19 842)	(18 336)
Balance as at 31 December	**556 125**	**101 139**	**259 897**	**1 829**	**918 990**	**1 058 502**

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*
2013 actual	56 606	24 724	15 425	96 755
2012 actual	56 033	22 243	13 968	92 244

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*
2013 actual	n/a	n/a	2 826	2 826
2012 actual	n/a	n/a	3 722	3 722

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

(Thousands of United States dollars)

	After-service health insurance	*End-of-service*	*Medical insurance plan*	*Death benefit*	*Total 2013*	*Total 2012*
Current service cost	27 451	7 345	24 778	373	59 947	50 135
Interest cost on benefit obligation	23 423	4 025	14 371	125	41 944	39 368
Total expense included in surplus (deficit)	**50 874**	**11 370**	**39 149**	**498**	**101 891**	**89 503**

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*	*Total 2013*	*Total 2012*
Current period	(76 108)	(6 543)	(137 261)	(1 649)	(221 561)	103 327

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

(Thousands of United States dollars)

	2013	*2012*
Funding of reserves		
Actuarial liabilities recognized in the statement of financial position	918 990	1 058 502
Other liabilities and provisions recognized in the statement of financial position	92 220	77 692
Funding	(506 212)	(444 830)
Funding deficit	**(504 998)**	**(691 364)**

B. Actuarial valuation

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

10. An actuarial valuation conducted by UNICEF actuaries in 2013 (as at 31 December 2013) was used for the closing balances on 31 December 2013. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

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

12. The next formal full valuation is expected be conducted in 2015 (as at 31 December 2014). The valuation for 2014 will be conducted by using a roll-forward of the obligations performed by the actuaries. The roll-forward will include changes in the major assumptions used by the actuary since the previous valuation.

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

Actuarial assumptions

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

15. **Inflation rate**. The inflation rate is an economic indicator that measures the rate of increase of a price index. Under IPSAS 25: Employee benefits, assumptions such as the discount rate and the health-care cost trend should be based on the same underlying inflation assumption. An inflation assumption rate of 2.5 per cent (2012: 2.5 per cent) was used for the 31 December 2013 valuation. This inflation assumption rate is used as a proxy for the long-term inflation expectations 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

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

17. Based on the analysis for 2013, the single equivalent discount rate was 4.73 per cent (2012: 4.07 per cent) as at 31 December 2013 and a discount rate, rounding to the nearest 25 basis points, would equal 5.00 per cent (2012: 4.00 per cent). The United Nations agencies selected a 4.73 per cent discount rate for use in that valuation (2012: 4.07 per cent), continuing the past practice of rounding the single equivalent rate to the nearest 25 basis points.

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

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

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

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

	2013 (percentage)	*2012 (percentage)*
Discount rate		
Rate at 1 January	4.00	4.50
Rate at 31 December	4.73	4.00
Rate of inflation	2.50	2.50
Expected rate of medical cost increase		
Medical inside the United States[a,b]	6.30	7.00
2024 and onwards medical inside the United States[c]	4.50	4.50
United States dental[b]	5.00	5.00
2024 and onwards United States dental[c]	4.50	4.50
Expected rate of salary increases (declining from age 20 to age 60)	**8.30-5.50**	**6.86-4.00**

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

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

	2013		*2012*	
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

Rate of retirement	*2013* *At age 55*	*2013* *At age 62*	*2012* *At age 55*	*2012* *At age 62*
Male	0.15	0.73	0.20	0.75
Female	0.13	0.75	0.25	0.75

Sensitivity analysis

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

Potential impact of changes in key assumptions used in measuring defined-benefit obligations and benefit costs
(Thousands of United States dollars)

Sensitivity of assumptions (impact on)	*After-service health insurance* *Obligation*	*After-service health insurance* *Expense*	*End of service* *Obligation*	*Medical insurance plan* *Obligation*	*Medical insurance plan* *Expense*	*Death-benefit obligation*
Discount rate						
Impact of: 1 per cent increase	(91 925)	n/a	(10 452)	(63 626)	n/a	(128)
Impact of: 1 per cent decrease	113 883	n/a	11 262	87 523	n/a	145
Health-care cost trend rates						
Impact of: 1 per cent increase	122 450	12 612	n/a	67 294	8 910	n/a
Impact of: 1 per cent decrease	(94 804)	(9 625)	n/a	(50 785)	(6 490)	n/a

C. Multi-employer pension plans

23. 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. The pension plan is a funded multi-employer defined-benefit plan.

24. 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.

25. The actuarial method adopted by the Pension Fund to determine whether its present and estimated future assets will be sufficient to meet its present and estimated future assets and liabilities is the open group aggregate method, which uses various sets of assumptions as to future economic and demographic

developments. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the General Assembly on the audit every two years.

26. The financial obligation of UNICEF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 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.

27. The actuarial valuation, performed as at 31 December 2011, revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared with the actual contribution rate of 23.7 per cent. The actuarial deficit was attributable primarily to the lower-than-expected investment experience in recent years. The next actuarial valuation will be conducted as at 31 December 2013.

28. At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

29. After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Pension Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Pension Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

30. In July 2012, the Pension Board noted in its report on the fifty-ninth session to the General Assembly that an increase to 65 in the normal age of retirement for new participants of the Pension Fund was expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012 and April 2013, the Assembly authorized an increase to 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants of the Pension Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the Assembly in December 2013. The increase in the normal retirement age will be reflected in the actuarial valuation of the Pension Fund as at 31 December 2013.

31. 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.

32. Summary information about the plan is presented below.

Actuarial valuation of the United Nations Joint Staff Pension Fund

(Thousands of United States dollars)

	2011[a]
United Nations Joint Staff Pension Fund actuarial deficit	(6 709 800)
Surplus as a percentage of pensionable remuneration	1.87

[a] Most recent actuarial valuation.

Contributions to the United Nations Joint Staff Pension Fund

(Thousands of United States dollars)

	2013	*2012*
UNICEF contributions	128 187	123 502
Participants' contributions	64 389	61 751
Total contributions	**192 576**	**185 253**

Note 19
Provisions

(Thousands of United States dollars)

	For returns of unused funds	*Other provisions*	*Total*
Balance at 1 January 2013	17 943	1 738	19 681
Additional provisions recognized	8 437	53	8 490
Balance at 31 December 2013	**26 380**	**1 791**	**28 171**

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

Note 20
Net assets

(Thousands of United States dollars)

		IPSAS reserves		*Other reserves*							
	Accumulated surpluses	*Actuarial gain/(loss)*	*Investment revaluation*	*Procurement services*	*Insurance*	*After-service health insurance fund*	*Separation fund*	*Medical insurance plan fund*	*Capital assets fund*	*Total reserves*	*Total net assets*
Balance at 1 January 2012	**2 510 820**	**–**	**25**	**2 000**	**115**	**270 000**	**51 403**	**65 182**	**7 963**	**396 688**	**2 907 508**
Surplus	319 469	–	–	–	–	–	–	–	–	–	319 469
Actuarial losses	–	(103 327)	–	–	–	–	–	–	–	(103 327)	(103 327)
Changes in fair value of available-for-sale financial assets	–	–	465	–	–	–	–	–	–	465	465
Transfers to/from the fund	(58 161)	–	–	–	–	53 491	(711)	5 465	(84)	58 161	–
Balance at 31 December 2012	**2 772 128**	**(103 327)**	**490**	**2 000**	**115**	**323 491**	**50 692**	**70 647**	**7 878**	**351 986**	**3 124 114**
Surplus	759 570	–	–	–	–	–	–	–	–	–	759 570
Actuarial gains	–	221 561	–	–	–	–	–	–	–	221 561	221 561
Changes in fair value of available-for-sale financial assets	–	–	(1 090)	–	–	–	–	–	–	(1 090)	(1 090)
Transfers to/from the fund	(59 089)	–	–	–	–	47 262	7 907	6 213	(2 293)	59 089	–
Balance at 31 December 2013	**3 472 609**	**118 234**	**(600)**	**2 000**	**115**	**370 753**	**58 599**	**76 860**	**5 585**	**631 546**	**4 104 155**

Net assets consist of "accumulated surpluses" and "reserves". Reserves include "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)

	2013	*2012*
Voluntary cash contributions		
Governments and intergovernmental agencies	2 976 647	2 248 672
Inter-organizational arrangements	340 460	351 272
National Committees	1 070 445	834 219
Others	281 776	317 306
Total voluntary cash contributions	**4 669 328**	**3 751 469**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	30 049	24 464
Inter-organizational arrangements	–	–
National Committees	3 714	6 309
Others	13 385	11 452
Total voluntary in-kind contributions	**47 148**	**42 225**
Total voluntary contributions	**4 716 476**	**3 793 694**
Less: returns to donors of unused contributions	(21 667)	(2 814)
Total voluntary contributions (net)	**4 694 809**	**3 790 880**

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

National Committees

2. The voluntary contribution revenue of $1,070.45 million (2012: $834.22 million) from National Committees represents the net contributions that the Committees have approved for transfer to UNICEF. Total cash contributions received by the National Committees during the year, excluding proceeds from sales activities, were $1,440.93 million (2012: $1,175.63 million). Of that amount, $370.48 million (2012: $341.41 million) was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 34, Related parties, for additional information on the relationship between UNICEF and the National Committees).

In-kind contributions

3. In-kind contributions comprise contributions received as goods. Major types of goods received include vitamin A, ready-to-use therapeutic food, Lego pieces and solar lamps, at a total value of $47.15 million (2012: $22.36 million). In-kind

contributions also include rights to use assets such as land and buildings, valued at $18.5 million (2012: $19.86 million).

(Thousands of United States dollars)

	2013	*2012*
Earmarked/unearmarked classification of voluntary contributions		
Regular resources	1 107 868	1 134 368
Foreign exchange losses	(1 490)	(1 572)
Total regular resources (net)	**1 106 378**	**1 132 796**
Other resources — regular	2 256 622	1 834 227
Foreign exchange (losses)/gains	(699)	203
Total other resources — regular (net)	**2 255 923**	**1 834 430**
Other resources — emergency	1 330 471	823 370
Foreign exchange gains	2 037	284
Total other resources — emergency (net)	**1 332 508**	**823 654**
Total voluntary contributions (net)	**4 694 809**	**3 790 880**

Note 22
Revenue from greeting cards and products

(Thousands of United States dollars)

	2013	*2012*
Gross proceeds from sale of greeting cards and products	65 514	69 184
Royalties from sale of greeting cards and products	4 107	5 316
Total	**69 621**	**74 500**

1. Through the sale of greeting cards and products, UNICEF generates additional funds for programmes of cooperation in developing countries. UNICEF sells greeting cards and products either directly to customers, using its country offices, or indirectly through National Committees and other sales partners that act as an agent on its behalf. Gross proceeds from the sale of greeting cards and products are accrued on the basis of preliminary sales reports received at year-end. In 2013, gross proceeds were $69.6 million (2012: $74.50 million) and the related cost of sales was $24.42 million (2012: $36.02 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 their 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.

Note 23
Interest revenue and finance costs

UNICEF generates interest revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities and bank accounts. Interest revenue for 2013 was $29.24 million (2012: $29.46 million). Finance costs of $3.74 million (2012: $3.59 million) resulted from finance lease liabilities.

Note 24
Other revenue

(Thousands of United States dollars)

	2013	*2012*
Procurement services	46 202	38 649
Miscellaneous revenue	13 292	11 797
Total	**59 494**	**50 446**

UNICEF undertakes procurement services for Governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. In 2013, the total value of the procurement services carried out on behalf of third parties was $1,561.2 million (2012: $1,481.60 million). UNICEF recognized revenue of $46.20 million (2012: $38.65 million) related to these procurement services through recovery of these costs incurred in providing those services to third parties. The costs include $22.84 million (2012: $29.96 million) in direct and indirect costs, comprising mostly salaries and wages, which are included as part of disclosed amounts in note 27, Employee benefits expenses. In addition, $6.85 million (2012: $8.69 million) in goods related to sales for orders to third parties filled directly from the warehouse in Denmark are disclosed separately in note 28, Other expenses.

Note 25
Net gains and losses

(Thousands of United States dollars)

	2013	*2012*
Net foreign exchange losses	(7 090)	(3 370)
Net fair value gains and losses on:		
Structured deposits	651	(738)
Net gains on sale of traded bonds	9	–
Net gains on sale of property, plant and equipment	1 894	612
Other losses	(99)	(1)
Total net losses	**(4 635)**	**(3 497)**

Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*2013*	*2012*
Gains	3 485	19 905	23 390	21 598
Losses	(14 338)	(16 142)	(30 480)	(24 968)
Total	**(10 853)**	**3 763**	**(7 090)**	**(3 370)**

In addition to the above, a realized loss of $1.78 million (2012: $3.01 million) and an unrealized gain of $1.62 million (2012: $2.03 million) are included in 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*	*Total*
2013			
Assistance by region			
Eastern and Southern Africa	407 900	237 105	645 005
Western and Central Africa	355 254	208 912	564 166
East Asia and Pacific	86 169	40 171	126 340
South Asia	181 343	55 837	237 180
Middle East and North Africa	195 384	125 022	320 405
Latin America and Caribbean	67 912	15 346	83 258
Central and Eastern Europe and Commonwealth of Independent States	25 917	12 273	38 190
Transfers to United Nations agencies and other organizations at headquarters	9 868	438	10 306
Subtotal	**1 329 747**	**695 104**	**2 024 850**
Adjustment for timing differences	803	–	803
Total transfers by region	**1 330 550**	**695 104**	**2 025 653**

	Cash assistance	*Transfers of programme supplies*	*Total*
2012			
Assistance by region			
Eastern and Southern Africa	362 723	232 292	595 015
Western and Central Africa	269 246	212 729	481 975
East Asia and Pacific	83 165	36 866	120 031
South Asia	185 489	79 712	265 201
Middle East and North Africa	65 553	41 005	106 558
Latin America and Caribbean	86 344	18 915	105 259
Central and Eastern Europe and Commonwealth of Independent States	26 564	5 230	31 794
Transfers to United Nations agencies and other organizations at headquarters	24 300	2 068	26 368
Subtotal	**1 103 384**	**628 817**	**1 732 201**
Adjustment for timing differences	2 555	–	2 555
Total transfers by region	**1 105 939**	**628 817**	**1 734 756**

Adjustment for timing differences represents accrued expenses at year-end to account for implementing partners that have incurred valid expenses but for which UNICEF has not yet received reports. The adjustment for timing differences was $70.16 million for 2013 and $69.36 million for 2012. The difference between these amounts is reflected in the table above and represents the net impact of the change in the provision.

Note 27
Employee benefits expenses

(Thousands of United States dollars)

	2013	*2012*
Salaries and wages	636 317	617 168
Contribution to the United Nations Joint Staff Pension Fund	127 963	122 335
Increase in after-service health insurance	50 029	43 992
Increase in other post-employment liabilities	13 246	21 731
Increase in other long-term employee benefits liabilities	26 900	8 769
Other personnel expenses	228 340	208 823
Total	**1 082 795**	**1 022 818**

Note 28
Other expenses

(Thousands of United States dollars)

	2013	*2012*
Consultants and expert services	408 693	336 567
Travel	134 874	126 485
Distribution	120 929	85 326
Rental and leasing	67 511	76 588
Retentions commissions and cost of greeting cards and products	24 427	36 024
Repairs and other maintenance	30 113	34 659
Supplies and materials	32 038	32 010
Investment funds for market development	29 449	29 520
Communication	20 467	21 635
Other operating expenses	44 571	22 906
Write-offs and inventory shortages	9 599	18 491
Utilities	16 032	13 208
Procurement services (note 24)	6 848	8 694
Professional development	11 315	10 604
Insurance	2 113	1 603
Impairment loss /(recovery)	4 304	(1 603)
Total	**963 283**	**852 717**

Note 29
Financial instruments

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

Accounting classifications and fair values

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

Financial assets as at 31 December

(Thousands of United States dollars)

		Fair value through surplus or deficit			*Total fair value*	
	Loans and receivables	*Available for sale*	*Designated as such upon initial recognition*	*Total carrying value*	*2013*	*2012*
Cash and cash equivalents	1 651 955	–	–	1 651 955	1 651 955	949 795
Term deposits	1 827 850	–	–	1 827 850	1 827 850	1 989 991
Traded bonds	–	449 917	–	449 917	449 917	301 026
Structured deposits	–	–	113 831	113 831	113 831	209 190
Receivables from contributions	2 279 855	–	–	2 279 855	2 279 855	974 355
Other receivables	48 927	–	–	48 927	48 927	59 602
Total financial assets	**5 808 587**	**449 917**	**113 831**	**6 372 335**	**6 372 335**	**4 483 959**

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

Financial liabilities as at 31 December

(Thousands of United States dollars)

			Total fair value	
	Other financial liabilities (amortized cost)	*Total carrying value*	*2013*	*2012*
Financial liabilities				
Accounts payable	256 220	256 220	256 220	243 712
Funds held on behalf of third parties	592 206	592 206	592 206	570 153
Finance lease	58 439	58 439	58 439	61 601
Other liabilities	36 184	36 184	36 184	22 529
Total financial liabilities	**943 049**	**943 049**	**943 049**	**897 995**

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)

				Total	
	Level 1	*Level 2*	*Level 3*	*2013*	*2012*
Assets					
Financial instruments at fair value through surplus or deficit, including:					
Structured deposits	–	113 831	–	113 831	209 190
Available-for-sale financial assets	449 917	–	–	449 917	301 026
Total	**449 917**	**113 831**	**–**	**563 748**	**510 216**

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

Note 30
Financial risk management

Exposure to credit risk

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

2. UNICEF holds bank accounts in more than 160 countries. This exposes the organization to significant default risk. To mitigate that 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*	*Total 2013*	*Total 2012*
Cash and cash equivalents							
Cash	–	263 851	10 260	16 133	55 159	345 403	949 795
Term deposits	–	568 282	610 546	127 725	–	1 306 553	–
Subtotal	**–**	**832 133**	**620 806**	**143 858**	**55 159**	**1 651 956**	**949 795**
Investments							
Term deposits	–	612 833	1 215 017	–	–	1 827 850	1 989 991
Traded bonds	449 917	–	–	–	–	449 917	301 026
Structured deposits	–	–	34 102	79 729	–	113 831	209 190
Subtotal	**449 917**	**612 833**	**1 249 119**	**79 729**	**–**	**2 391 598**	**2 500 207**
Total	**449 917**	**1 444 966**	**1 869 925**	**223 587**	**55 159**	**4 043 554**	**3 450 002**

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)

	Current	*Non-current*			
Receivables due	*2014*	*2015*	*2016*	*2017 and beyond*	*Total*
Contributions receivable	1 612 175	432 720	154 267	80 693	2 279 855
Other receivables	47 980	947	–	–	48 927
Total	**1 660 155**	**433 667**	**154 267**	**80 693**	**2 328 782**

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

Movements in allowance for impairment in respect of loans and receivables during 2013

(Thousands of United States dollars)

	Gross receivable at 31 December 2013	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written off as uncollectible*	*Net receivable at 31 December 2013*	*Net receivable at 31 December 2012*
Contributions receivable	2 279 855	–	–	–	2 279 855	974 355
Receivables from greeting cards	26 944	–	127	(43)	27 028	35 141
Other receivables	21 961	(556)	3 695	(3 201)	21 899	24 461
Total	**2 328 760**	**(556)**	**3 822**	**(3 244)**	**2 328 782**	**1 033 957**

8. As at 31 December 2013, UNICEF had no collective impairment on its loans and receivables; there were no further impairment losses on other financial assets.

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 forecast 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 short-dated 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*				*Total carrying value*	
	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*	*2013*	*2012*
Accounts payable	110 920	–	1	(425)	51 211	6 536	4 720	1 790	174 753	132 693
Accrued liabilities	81 467	–	–	–	–	–	–	–	81 467	111 019
Total	**192 387**	**–**	**1**	**(425)**	**51 211**	**6 536**	**4 720**	**1 790**	**256 220**	**243 712**

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. In 2013, UNICEF began transacting in the emerging markets portfolio, which had been authorized by the Financial Advisory Committee. This resulted in the Fund's exposure to emerging market currencies where actual programme implementation and in-country expenditures take place, in addition to providing additional yield.

16. 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 only in emerging markets investments for currencies where it has large spending needs, thereby reducing foreign exchange risk.

Currency risk

17. Currency risk (or foreign exchange risk) arises with regard to financial instruments that are denominated in a foreign currency. UNICEF is exposed to currency risk on revenues and expenses that are denominated in a currency other than the United States dollar. The currencies in which these transactions are primarily denominated are as follows:

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

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

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

19. 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*	*Norwegian krone*	*Japanese yen*	*Other*	*Total*	
							2013	*2012*
Cash and cash equivalents	1 436 012	136 076	965	41	323	78 538	1 651 955	949 795
Term deposits	1 827 850	–	–	–	–	–	1 827 850	1 989 991
Traded bonds	449 917	–	–	–	–	–	449 917	301 026
Structured deposits	9 057	10 356	–	78 356	6 682	9 380	113 831	209 190
Receivables from contributions	2 185 375	68 796	8 992	–	–	16 692	2 279 855	974 355
Other receivables	39 414	6 253	176	1 692	(10 122)	11 514	48 927	59 603
Total financial assets	**5 947 625**	**221 481**	**10 133**	**80 089**	**(3 117)**	**116 124**	**6 372 335**	**4 483 959**
Accounts payable	(1 531 366)	783 980	469 224	254 619	235 297	(467 973)	(256 219)	243 712
Funds held on behalf of third parties	592 206	(1)	–	–	–	2	592 207	570 153
Finance lease and other liabilities	92 379	1 096	–	–	–	1 148	94 623	84 130
Total financial liabilities	**(846 781)**	**785 075**	**469 224**	**254 619**	**235 297**	**(466 823)**	**430 611**	**897 995**
Net exposure	**6 794 406**	**(563 594)**	**(459 091)**	**(174 530)**	**(238 414)**	**582 947**	**5 941 724**	**3 585 964**

Interest rate risk

20. 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)

	2013	*2012*
Fixed-rate instruments		
Financial assets	3 593 636	3 148 976
Financial liabilities	–	(61 602)
Total	**3 593 636**	**3 087 374**

Sensitivity analysis: foreign currency

21. 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 forecast contributions and expenditures.

(Thousands of United States dollars)

	Strengthening		*Weakening*	
As at 31 December 2013	*Surplus/deficit*	*Net assets*	*Surplus/deficit*	*Net assets*
Euro (10 per cent change)	215 024	–	(215 024)	–
Pound sterling (10 per cent change)	188 615	–	(188 615)	–
Total	**403 639**	**–**	**(403 639)**	**–**

22. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2013 only.

Sensitivity analysis: interest rates

23. 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 2013. 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*
Plus 100 basis points	442 786	–
Minus 30 basis points	450 660	–

Other price risk

24. 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.

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

Derivatives

26. 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.

27. Gains/(losses) from changes in the fair values of forward exchange contracts were nil in 2013, since UNICEF had closed out all of its forward exchange contracts before the end of the reporting period.

28. 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. The 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 2013 included a call-option feature.

29. 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 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; and
- 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; and
- 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, above).

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 2013.

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 2013. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2013	*2012*
Commitments for purchase of property and equipment (including finance leases)		
Land	–	–
Buildings	–	12
Leasehold improvements	74	262
Vehicles	7 574	2 792
Furniture and fixtures	243	234
Communications and information technology equipment	2 316	9 203
Other capital commitments		
Intangible assets	178	182
Total capital commitments	**10 385**	**12 685**

(Thousands of United States dollars)

	2013	*2012*
Operating commitments		
Operating leases	–	–
Contracts for purchase of supplies and other goods	248 837	181 495
Contracts for purchase of services	200 686	187 018
Commitments to transfer cash to implementing partners	11 188	26 967
Commitments to transfer supplies to implementing partners	235 752	321 318
Total operating commitments	**696 463**	**716 798**
Total commitments	**706 848**	**729 483**

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 2013.

(Thousands of United States dollars)

	2013	*2012*
Long-term agreements for goods	7 314 460	7 353 786
Long-term agreements for services	449 168	181 121
Total long-term agreements	**7 763 628**	**7 534 907**

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 $226.50 million (2012: $615.09 million).

Contingent liabilities

2. On 27 November 2013, the Executive Director of UNICEF announced a project for the establishment of a global shared service centre to provide country offices and headquarters locations with transactional processing support. The creation of the service centre is expected to affect approximately 400 posts. However, as at 31 December 2013, management was still identifying exact positions and employees being affected. It is estimated that the number of employees to be separated will be well below 200. The current plan is to transfer transactions to the service centre in a phased manner in 2015 and 2016. The separations are likely to take place over a similar timeline. The total cost of the separations is estimated to be $13.30 million. However, a number of significant issues, such as location, have yet to be determined. As a result, no restructuring provision has been recognized for 2013.

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

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

5. As at 31 December 2012, 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 purpose 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 36 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)

	2013		*2012*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 070 445	370 208	834 219	359 784
Voluntary in-kind contributions	3 714	–	6 309	–
Total	**1 074 159**	**370 208**	**840 528**	**359 784**

3. According to the revenue and expenditure reports submitted by the National Committees, total cash contributions received by the National Committees in 2013, excluding proceeds from sales activities, were $1,440.93 million (2012: $1,175.63 million). Of that amount, $370.48 million (2012: $341.41 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 $1,070.45 million (2012: $834.22 million) in net cash contributions was either transferred or due to be transferred to UNICEF from the National Committees.

4. 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.

5. 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 $198.91 million (2012: $188.60 million) as at 31 December 2013.

Key management personnel

6. 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 three 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]	*Total remuneration 2013*	*Total remuneration 2012*
Key management personnel	28	5 205	3 170	(457)	7 918	9 205
Close family members	3	233	–	–	233	–
Total	**31**	**5 438**	**3 170**	**(457)**	**8 151**	**9 205**

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

7. 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.

8. 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.

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

10. 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

11. 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 to achieve a set of activities. 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

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

Global Alliance for Improved Nutrition

13. 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 Board of Directors.

Revenue realized from other related parties as at 31 December 2013
(Thousands of United States dollars)

	2013	*2012*
UNAIDS	6 255	21 641
Global Alliance for Improved Nutrition	295	1 641
Global Partnership for Education	53 197	–
Global Alliance for Vaccines and Immunization	47 403	23 841
Micronutrient Initiative	17 163	15 004
Total	**124 313**	**62 127**

Supported deliveries

14. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $85.55 million (2012: $61.49 million). The deliveries were not reflected in the financial accounts of UNICEF, although they were handled through the administrative structures of the organization.

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. This 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.

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*	*Total*
Segment assets							
Current segment assets							
Cash and cash equivalents	1 651 955	–	–	–	–	–	1 651 955
Inter-segment activity[a]	(2 829 412)	–	1 854 574	440 186	534 652	–	–
Investments	1 941 681	–	–	–	–	–	1 941 681
Inventories	65 376	16 903	133 308	168 257	–	–	383 844
Contributions receivable	–	352 154	958 633	301 388	–	–	1 612 175
Other receivables	33 306	6 774	4 557	3 243	100	–	47 980
Advances of cash assistance	–	105 876	286 575	168 089	–	–	560 540
Other assets	48 525	5 980	12 707	756	167 786	–	235 754
Non-current segment assets							
Investments	449 917	–	–	–	–	–	449 917
Contributions receivable	–	24 129	568 789	74 762	–	–	667 680
Property and equipment	176 412	10 178	6 115	6 085	1	–	198 791
Intangible assets	6 142	60	128	15	–	–	6 345
Other receivables	962	(34)	14	5	–	–	947
Non-current other assets	2 016	–	–	–	–	–	2 016
Total segment assets, 2013	**1 546 880**	**522 020**	**3 825 400**	**1 162 786**	**702 539**	**–**	**7 759 625**
Total segment assets, 2012	**1 599 521**	**26 489**	**2 860 544**	**504 730**	**735 442**	**–**	**5 726 726**

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*Total*
Segment liabilities							
Current segment liabilities							
Accounts payable	69 696	19 983	38 123	31 431	96 987	–	256 220
Deferred revenue	–	94 670	793 244	110 433	–	–	998 347
Funds held on behalf of third parties	–	–	–	–	592 206	–	592 206
Finance leases and other liabilities	14 677	20 957	(6 103)	(1 632)	11 583	–	39 482
Employee benefits	94 556	1 577	298	(96)	–	–	96 335
Provisions	21 501	–	2 752	3 918	–	–	28 171
Non-current segment liabilities							
Deferred revenue	–	27 346	564 892	74 762	–	–	667 000
Employee benefits	922 569	–	–	–	–	–	922 569
Finance leases and other liabilities	55 140	–	–	–	–	–	55 140
Total segment liabilities, 2013	**1 178 139**	**164 533**	**1 393 206**	**218 816**	**700 776**	**–**	**3 655 470**
Total segment liabilities, 2012	**1 290 500**	**26 522**	**531 598**	**19 462**	**734 528**	**–**	**2 602 610**
Net assets, 1 January 2013[a]	**308 987**	**–**	**2 328 945**	**485 268**	**914**	**–**	**3 124 114**
Surplus/(deficit) for the year	(51 062)	–	486 012	323 775	845	–	759 570
Gains and (losses) recognized directly in the reserves	220 471	–	–	–	–	–	220 471
Movement between funds	(247 836)	–	382 763	(134 927)	–	–	–
Net assets, 31 December 2013	**230 560**	**–**	**3 197 720**	**674 116**	**1 759**	**–**	**4 104 155**
Net assets, 2012	**308 987**	**–**	**2 328 945**	**485 268**	**914**	**–**	**3 124 114**

[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.

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*
Segment revenue							
Voluntary contributions	–	1 106 378	2 255 923	1 332 508	–	–	4 694 809
Revenue from greeting cards and products	–	69 621	–	–	–	–	69 621
Interest revenue	–	29 244	–	–	–	–	29 244
Other revenue	–	51 449	111	231	7 703	–	59 494
Internal cost recovery	186 299	–	–	–	–	(186 299)	–
Internal direct attribution	113 051	–	–	–	–	(113 051)	–
Total segment revenue, 2013	**299 350**	**1 256 692**	**2 256 034**	**1 332 739**	**7 703**	**(299 350)**	**4 853 168**
Total segment revenue, 2012	**292 159**	**1 138 638**	**1 834 071**	**819 773**	**10 012**	**(149 366)**	**3 945 287**
Segment expenses							
Transfers of cash assistance	–	217 632	703 131	409 787	–	–	1 330 550
Transfer of programme supplies	–	89 666	341 302	264 136	–	–	695 104
Employee benefits expenses	479 743	270 469	239 603	92 976	4	–	1 082 795
Depreciation and amortization	4 948	4 668	2 228	1 647	–	–	13 491
Commissions and cost of greeting cards	24 427	–	–	–	–	–	24 427
Investment funds for market development	29 449	–	–	–	–	–	29 449
Other expenses	251 624	226 038	484 085	240 153	6 857	(299 350)	909 407
Finance costs	3 740	–	–	–	–	–	3 740
Total segment expenses, 2013	**793 931**	**808 473**	**1 770 349**	**1 008 699**	**6 861**	**(299 350)**	**4 088 963**
Total segment expenses, 2012	**829 362**	**662 745**	**1 461 773**	**808 711**	**9 095**	**(149 366)**	**3 622 321**
Gains and (losses), net, 2013	(4 628)	(71)	328	(264)	–	–	(4 635)
Gains and (losses), net, 2012	(6 898)	(953)	5 085	(730)	(1)	–	(3 497)
Net surplus/(deficit), 2013	**(499 209)**	**448 148**	**486 013**	**323 776**	**842**	**–**	**759 570**
Net surplus/(deficit), 2012	**(544 101)**	**474 940**	**377 383**	**10 332**	**915**	**–**	**319 469**

[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.
The inter-segment activity represents the cash held at the end of the year on behalf of other segments.