

**Voluntary funds administered by the United Nations
High Commissioner for Refugees**

**Financial report and audited
financial statements**

**for the year ended 31 December 2013
and**

Report of the Board of Auditors



United Nations • New York, 2014



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.

Contents

<i>Chapter</i>	<i>Page</i>
Letters of transmittal	5
I. Report of the Board of Auditors on the financial statements: audit opinion	8
II. Long-form report of the Board of Auditors	10
Summary	10
A. Financial matters	16
B. Syrian Arab Republic situation	21
C. Provision of health services	31
D. Implementing partners	38
E. Disclosures by management	41
1. Write-off of losses of cash, receivables and property	41
2. Ex gratia payments	41
3. Cases of fraud and presumptive fraud	41
F. Acknowledgement	42
Annexes	
I. Mandate, scope and methodology	43
II. Status of implementation of recommendations	44
III. Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements	52
IV. Financial report for the year ended 31 December 2013	53
A. Introduction	53
B. Operational context and activities overview	53
C. Financial analysis	54
D. Programme budget performance highlights	58
E. Risk management	64
F. Enhancing transparency and accountability	64
G. Going concern	68
V. Financial statements for the year ended 31 December 2013	69
I. Statement of financial position as at 31 December 2013	69

II. Statement of financial performance for the year ended 31 December 2013	70
III. Statement of changes in net assets for the year ended 31 December 2013	71
IV. Statement of cash flow for the year ended 31 December 2013	72
V. Statement of comparison of budget and actual amounts for the year ended 31 December 2013	73
Notes to the financial statements	74

Letters of transmittal

Letter dated 31 March 2014 from the Controller and Director of the Division of Financial and Administrative Management of the Office of the United Nations High Commissioner for Refugees and the United Nations High Commissioner for Refugees addressed to the Chair of the Board of Auditors

Pursuant to the financial rules for voluntary funds administered by the High Commissioner for Refugees ([A/AC.96/503/Rev.10](#)), we have the honour to submit the financial statements for the year ended 31 December 2013, certified and approved in accordance with article 11.4 of those rules.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries with other officials of the organization, the following representations in connection with your audit of the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2013:

1. We are responsible for preparing financial statements that properly present the activities of the organization, and for making accurate representations to you. All the accounting records have been made available for the purposes of your audit, and all of the transactions that occurred in the financial period have been properly reflected in the financial statements and recorded by the organization in the accounting and other records. All other records and related information have been made available to you.
2. The financial statements have been prepared and presented in accordance with:
 - (a) The International Public Sector Accounting Standards (IPSAS);
 - (b) The Financial Regulations of the United Nations;
 - (c) The financial rules for voluntary funds administered by the High Commissioner for Refugees;
 - (d) The accounting policies of the organization, as summarized in note 2 to the financial statements.
3. The property, plant and equipment, intangible assets and inventories disclosed, respectively, in notes 3.5, 3.6 and 3.3 to the financial statements are owned by the organization and are free from any charge.
4. The value of cash and inter-agency balances recorded is not impaired and, in our opinion, is fairly stated.
5. All material accounts receivable have been included in the financial statements and represent valid claims against debtors. Apart from the estimated uncollectable

amounts, recorded under the allowance for doubtful accounts, we expect all significant accounts receivable as at 31 December 2013 to be collected.

6. All known accounts payable and accruals have been included in the financial statements.

7. The commitments of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the acquisition of goods and services, as well as the capital commitments contracted but not delivered as at 31 December 2013, have been disclosed in note 9.2 to the financial statements. Commitments for future expenses have not been recognized on the face of the financial statements, in line with IPSAS 1: Presentation of financial statements, and on the basis of the delivery principle.

8. As at 31 December 2013, there were no material legal or contingent liabilities likely to result in a significant liability to UNHCR.

9. For 2013, UNHCR has recognized in the financial statements all property, plant and equipment in service in order to discontinue the application of IPSAS transitional provisions, which in turn has resulted in the restatement of the relevant figures in the 2012 financial statements.

10. All expenses reported during the period were incurred in accordance with the financial rules of the organization and any specific donor requirements.

11. All losses of cash or receivables, ex gratia payments, presumptive frauds and frauds, wherever incurred, were communicated to the Board of Auditors.

12. Disclosure was made in the financial statements of all matters necessary to enable them to present fairly the results of the transactions during the period.

13. There have been no events since the UNHCR reporting date of 31 December 2013 that necessitate revision of the figures included in the financial statements or a note thereto.

(Signed) Kumiko **Matsuura-Mueller**

Controller and Director

Division of Financial and Administrative Management

(Signed) António **Guterres**

United Nations High Commissioner for Refugees

**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 report of the Board of Auditors on the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2013.

(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 voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2013, which comprise the statement of financial position as at 31 December 2013, the statement of financial performance, the statement of changes in net assets, the statement of cash flow, the statement of comparison of budget and actual amounts and the notes to the financial statements.

Responsibility of management for the financial statements

The United Nations High Commissioner for Refugees 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 is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves the performance of 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 internal control 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 an evaluation of the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as of the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2013 and the financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the voluntary funds administered by the United Nations High Commissioner for Refugees that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner for Refugees.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(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
(Lead Auditor)

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

(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

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) provides protection and assistance to some 42.9 million persons forcibly displaced within or beyond their countries of origin. It is a devolved organization with more than 8,600 staff working in 459 offices located in 123 countries. It supports long-term situations as well as humanitarian emergencies, including the large-scale displacements in the Democratic Republic of the Congo, Mali, the Sudan and the Syrian Arab Republic. It is funded almost entirely by voluntary contributions, with total revenue of \$3.16 billion, of which agreements for voluntary contributions totalling \$3.11 billion were recognized in 2013, including \$841 million related to future years. Total expenses were \$2.70 billion.

2. The Board of Auditors audited the financial statements and reviewed the operations of UNHCR for the year ended 31 December 2013 in accordance with General Assembly resolution 74 (I) of 1946. The audit was carried out by examining financial transactions and operations at the UNHCR headquarters in Geneva and Budapest. The Board also undertook field visits to operations in Ethiopia, South Sudan and Turkey, and examined the response of UNHCR to the Syrian Arab Republic situation in Jordan.

Scope of the report

3. The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with UNHCR management, whose views have been appropriately reflected. Annex I sets out the Board's mandate, scope and methodology in full.

4. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNHCR as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNHCR operations under United Nations financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined three core areas of UNHCR activities: key aspects of the Syrian Arab Republic situation, with a focus on the refugee operation in Jordan; the sectoral programme for the delivery of health services; and, as UNHCR is heavily reliant upon third parties in refugee and health programmes, the management of implementing partners. The report also includes a brief commentary on the UNHCR response to the Board's concerns about the effectiveness of counter-fraud measures as well as a detailed follow-up of action taken in response to recommendations made in previous years.

Key findings

6. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2013 and its financial performance and its cash flows for the year then ended, in accordance with IPSAS.

Financial matters

7. UNHCR has used IPSAS-based financial information to significantly improve the management of its overall inventory holdings and the financial management of country offices. However, the Board believes there is scope to further review the level of assets held and introduce target levels for key items in inventory holdings.

8. UNHCR controls its programme and management costs using three bases: operational costs, staff costs and administrative (Administrative Budget and Obligation Document) costs. A range of central controls are in place to monitor and control these costs. In 2013, operational costs of \$1,972 million, staff costs of \$642 million and administrative costs of \$350 million were recorded. The methodology for capturing and allocating these costs to programme, programme support and management and administration costs has been in place at UNHCR for four years and has provided a consistent basis for tracking them in recent years.

9. UNHCR has also taken action to reduce administrative costs by moving headquarters posts from Geneva to lower-cost locations and, more recently, by emphasizing the importance of containing and reversing the growth in staff costs experienced since 2007. However, there are aspects of the methodology used to allocate costs to programme and management categories that could be improved and further refined. For example, staff carrying out the same function, such as secretarial work, are charged to operational or administrative costs, depending on where the staff are located. Individual staff posts are also charged entirely to one category of cost, as there is no facility for splitting costs across more than one programme category.

Internal audit arrangements

10. As requested by the Advisory Committee on Administrative and Budgetary Questions, the Board has reviewed the progress made in introducing revised internal audit arrangements and found that discussions between the Office of Internal Oversight Services (OIOS) and UNHCR aimed at revising the memorandum of understanding have been ongoing for more than two years and have consumed considerable management effort and attention. A strong internal audit function is an important component of internal control and vital to an organization operating in complex and high-risk environments. It is therefore essential that UNHCR and OIOS now reach agreement on future internal audit arrangements as a matter of urgency.

The Syrian Arab Republic situation

11. The Syrian Arab Republic situation led to the largest humanitarian appeal in the history of UNHCR and the movement of approximately 2.4 million refugees in the region as at the end of December 2013. The Board focused its examination on the response of UNHCR to the emergency in Jordan, where approximately 25 per cent of refugees leaving the Syrian Arab Republic were hosted.

12. The Board found that, overall, UNHCR had responded well to the demands of the emergency in Jordan. Although the Office had not expected such a huge influx of refugees, it had successfully mobilized resources to meet their material needs and had made good progress moving from an emergency footing towards a more sustainable refugee operation.

13. The introduction in Jordan of a biometric recognition system for refugee registration greatly improved controls over multiple registrations and provided more robust information with which to track the complex and fluid refugee movements within the country. As registration allows for access to services and benefits, the prevention of multiple registrations reduces costs.

14. Cash assistance is an important component of material assistance programmes and is used in Jordan, particularly to reach urban populations. Its advantages compared with the supply of commodities include quicker, cheaper delivery of assistance and increased independence and choice for recipients. In Jordan, it was evident that some refugees sold unwanted United Nations-supplied items. UNHCR has gathered extensive data on its cash programme, but the scheme has not been independently evaluated. UNHCR also recognizes that cash payments must be subject to strong internal control.

15. With few exceptions, UNHCR supply systems for Jordan operations performed well, particularly in meeting the challenge of a massive and sudden influx of refugees in the winter of 2012/13. UNHCR experienced significant delays in procuring key items needed for 2013 winterization programmes in Jordan, and high stock levels evident in early 2014 are costly to maintain. The nine inefficient and poor-quality warehouses acquired quickly earlier in the Syrian Arab Republic crisis are being replaced by a much larger and more efficient modern warehouse.

16. UNHCR successfully mobilized resources to combat the emergency. In total, \$943.2 million in voluntary funding was received in response to assessed needs of \$1.32 billion. A flexible response was evident in such areas as the local procurement of biometric technology and cash payments to refugees, but there are opportunities to adopt more flexible approaches at the local level to the allocation of budgets and to hire skilled professionals locally, wherever possible, rather than await international procedures to fill urgent gaps. Where flexibility is allowed for, however, it needs to be matched by appropriate internal control frameworks.

17. While recognizing that in emergency situations optimal solutions may be compromised, the receipt of donor funding late in the year can promote a focus on the short-term programming of activities in areas where it is easy to spend funds quickly rather than using them optimally. This may be exacerbated in UNHCR by the lack of multi-year funding agreements and the predominance of annual agreements with implementing partners, rather than longer-term agreements.

18. Fast-track staffing procedures did not work well in the early stages of the operation, and on average UNHCR took up to six months to recruit the early batches of fast-track recruits. While this was subsequently reduced to less than three months, it highlights the need for UNHCR to consider more flexible staff recruitment procedures, in addition to following established internal monitoring and recruitment tracking procedures.

19. UNHCR informed the Board that it agreed with the idea of a “flexible approach to emergency staffing” and noted that various improvements had already been made, with further enhancements being pursued as appropriate.

Health services

20. Consistently high levels of health service provision were evident in terms of treatment, good levels of clinical staffing and availability of medical supplies in most locations visited. Generally low levels of disease morbidity and mortality were reported, and the Board concluded that health services were effective given the challenging environments in which UNHCR operated. There were a number of areas where further improvements could be made.

21. UNHCR health information systems are well developed and provide a strong basis for further enhancements. The main areas for enhancement include better links at the camp level between health outcomes and health spending, and greater opportunity for the interpretation of statistical data.

22. There is scope for UNHCR to focus its strategy, reporting and resources more on the main burdens of disease in each operation. Strategies and reporting at country offices focus predominantly on standard global strategic priorities such as HIV/AIDS rather than on the main causes of mortality, morbidity and patient demand. There were examples in which this had had an impact on decisions about where to invest resources, including an emphasis on treatment over prevention.

23. Staffing represents the majority of health-care costs in most UNHCR health operations. While staffing levels will differ to reflect local needs, they were not always in correct proportion to the size of the refugee population. In Ethiopia, for example, a standard complement of 19 staff was applied in camps of greatly uneven size, leading to the annual employment cost of health workers per refugee varying from some \$20 to \$4 between camps. The diseconomies of operating small camps extend beyond health, but have an impact on this sector in particular because of the high fixed cost of operating fully staffed clinics.

Implementing partners

24. Partnerships remain the Office’s preferred mode of delivery for field operations. In 2013, 40 per cent (\$1,069 million) of UNHCR expenses were incurred through 1,550 implementing partner agreements with Governments, non-governmental organizations and other United Nations agencies.

25. Partners provide a wide range of services, including camp management, sectoral services such as shelter and health, logistics support and personnel. Engagements through partnership agreements are much simpler to conclude than traditional procurement processes, but in certain circumstances the use of such agreements is not appropriate, especially where a commercial contract may be more appropriate and cost-effective.

26. There are distinct advantages to using implementing partners, including their ability to deploy swiftly and flexibly. However, there are also risks that need to be carefully managed. UNHCR is developing and implementing a risk-based approach to managing partners that requires closer monitoring and control of higher-risk partners. The new approach will be fully implemented by 2015. There are no mechanisms for the sharing of intelligence on poor-quality or unacceptable partners

with others such as United Nations agencies, donors or development banks. Due diligence procedures are based on the partner's own declarations of eligibility and are not as rigorous as, for example, vendor registration. UNHCR informed the Board that its partner portal would allow the systematic checking of enlisted entities.

27. Partner performance is monitored through verification visits to check both financial performance and progress against objectives. A high proportion of partnership agreements are also subject to an independent external audit. These controls should provide UNHCR with high assurance with respect to the work of partners, and were operating effectively in Jordan. However, weaknesses in the planning and performance of 2013 verification work were evident in Ethiopia, South Sudan and elsewhere. In future years, the Board will continue to examine the effectiveness of the new risk-based approach.

Counter-fraud measures

28. While UNHCR has responded to the Board's observations on the need to strengthen counter-fraud measures across the organization, progress has been slow and senior management needs to take urgent and concerted action to achieve meaningful progress.

Overall conclusion

29. In 2013, there were multiple refugee crises, reaching levels unseen in the previous decade. In Jordan, the Board found that UNHCR had handled the Syrian Arab Republic situation well, but that more flexible employment practices may have enabled it to respond more quickly. There were good examples of local flexibility and innovative practices, for example, the local procurement of biometric registration systems and enhanced use of cash payments to reach urban beneficiaries. Such approaches create new risks, however, and require different and tailored controls.

30. The provision of health services by UNHCR met a good standard, although scope exists to use available health data to improve strategic planning and target resources on local health priorities as well as to demonstrate the cost-effectiveness of interventions.

31. UNHCR has used IPSAS-based financial information to significantly improve financial management in some areas, such as inventory management, but there remains scope to further review asset holdings. Counter-fraud measures also require a substantial degree of further development.

32. Detailed recommendations are included in the main body of the present report and have been accepted by UNHCR. **In summary, the Board recommends that UNHCR:**

- (a) **Establish appropriate target levels for inventory holdings and other assets;**
- (b) **Review and further refine its methodology for allocating costs across programme and management categories;**
- (c) **Evaluate the performance of the biometric registration procedures implemented in Jordan, with a view to concluding its work to provide a standard global system for the biometric identification and registration of refugees;**

- (d) **Explore whether greater use could be made of partner agreements extending beyond 12 months;**
- (e) **Adopt more widely a flexible approach to emergency staffing, including the contracting of staff from other organizations and, when facing bottlenecks, the outsourcing of some or all recruitment processes;**
- (f) **Commission an independent and expert evaluation of its Jordan cash assistance programme;**
- (g) **Require country offices to explicitly refer to the main burdens of disease when bidding for health programme resources, to achieve a clearer balance between local needs and global strategic priorities;**
- (h) **Work towards more consistent utilization levels per health worker across its camps, to ensure that its allocation of scarce human and financial resources takes account of movements in refugee populations over time;**
- (i) **Enhance its due diligence procedures with regard to the initial vetting of partners to include reference checks where appropriate;**
- (j) **In the light of fraud and other risks, and in consultation with other United Nations agencies and the wider humanitarian community, develop mechanisms for the sharing of intelligence on implementing partners.**

Previous recommendations

33. At 31 March 2014, of the 65 recommendations made for 2012 and previous years, 4 (6 per cent) had not been implemented, 18 (28 per cent) remained under implementation and 43 (66 per cent) had been either implemented or superseded (see table in annex II).

34. While there has been positive progress overall, including risk assessments in pilot countries and policy development, disappointing progress has been made on improving the UNHCR risk management framework. In the Board's view, this area needs greater attention on the part of senior management as well as Chief Risk Officer continuity. Management has informed the Board that a draft strategic risk register is expected to be ready by the fourth quarter of 2014. Similarly, UNHCR has made no substantive progress on improving counter-fraud measures recommended in the Board's 2012 report. Annex II summarizes the status of all open previous recommendations.

A. Financial matters

Key facts

\$3.4 billion	Original global needs assessment budget; the final global needs assessment budget was \$5.3 billion
\$3.2 billion (including \$841 million for future years)	Revenue reported, with expenses of \$2.7 billion incurred in 2013
42.9 million	Persons of concern to UNHCR
8,600	UNHCR staff
123	Countries of operation, with 459 offices, including four emergency operations, in 2013 (the Democratic Republic of the Congo, Mali, South Sudan and the Syrian Arab Republic)

Financial position

1. The financial analysis contained in chapter IV, section C, of the present report provides a comprehensive overview of the financial position and performance of UNHCR in 2013. The analysis confirms that UNHCR finances remain strong and there are sufficient assets to meet liabilities.

Financial monitoring and reporting

2. IPSAS-based financial statements provide a comprehensive picture of the full costs of activities, and UNHCR has used the new information to generate valuable monthly corporate and country office financial reports for management. At the country level, UNHCR monitors a number of key financial performance indicators, including administration, staff and programme expenses, and analyses asset balances such as inventory and property, plant and equipment. Red, amber and green ratings highlight areas for management attention and action.

3. Separately, UNHCR also reviews and analyses cash-based budget variances on a country and regional basis, with a focus on delivery. While this process is important, the analysis of the same data on both a cash and an accruals basis results in duplication of effort, which would be reduced if UNHCR adopted accrual-based budgeting. UNHCR informed the Board that it was not in a position to decide independently, from the United Nations, on the introduction of accrual-based budgeting.

4. UNHCR has used the new financial information available to improve the management of some areas, notably inventory. While closing inventory values have increased between years in line with the increase in activity, table II.1 shows that there has been an overall decrease in average “inventory days” held, from 247 to 170, reflecting a reduction in underlying surplus inventory holdings. The levels of some inventory holdings are nonetheless high, and further reductions appear

possible. While UNHCR acknowledges that there is margin for further improvements in inventory management, it does not consider the overall inventory level to be high.

Table II.1
Inventory days by category of holdings

<i>Item</i>	<i>2013</i>	<i>2012</i>
Tents	265	449
Bedding	175	389
Household	232	278
Medical	110	185
Construction	107	73
Food	53	153
Material	2	42
Average	170	247
Total value	\$142 million^a	\$122 million

Source: UNHCR financial statements.

Inventory days are calculated as value of stock on hand divided by value of stock distributed, times 365.

^a Includes strategic stock holdings of \$35 million for 600,000 persons of concern.

5. Analysis of the main financial ratios of UNHCR (see table II.2) shows that they have stayed broadly consistent over the past two years and that, despite unprecedented emergencies in 2013, UNHCR remains in a strong financial position with high levels of liquid assets. Its accumulated reserves of \$1.97 billion (2012: \$1.5 billion), including cash and investments of \$734.3 million (2012: \$431.0 million), continue to provide a high level of liquidity.

Table II.2
Ratio analysis

<i>Description of ratio</i>	<i>31 December 2013</i>	<i>31 December 2012</i>	<i>1 January 2012</i>
Current ratio^a			
Current assets: current liabilities	8.7	9.2	8.7
Excluding future contributions receivable	5.1	5.2	5.0
Total assets: total liabilities^b			
Assets: liabilities	3.2	2.6	2.7
Cash ratio^c			
Cash + investments: current liabilities	3.5	2.9	3.6
Quick ratio^d			
Cash + investments + accounts receivable: current liabilities	2.2	1.8	2.1

(Footnotes on following page)

(Footnotes to Table II.2)

Source: UNHCR 2013 financial statements.

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

^b A high ratio is a good indicator of solvency.

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

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

6. In the financial analysis contained in chapter IV of the present report, UNHCR acknowledges that the current ratio is high in comparison with many other organizations and argues that it needs to be interpreted in the context of the specific activities carried out by the Office. In particular, contributions receivable of \$752 million for 2014 would not normally be included in current assets for such ratio analysis. However, even taking this factor into account, the Board considers that the current ratio remains sufficiently high at 5.1 to warrant further review.

7. As shown in table II.1, although the number of inventory days has been reduced significantly between years through more active and effective inventory management, the levels of some items held, for example, tents and household items, remain high. UNHCR does not see significant scope to further reduce inventory; however, it does not have target levels for inventory that can be used to assess the reasonableness of its holdings.

8. At 31 December 2013, UNHCR also had cash and investment holdings equivalent to more than three months' average expenditure. However, the Office maintains that this level of cash liquidity is necessary to support operations and, given the organization's voluntary funding model, considers it imprudent to hold less cash.

9. While recognizing the position of UNHCR and its dependence on voluntary funding, the Board recommends that UNHCR establish appropriate target levels for inventory holdings and other assets.

Programme and management costs

10. In carrying out its activities, UNHCR seeks to minimize internal overhead and administration costs. With this in mind, administrative functions have been moved to lower-cost locations, and the High Commissioner has emphasized the importance of containing staff costs and has reduced significantly the amount of such costs as a percentage of total expenditure since 2006 (41 per cent in 2006, compared with 22 per cent in 2013). Administrative costs (known as Administrative Budget and Obligation Document (ABOD) costs) include direct UNHCR expenditure on such items as contractual services, fuel and staff travel.

11. UNHCR budgets for expenditure using three bases: operational expenditure; staff expenses; and administrative costs (ABOD). In 2013, 67 per cent of expenditure (\$1.98 billion) was charged to the operational budget, 22 per cent (\$642 million) to the staff budget and 12 per cent (\$350 million) to the administrative budget (ABOD). Costs can be tracked at several levels, including

whether they are programme costs, programme support costs or management and administration costs.

12. Budgets for staff, operations and ABOD are regularly reviewed to ensure that they do not exceed authorized levels. Headquarters exerts central control over the classification of staff posts, and the reallocation of budgets from operations to ABOD or staff is not allowed. Requests for increased budgets are scrutinized by senior management and the Budget Committee, where appropriate, before approval. Regular reviews are conducted during the year to ensure that expenditure remains on budget.

13. Operational costs, including implementing partner expenditure, are classified entirely as programme costs. Staff posts and costs are categorized according to the functions performed. Administrative (ABOD) costs are allocated to programme, programme support and management and administration, mirroring the distribution of staff costs. This methodology for allocating costs across programme and management categories has been in place since 2010.

Table II.3

Programme expenditure, 2013

(Millions of United States dollars)

	<i>Operational</i>	<i>Staff</i>	<i>Administrative</i>	<i>Total</i>	<i>Percentage</i>
Programme	1 972	367	190	2 529	35.1
Programme support		192	120	312	10.5
Management and administration		83	40	123	4.1
Junior Professional Officer ^a		8		8	0.3
Total	1 972	650	350	2 972	
Percentage	66.3	21.9	11.8		100

^a Junior Professional Officer costs are not classified as programme, programme support or management and administration costs, but are included for completeness.

14. Table II.3 shows that in 2013, \$367 million (57 per cent) of staff costs were charged to programme, \$192 million (30 per cent) to programme support and \$83 million (13 per cent) to management and administration. Some \$190 million (54 per cent) of administration expenses (ABOD) were classified as programme, \$120 million as programme support (34 per cent) and \$40 million (12 per cent) as management and administration. In total, UNHCR discloses programme costs of \$2.5 billion, programme support costs of \$312 million, and management and administration costs of \$123 million in the financial report.

15. All costs incurred under implementing partner agreements are classified as programme costs, as they are considered to relate directly to the provision of support to refugees. UNHCR acknowledges that partner costs include staff and administrative costs, and seeks to minimize these when negotiating agreements and budgets. Once an agreement with an implementing partner has been concluded and a budget approved, its expenditure is not analysed to assess the amount of UNHCR funds the partner spends on staff and administration. Expenditure through implementing partners totalled \$1.1 billion in 2013.

16. UNHCR recognizes that the allocation of costs across programme and management categories is not precise, but believes that on balance the methodology presents programme and management costs fairly. While the Board recognizes that the methodology has an underlying rationale, is practical to operate and presents costs in a consistent and comparable way over time, it believes that the methodology could be further refined in some areas.

17. For example, some types of expense, such as staff accommodation, transport or consultant costs, can be coded as either operations or administration, which may create confusion regarding the correct coding to use. In addition, the methodology assumes that an individual staff member is wholly engaged in one of the three categories (programme, programme support or management and administration). There is no facility for allocating a proportion of the costs of an individual post to more than one category. The function of a staff post may also be classified differently, depending on where it is performed. For example, similar staff functions may be categorized as management and administration if performed at Headquarters, but as programme costs if performed in a sub-office in the deep field.

18. In its future work, the Board intends to conduct a more detailed examination of the allocation and management of programme and administration costs. The methodology for allocating programme and management costs has now been in place for four years. **The Board recommends that UNHCR review and further refine the methodology for allocating programme and management costs with a view to increasing the granularity of its knowledge and ensuring that the costs are accurately captured and reported.**

Update on the internal audit arrangements of the Office

19. In a letter dated 11 November 2013, the Advisory Committee on Administrative and Budgetary Questions requested the Board to follow up on issues related to internal audit arrangements at UNHCR, referred to in paragraphs 45 and 46 of its report on financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2011 ([A/67/381](#)). The Board has maintained a close interest in this matter, as internal audit is a vital component of UNHCR oversight mechanisms. A strong and flexible internal audit function is particularly important to UNHCR, which operates in challenging and high-risk environments.

20. As reported in 2011 (see [A/67/5/Add.5](#)), UNHCR identified four options for improving its internal audit arrangements and decided to pursue plans to in house the function following a cost-benefit analysis of those options by consultants. Other options considered were revising the arrangements with the Office of Internal Oversight Services (OIOS), using private sector providers and partnering with other United Nations agencies.

21. UNHCR and OIOS are engaged in ongoing discussions aimed at revising the memorandum of understanding to better define the responsibilities under the current audit arrangements. However, at the time of reporting, revised arrangements had not been agreed upon. An initial difficulty in the discussions was reaching agreement on the legal basis on which any changes should be made.

22. This matter has been under discussion for more than two years and has consumed considerable management effort and attention. It is therefore essential that

UNHCR and OIOS reach agreement on future internal audit arrangements as a matter of urgency. The Board has reluctantly concluded that, until revised arrangements are in place, further examination of this subject will add little value to the deliberations of the Advisory Committee on Administrative and Budgetary Questions.

B. Syrian Arab Republic situation

Key facts

2.4 million	Refugees registered or with registration appointments as at 31 December 2013
\$846 million	Total expenditure on the Syrian Arab Republic situation in 2013
1,674	UNHCR staff engaged in Syrian Arab Republic situation operations

Introduction

23. The Syrian Arab Republic emergency is unprecedented in terms of both the scale and the duration of the response required by humanitarian agencies. More than 100 entities collaborated in the inter-agency response, and the regional response plan (regional response plan 5) was the largest ever humanitarian appeal for a refugee operation, seeking \$2.9 billion. More than 2.6 million people have fled the Syrian Arab Republic since the start of the conflict in 2011, and more than 9 million have required humanitarian assistance within the country.

24. As the lead agency, UNHCR is responsible for coordinating the response and mobilizing resources to cope with the demands of the emergency. The present report examines key aspects of the Office's response to the Syrian Arab Republic crisis, and work carried out included visits to Jordan country operations, Turkey and the regional office and discussions with Headquarters officials. The Board's review was focused on the ability of UNHCR to plan and coordinate the response, the governance structures and the resourcing of the operations and to ensure the effectiveness of the supply chain in providing material support to refugees.

25. During 2013, \$846 million (one third of total UNHCR expenditure) was spent on the Syrian Arab Republic situation. Those costs included:

- \$358 million through implementing partner agreements
- \$70 million in payments to beneficiaries
- \$147 million in core relief items distributed to refugees
- Staffing costs of \$31.7 million for the 1,433 UNHCR staff engaged in the region (Egypt, Iraq, Jordan, Lebanon, Turkey and the Syrian Arab Republic).

Additional UNHCR staff members were engaged in other countries outside the region, and an additional workforce had been provided by framework partners.

Emergency response planning

26. Estimating refugee numbers is key to assessing needs and planning an appropriate response. The number of refugees was significantly higher than originally estimated at the outset of the crisis. In February 2012, the “worst-case scenario”, considered to be a full-scale civil war, was considered likely to displace a population of just over 1 million, of whom 260,000 were expected to seek refuge in neighbouring countries. These estimates were soon overtaken by events, however, and by September 2012 there were more than 300,000 refugees registered in the region. UNHCR estimates continued to lag behind events until July 2013, when border management controls reduced the inflow of refugees. However, despite the difficulty of estimating refugee numbers, UNHCR responded well to the crisis and successfully mobilized resources at short notice, including funds, staff and material supplies.

Refugee registration

27. In February 2013, UNHCR introduced biometric refugee registration in Jordan to produce more robust refugee numbers, reduce multiple registrations and enhance the ability to track refugee movements within the country. The new system quickly demonstrated its value, and at one registration centre UNHCR determined that 11 per cent of claimed “new” arrivals were in fact already registered. As registration allows for access to services and benefits, the prevention of duplicate registrations reduces costs.

28. UNHCR had considered using biometric refugee registration in the Middle East since 2007 and had piloted various systems including fingerprint and facial recognition systems. However, concerns arising in Jordan over possible multiple registrations provided added impetus to introduce the new systems. In mid-2012, the country operation agreed to administer cash assistance using a local bank’s iris-scanning technology in ATM machines. Given the urgent need to validate individuals of concern in Jordan, UNHCR headquarters agreed that UNHCR Jordan should not await a headquarters-procured biometric solution and should proceed with a local solution.

29. The additional cost of biometric identification, at less than \$1 per head, appears to be reasonable, given the benefits of strengthened internal control, fraud deterrence and improved refugee data to inform the distribution of support. The system, based on proven iris-scanning technology already used by government immigration authorities, appears to be performing well. It has increased the Office’s knowledge about refugee movements in Jordan, including in urban areas, far beyond its knowledge about such movements in other affected countries.

30. The Board recommends that UNHCR evaluate the performance of the biometric registration procedures implemented in Jordan, with a view to concluding its work to provide a standard global system for the biometric identification and registration of refugees.

Resourcing of operations

31. Uncertainty over funding was a major challenge for country operations and, at times, constrained their ability to respond optimally to the needs of refugees. In

addition, complying with internal budgetary procedures imposed an administrative burden on staff managing activities and funding partner agreements.

32. In 2013, the Jordan country office's initial budget allocation was \$6 million, of which the programme operations budget was \$3.9 million, equivalent to two weeks' expenses, and limited the scale of the agreements concluded. By the end of February 2013, through four further allocations, an allocation of \$55 million (or almost 15 weeks' expenditure) was available, exceeding the actual expenditure incurred in 2012. This was considered sufficient, at that time, to allow the country office to cover programmes and commitments. The final allocation for Jordan operations (including staff and administrative allocations) was \$238.2 million.

33. The timing of the allocation and release of funds in 2013 reflected the extent to which UNHCR had received contributions from donors. UNHCR informed the Board that the country office could have committed funds for longer-term agreements had it requested this. In 2014, the High Commissioner has approved larger allocations of funding. The initial total allocation of \$123.8 million for the Syrian Arab Republic situation allowed the country operations to prioritize all lifesaving activities and to sign agreements for 12 months.

34. Uncertainty over the timing and late receipt of funding from donors can hamper the ability of UNHCR to respond optimally to assessed needs. UNHCR informed the Board that late receipts of contributions were often conditional upon the swift use of funds. As previously reported (see [A/66/5/Add.5](#), para. 22), late receipt and programming of funds can lead to a focus on activities on which UNHCR can spend funds quickly, such as supplementary cash payments to refugees and purchases of inventory, rather than making the most effective use of those funds. Refugees may not, for example, spend unexpected lump sum supplementary cash payments as wisely as they would spend cash provided evenly throughout the year. UNHCR informed the Board that all funding received in 2013 had been utilized against needs that had been identified, prioritized and programmed.

35. The difficulties of optimizing the use of funds received late in the year are exacerbated by the fact that the vast majority of UNHCR programmes and implementing partner agreements cover periods of 12 months or less, and there is therefore very little time to consider how best to expand activities in the limited time available. Allocating higher initial budgets will mitigate some risks of undue focus on short-term solutions, but UNHCR should also explore whether greater use could be made of agreements extending beyond 12 months. UNHCR would need to ensure that sufficient funding was available to support such longer-term agreements.

36. The Board recommends that UNHCR explore whether greater use could be made of partner agreements extending beyond 12 months.

37. UNHCR informed the Board that multi-year agreements without secured financial sponsorship would raise false expectations and pose greater risks and that it would further explore the recommendation only if donors committed to multiple-year funding to allow for planning and implementation beyond 12 months. The impediments to longer-term planning as cited by UNHCR are its annual budget cycle and the need to maintain flexibility.

Staffing of operations

38. UNHCR needs to respond quickly to crises as they arise, and has developed tailored procedures to meet emergency staffing requirements. In the first instance, the emergency staff roster identifies individuals available for a two-month rapid deployment. Should longer-term deployments be necessary, a six-month temporary assignment can be created and, if required, a one-year post can then be established through a fast-track appointment. These procedures are internal to UNHCR and are applied in full before consideration is given to other options such as the contracting-in of staff resources or specialist experts. The Board reviewed the time taken to fill posts under the fast-track system for one-year appointments between December 2012 and September 2013, and noted considerable delays in filling the initial set of vacancies.

39. Initially, the average period of time taken to fill posts under the fast-track system was almost six months (173 days), and UNHCR officials voiced some frustration at those delays. However, subsequent fast-track exercises were completed more rapidly, and the average period of time taken to fill posts fell to just under three months (77 days).

40. The Board recommends that UNHCR adopt more widely a flexible approach to emergency staffing, including the contracting of staff from other organizations and, when facing bottlenecks, outsourcing some or all recruitment processes.

41. UNHCR informed the Board that it agreed with the idea of a “flexible approach to emergency staffing” and noted that improvements had already been made over the past 10 years through expanded cooperation with non-governmental organizations and international non-governmental organizations as well as other United Nations agencies to achieve the highest possible flexibility in rapidly responding to staffing needs in emergencies. In recent years, the number of staff deployed through arrangements with the United Nations Office for Project Services and the United Nations Volunteers headquarters in Bonn, Germany, has increased exponentially. At the beginning of 2014, UNHCR has set up a new Talent Outreach and Acquisition Section in Budapest, which is responsible for establishing useful pipelines of external candidates for short-term and regular staffing needs, particularly in the time frame required. UNHCR already has a framework agreement with a private recruitment company that is assisting with the screening and shortlisting of external candidates, in particular for certain functions with respect to which UNHCR lacks in-house capacity. Further improvement will be pursued as appropriate.

Governance structures*Regional coordination*

42. Until July 2013, there were two regional bureaux coordinating the UNHCR response to the Syrian Arab Republic situation: the Bureau for Europe, which managed operations in Turkey, and the Middle East and North Africa Bureau, which managed other country operations. This arrangement hampered coordination, as UNHCR Turkey was not always aware of ongoing developments and communications. In order to improve and streamline oversight of all activities, the High Commissioner combined the role of the Regional Refugee Coordinator with

the Middle East and North Africa Bureau so that all six UNHCR country operations reported through a single governance structure. At the same time, it was decided that the Director of the Middle East and North Africa Bureau would be relocated from Geneva to Amman and that additional posts would be created to provide operational support.

43. The Director's Office in Amman provides a regional focus on the Syrian Arab Republic situation and had a budget of \$12.4 million for 2014. The office provides support for country operations and the management of relationships with partners and agencies and high-level relationships with the United Nations and other forums relevant to the region. At the time of the audit visit in January 2014, the office had been operational for only six months and it was too early to assess the benefits of the new arrangements. However, UNHCR has already identified significant contributions in the following areas:

- Applying standard approaches to data collection and presentation
- Prioritizing appeal bids for resources according to whether programmes are regarded as (a) lifesaving, (b) preventing an increase in vulnerability or (c) capacity-building
- The Regional Office assumed responsibility for managing the regional strategic stockpile of core relief items, including stocks earmarked for different country operations
- Improving liaison between UNHCR and other agencies at the regional level to maintain a clear division of roles between agencies, and maintaining the leadership role of UNHCR with respect to refugees
- Organizing inter-country learning and training events, where coordination extends the breadth of learning and the sharing of experience
- Providing staff to cover short-term vacancies in country operations, for example, a senior supply post in Lebanon.

44. This is the first time that UNHCR has relocated a regional bureau to the field.

45. **The Board recommends that UNHCR evaluate the costs and benefits of basing the regional bureau in Amman to determine whether any lessons can be learned for existing or future operations.**

Regional response plans

46. In March 2012, UNHCR, as lead agency, published the first regional response plan appealing for funds. Launched in December 2013, regional response plan 6 is the latest appeal and seeks \$4.2 billion in funding, including \$1.3 billion in relation to UNHCR. Since 2012, the plan has evolved into a more coordinated appeal, with all partners using the same refugee data and recognizing five strategic objectives (see box below).

Strategic objectives of regional response plan 6

- Up to 4.1 million refugee women, girls, boys and men fleeing the Syrian conflict have equitable access to effective protection, including access to territory
- The most vulnerable among the 660,000 refugees accommodated in organized refugee settlements, and up to 3,440,000 residing in private accommodation or settlements benefit from improved essential services
- The most vulnerable host communities benefit from improved access to quality essential services and access to livelihood opportunities, thereby ensuring that an increased number of refugees benefit from community-based protection
- The targeting and planning of long-term national aid programmes is informed by structured dialogue and the timely provision of quality inter-agency assessment information on refugees and host communities
- Up to 4.1 million refugees will benefit from the early planning for longer-term durable solutions strategy in accordance with international law

47. As noted, priority funding has been agreed upon for three areas of activity: lifesaving; preventing an increase in vulnerability; and capacity-building. On reviewing the application of those categories, it was evident that some partner agencies defined the majority, or even all of their funding bids, as “lifesaving”, although the underlying projects, such as teacher training, was not consistent with this category. A review of the sector requirements by category reveals that food has the highest proportion of funding for lifesaving activities, at 42 per cent, followed by education, at 37 per cent, and health, at 33 per cent. To encourage consistency in the classification and priority of funding, UNHCR should clarify the criteria to be applied to lifesaving activities and challenge activities that do not appear to be appropriately classified.

48. Each UNHCR country office develops country needs assessments and activities in line with central guidance. In Jordan, the country office is using an online tool called ActivityInfo to coordinate the activities of UNHCR, its partners and other agencies. This locally procured tool maps activities geographically against refugee location data. Reports identify where funding has been targeted, including by subgroup of the population, for example, women and children, and can be used to confirm that planned activities in any area are proportionate to the numbers of the refugees concerned. It therefore allows for the identification and eradication of duplicate or overlapping activities.

49. Partner organizations can also gain access to, update and review the information in ActivityInfo in real time to identify duplication of or gaps in activities prior to identifying needs and proposing interventions. This has proved particularly valuable in coordinating the activities of partners outside UNHCR that are implementing their own donor-funded programmes within the regional response plan. ActivityInfo is the key tool for ongoing monitoring and monthly performance

reporting, and partners are able to report against key performance indicators and planned activities in real time. The tool has also been useful in planning key aspects of the operation such as winterization, with respect to which it was used to ensure that all areas were appropriately covered by the wide network of partner organizations.

50. In view of the success of the initiative in the Syrian Arab Republic, the Board recommends that UNHCR explore the scope for wider use of online geographical information system such as ActivityInfo.

Shifting towards cash assistance

51. Cash assistance is an increasingly important component of material assistance in both humanitarian and development work. Compared with the bulk purchase and supply of commodities, advantages of cash payments can include:

- Quicker and cheaper delivery of assistance
- A closer “fit” with recipients’ needs
- Stimulation of host community economies
- Enhancing the dignity and independence of recipients by allowing them to exercise choices to good effect.

52. The limitations of traditional supply models are evident in refugee-hosting areas. Refugees routinely sell unwanted United Nations-supplied commodities at a fraction of their cost. During its visits, the Board observed many UNHCR “resold” tents and other items such as heaters being openly carried out of camps towards host communities. In countries with well-developed banking and retailing systems, there are clear opportunities to deploy cash assistance programmes. During the audit in Jordan, the Board observed the operation of the UNHCR cash programme for particularly vulnerable urban refugees (spending \$48.1 million in 2013) and the World Food Programme (WFP) voucher scheme supporting food purchases.

53. UNHCR Jordan’s cash programme is budgeted to grow to \$55.7 million in 2014 and is its most important way of reaching non-camp refugees (who numbered some 576,000 in Jordan at the end of 2013). The country operation has detailed arrangements for targeting the most needy refugee households with cash support and for monitoring any changes in circumstances. In addition, by linking biometric readers to bank cash machines, UNHCR ensures that payments are collected only by the intended beneficiary and that payments cease for any refugees who leave the country. Reported transaction costs, at 1 per cent of payment value, are low. UNHCR is rolling out a similar cash programme in Lebanon.

54. UNHCR camp managers were aware of the advantages of shifting from support in-kind to cash grants and had a role of coordinating the work of agencies within camps. At the same time, there were significant gaps in the use of cash support by other agencies in Za’atari camp. Although WFP allows its vouchers to be used for food purchases, the scheme does not cover cleaning and sanitation items. There is therefore evident scope to integrate water, sanitation and hygiene commodities support into the WFP voucher system or a similar system.

55. UNHCR Jordan has accumulated substantial management information on the operation of its cash scheme, including data gathered during home visits. However, the information has not yet been used to evaluate the impact and cost-effectiveness of cash programmes. It is particularly important that there be an examination of the role of cash support within total household budgets, and of the extent to which households allocate cash to food, education, health or other priorities.

56. The Board, given the major scale of the UNHCR Jordan cash programme and the plans to expand it to other countries, recommends that UNHCR commission an independent expert evaluation of the programme, with the aim of reporting before the end of 2014.

57. UNHCR informed the Board that in early 2014 it had established a Cash-Based Intervention Unit. The Unit has started working on evaluating and providing technical advice on cash-based incentive programmes, focusing primarily on the Syrian Arab Republic operations.

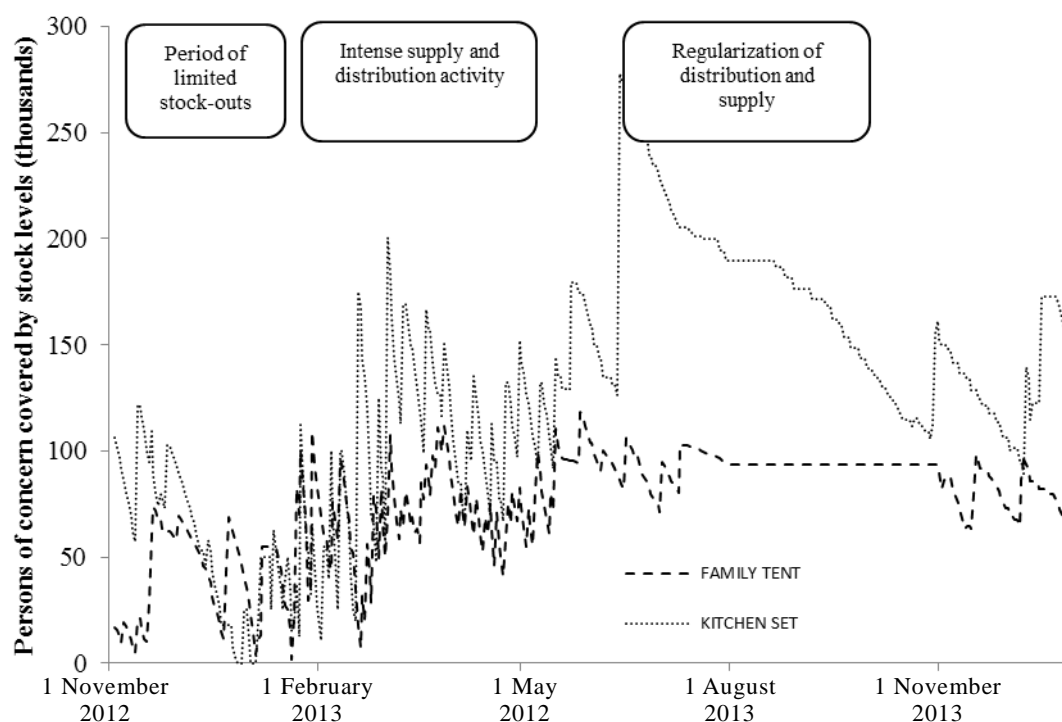
Supply management

Maintaining continuity of supply

58. In 2013, UNHCR distributed 22.1 million items, costing \$233 million and reflecting an increase in volume of more than 400 per cent compared with 2012. Core relief items distributed by UNHCR included tents, kitchen sets, blankets and other materials essential to meet the basic needs of arriving refugees. The examination was focused on supply operations in Jordan, including the management of the Office's regional stockpile.

59. With few exceptions, the supply systems for the Jordan operations performed well in meeting the challenge of a massive and sudden influx of refugees in the winter of 2012/13. Although there were occasional localized stock-outs of core relief items, such as blankets, buckets and kitchen sets (see figure II.I), these occurred only at the peak of the refugee influx during January and February 2013, during a period of intense activity. It is likely that some rationing of material items occurred during these periods, but all stock-outs were addressed within three days at most. As from April 2013, no further stock-outs were recorded and stock levels were more consistent.

Figure II.I
Inventory holdings of selected inventory items



Source: Board analysis of management systems renewal project inventory data.

60. In early 2014, stock levels held by country offices in the region reached their highest level since the start of the Syrian crisis. In part, this reflected purchases prompted by the arrival of unexpected funding in late 2013. On the basis of the UNHCR estimate of new refugee arrivals and replenishment of supplies to current refugees, more than a two-year supply of some stock lines was held at the time of audit. For example, total stocks of jerry cans and plastic tarpaulins held in the Iraq, Jordan, Lebanon and Syrian Arab Republic country operations were sufficient for 1.25 million people, or a 240-day supply (using the Office's assumption of 5,000 daily arrivals). Country offices can also gain access to additional stocks within six days through the global stockpiles in Dubai and Amman, but those stocks are excluded from the analysis. High stock levels are costly to maintain and require the investment of funds that UNHCR could use elsewhere or to respond to the changing needs of refugees.

61. **The Board recommends that, in order to avoid overstocking and preserve flexibility, UNHCR regularly review stocks held at global and local warehouses to confirm that levels remain appropriate.**

62. UNHCR informed the Board that it monitored worldwide stock each quarter for holdings in excess of a year's usage and took action to reduce excess stock in coordination with the regions and country operations affected.

Winterization

63. Although the UNHCR Jordan operation considered the winter needs of refugees as early as July 2013, procurement actions did not start until mid-October, and as a result many key items were not available in November when needed. The Jordan operation procurement officers assumed a 30-day lead time for delivery, but at the time of the audit the average delivery time was more than 60 days. The Board was informed that this was due to the high number of orders placed by UNHCR worldwide. Suppliers of high thermal blankets, for example, did not have sufficient capacity to meet demand without delaying delivery times. The region was also affected by uncharacteristically high snowfall in early December 2013, and many winter items for Lebanon and Turkey remained undelivered or undistributed in February 2014. In order to meet refugee needs, this led, for example, to UNHCR Lebanon substituting two medium thermal blankets for one high thermal blanket, at an increased cost of 27 per cent.

64. To avoid a recurrence of the difficulties experienced in the winter of 2013, procurement plans for 2014 should take full account of the lessons learned and assumptions regarding procurement lead times should be updated.

Warehousing

65. UNHCR quickly established regional warehouse facilities in Amman in response to the rapid refugee inflows. Although designated as a strategic stockpile by 2011, the regional facilities in Jordan provide low levels of quality and operability and comprise nine separate buildings located around a customs-free zone. The facilities lack adequate access for stock movements and have substandard flooring. Few warehouses contain racking to increase the height of storage, and as a result the estate makes poor use of the available volume, despite the fact that it extends across some 10,380 square metres of floor space. Limited mechanization requires the time-consuming manual loading and unloading of consignments. Local UNHCR staff estimated that better stacking and automation could double daily movement capacity, increasing emergency responsiveness.

66. At the time of the Board's visit in early 2014, UNHCR had already recognized the need for change and was contracting for the construction of a new, 12,600-square-metre facility on a single site, also containing vertical racking to achieve more usable storage volume. The change should prove cost-effective as long as the increased volume is well used. Given the likelihood of a gradual shift in assistance in Jordan and Lebanon away from the direct supply of commodities and towards more cash assistance to refugees, the warehousing requirements will need to be kept under review.

C. Provision of health services

Key facts

6.1 million	Refugees given access to health services
2	Average consultations per refugee per year at centres monitored by UNHCR health systems
\$171 million	Spent on public health and reproductive services in 2013

Context

67. Under the 1951 Convention relating to the Status of Refugees, refugees should enjoy access to health services equivalent to that of the host population. UNHCR considers it important to support the provision of health services and, in 2013, spent \$171 million globally on health services, its third-largest sector, after shelter and domestic items. The largest amounts were spent on primary health care and drugs, delivered to minimize illness and mortality. This high level of activity reflected responses to several simultaneous major humanitarian crises, in addition to continued care for longer-standing populations of concern.

68. UNHCR seeks to ensure that prevention, care and treatment meet international standards. It promotes joint provision with host government health services where possible, working to ensure that refugees outside camps can freely gain access to government services and allowing host communities to gain access to services provided to refugees in camps. In 2013, UNHCR provided access to health care for 6.1 million refugees. On average, refugees obtain two consultations each per year, although uptake is much greater for pregnant women, mothers and infants and lower for adult males.¹ UNHCR delivers health care largely by supporting health services delivered by its implementing partners, primarily national and international non-governmental organizations.

Scope of work

69. UNHCR has invested in improvements to enhance its management arrangements for the delivery of health services to displaced populations. The Board's examination spanned 2012 and 2013, examining UNHCR health programme work at its headquarters in Geneva and country health programmes in Côte d'Ivoire, Ethiopia, Jordan, South Sudan and Uganda. The approach included the review of UNHCR and implementing partner documentation and management information, interviews with medical practitioners and UNHCR officials, and observation at health facilities in camps and urban settings.

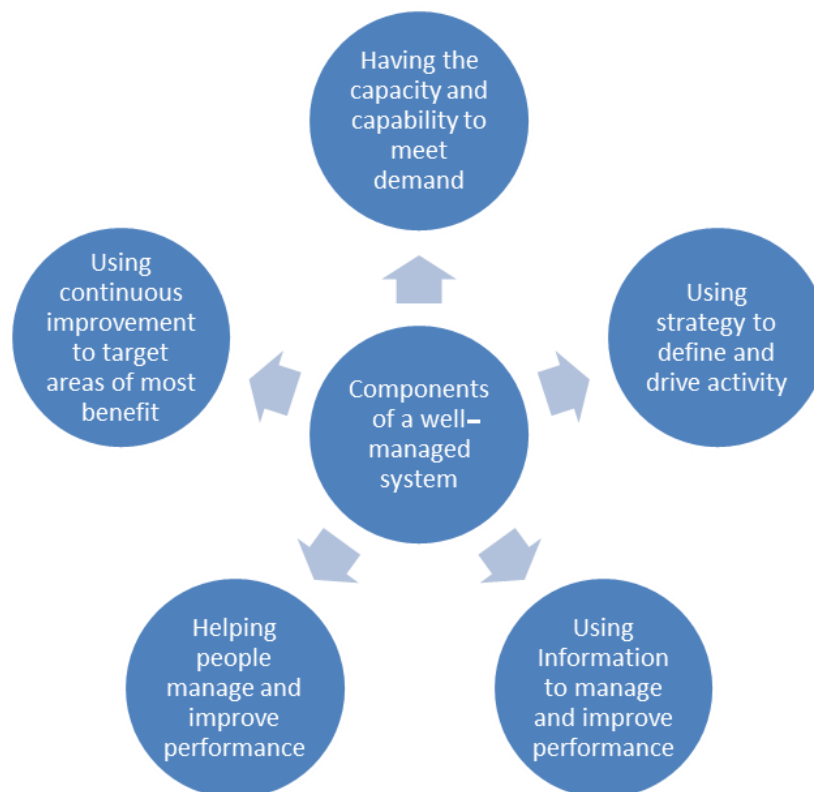
70. Consistently high levels of service provision were evident in each of the camps visited, especially in terms of treatment, as well as good levels of clinical staffing and medical supplies in most of the locations visited. Generally low levels of

¹ Based on ratios for the 21 countries with Twine system data.

disease, morbidity and mortality were reported, and the Board concluded that health services were effective given the challenging environments in which UNHCR operated. Against this background, the audit identified areas of improvement for UNHCR to consider. They are focused on health programme activities but may be applicable to other front-line delivery sectors such as education and shelter. Figure II.II sets out some of the key components of a well-managed service.

Figure II.II

Key components of a well-managed service



Source: Board of Auditors.

Having the capacity and the capability to meet demand

71. In the countries visited, UNHCR health programmes were focused overwhelmingly on treatment, with some health facilities under acute pressure as a result of very high patient numbers. There was limited application of cost-effective preventive measures to help reduce that pressure. In Uganda, where the principal health burden at settlements was malaria, UNHCR had participated in the Nothing But Nets mass distribution campaign in 2009/10, funded by the United Nations Foundation. However, by 2012 net ownership had dropped to 15 per cent in Nakivale and to 29 per cent in Rwamwanja, with utilization rates lower still. These levels are far too low to interdict malaria transmission effectively.

72. Lack of awareness of health issues can limit the effectiveness of preventive interventions. In South Sudan and Uganda, mosquito nets had been sold or used for other purposes such as fishing, owing to low levels of awareness of their

importance. UNHCR has supported health awareness campaigns and distributes nets to new arrivals and to pregnant women during antenatal sessions, but initial education and follow-up of recipients to sustain net use appear to have been insufficient.

Achieving a good cross-sectoral response

73. Improving outcomes for the major health diseases often requires a cross-sectoral response, bringing together public health, HIV/AIDS, nutrition, and water, sanitation and hygiene services. A shortage of clean water and poor sanitation explained the high prevalence of diarrhoea cases in South Sudan and Uganda. Collaboration between staff in the public health sector and those in the water, sanitation and hygiene sector in coordinating volunteer health team activities in both countries was evident. The Twine system² provides valuable information across the aforementioned sectors that can be used to design more holistic interventions.

Using health information to focus strategies and programmes on the main burdens of disease

74. Scope exists to better direct resources and focus strategy and monitoring towards the main burdens of disease. Strategies and reporting at country offices were focused predominantly on UNHCR global priorities such as HIV/AIDS, rather than on the main causes of mortality, morbidity and patient demand. There were examples in which this had had an impact on decisions about where to invest resources.

75. In South Sudan, the top three causes of refugee morbidity in 2013 were respiratory tract infections (33 per cent), malaria (12 per cent) and diarrhoea (12 per cent). Monthly and biannual narrative reports from implementing partners included varying amounts of detail, in terms of both the narrative and the number of impact indicators reported for health. Only one implementing partner referred to the main disease burdens, and of the 18 indicators used to report performance, only 1 was a specific malaria output. Similarly, in Uganda the draft strategic plan for 2013-2017 for public health, reproductive health, HIV/AIDS and water, sanitation and hygiene contained only one reference to malaria. Interventions and reporting were focused on global priorities, including HIV/AIDS, which was not a significant cause of mortality and morbidity in the settlements visited.

76. The Board recommends that UNHCR revise its planning guidance to: (a) require country offices to explicitly refer to the main burdens of disease when bidding for health programme resources; and (b) remind country offices of their discretion to use non-global priority indicators to monitor country-specific health issues.

² An information system producing standardized data on public health, HIV/AIDS, nutrition and water, sanitation and hygiene services across UNHCR operations.

Using information to manage and improve performance

Understanding the health needs of populations of concern

77. Appropriate and timely management information is key to the efficient delivery of public services. The Board's review was focused on the public health information system within Twine, which is used largely in refugee camp/settlement settings. This brings together data on the volume of patient consultations and treatments by type and level of reported death or disease, and highlights adverse trends. Twine was actively used in the field and supported weekly and monthly reporting between UNHCR and its partners. UNHCR is making further advances by developing an urban health information system in order to better understand and manage the particular needs of urban refugee populations.

78. Following several years of development, Twine now contains a valuable store of data, and the main challenge is to extend and enhance its application, particularly through enhanced aids to interpretation. For example, although the system flags adverse variances from UNHCR standards, it provides limited functionality for users to provide explanations, using either standard categories or free text. Common reasons for an upward trend in disease could include influxes of new refugees, seasonal factors in prevalence, shortfalls in prevention or treatment measures, or underfunding. Better interpretation and explanations would enhance the usefulness of the information already collected and help to inform decision-making.

79. In addition, Twine makes no reference to the cost of health services. While the system must focus on health needs, services and outcomes, it is also necessary to interpret the performance of any services in the context of the resources consumed and costs incurred. While UNHCR plans to use its results-based management system (Focus) to link costs and outcomes in each of its business sectors, Twine does not currently show whether, for example, the camps with worse health outcomes are those with lower resources. Furthermore, Twine is used mainly by health and other sector specialists rather than by UNHCR officers who control programme budgets. The absence of resource data in service management information systems perpetuates a silo mentality.

80. The Board recommends that UNHCR deepen its annual fact-sheet summaries for public health, reproductive health and water, sanitation and hygiene, to identify the relationship between health indicators and health resources consumed, twice yearly and at the camp level.

81. The health data in Twine relates to those patients received into UNHCR-supported health facilities. Not all displaced people have access to formal health facilities, often for reasons of distance, inaccessibility or lack of knowledge and low levels of health education. In Uganda, poor health-seeking behaviour is a particular concern with regard to Congolese refugees. In the camps and settlements visited, UNHCR is increasingly training and supporting volunteer health workers to reach out to the refugee community. Volunteers promote health and water, sanitation and hygiene activities, help treat simple illnesses at home and refer those who are sick to the health centre. Health workers report periodically unmet health needs, although the Board found no equivalent in the UNHCR context to a demographic health survey that assesses the state of health of a total population.

82. In non-camp settings, it is difficult to collect information on the health needs of refugees who gain access to government health care, as ministry information

systems typically do not distinguish between refugees and host populations. UNHCR is piloting a surveillance tool in Kuala Lumpur and Lebanon in order to understand the health experiences of refugees who gain access to government services.

83. In order to understand the experiences of refugees who are not using UNHCR health facilities and devise appropriate interventions, the Board recommends that UNHCR evaluate the performance of the surveillance tool pilot schemes in Kuala Lumpur and Lebanon and consider the wider application across its network, if applicable.

Applying recognized techniques in cost-effectiveness

84. UNHCR decisions on resource allocation at headquarters and at the country level are not well informed by cost-effectiveness criteria. Benchmarks established by such organizations as the World Health Organization and the National Institute for Health and Care Excellence of the United Kingdom of Great Britain and Northern Ireland can indicate the relative levels of health benefit, in terms of reduced burdens of disease, to be expected from investment in the main health interventions in developing countries.

85. Furthermore, cost-effectiveness data needs to be accompanied by the consideration of local epidemiology, the availability of appropriate resources and expected efficiency in delivery. In the two settlements visited in Uganda, malaria constituted the principal health burden in terms of morbidity and mortality, and a range of prevention measures were under consideration. At the Rwamwanja settlement, UNHCR was giving consideration to indoor residual spraying, in preference to further distribution of bed nets. Published data indicate that spraying is typically less cost-effective and technically and logistically more complex than the distribution of nets, and management subsequently rejected the option.

86. The Board recommends that UNHCR issue central guidance to country teams on cost-effectiveness criteria in health services as an aid to decision-making and resource allocation in health programmes.

Referrals and high-value cases

87. A focus on cost-effectiveness could also help inform the handling of referral cases when resources are constrained. The mandate of UNHCR is to provide, at the very least, primary health care to refugees, but in many countries UNHCR faces pressure to divert resources away from primary health services and towards relatively few applications for high-cost secondary and tertiary care. UNHCR operates a system of referrals from camps to government or private hospitals at the county or state level. When deciding on referrals, camp doctors should take into account UNHCR standard operating procedures and criteria for referral.

88. In Côte d'Ivoire, Ethiopia, South Sudan and Uganda, UNHCR does not routinely collect information on the number and cost of referrals to secondary or tertiary care. Where such information was collected, however, the cost of referrals was increasing, in total and as a proportion of health budgets. Extreme variations in referral rates were found, even between adjacent camps, calling into question the consistency of decision-making at the camp level and meriting further investigation. The Board also found variation as to whether cases exceeding a certain cost

threshold had to be referred to UNHCR. In Côte d'Ivoire, Ethiopia, Jordan and Uganda, thresholds were used to determine which cases were referred to UNHCR, but in South Sudan they were not.

89. Guidelines from Headquarters promote the use of a referral committee to ensure the fair and equitable distribution of resources, and to ensure that decisions are pursued in a rational and standardized manner on the basis of clear guidelines outlined prior to the evaluation of the case. Despite this guidance, referral committees were not routinely used. UNHCR health staff and implementing partner doctors found it challenging to decide which complex cases to support, and some applications, awaiting approval, had been delayed. However, good practice was observed in Jordan, where the referral committee was working well and included appropriate expertise to review the cases. UNHCR Jordan had comprehensive information on the numbers and costs of cases approved/rejected/pending, the nationalities of applicants and the top five disease categories. Implementing partners reported that decisions were consistent and fair.

90. In many countries, UNHCR also supports the costs of the medical referral centres in the capital cities in which patients stay while they are receiving treatment. Each patient is normally accompanied by one family "carer", but in Ethiopia UNHCR was supporting wider family groups. There was huge variation in the length of time refugees stayed in the referral centres, with some refugees being supported in the medical centres for years. UNHCR Ethiopia management was addressing the problem through the committee-based reconsideration of referrals to the capital, with some being returned to camp-based care.

91. The Board recommends that UNHCR refine its standard operating policies for referrals, requiring country offices to:

- (a) Include, in the monthly reporting framework for implementing partners, referral numbers and costs to both secondary and tertiary level care;**
- (b) Monitor variation in local referral rates and investigate where there are adverse trends or anomalous results;**
- (c) Require partners to seek approval from UNHCR for cases exceeding a certain monetary threshold;**
- (d) Use referral committees to provide consistent and transparent decisions regarding which high-value cases should be supported.**

Helping staff manage and improve performance

92. Staffing represents the majority of costs in most UNHCR health operations, but there were examples in which staffing levels were disproportionate to the size of the refugee population concerned. For example, in Ethiopia UNHCR was operating camps of greatly uneven size. In the Tigray Region, the number of refugees housed at Shimelba camp had fallen below 6,000. Conversely, Adi Harush housed some 26,000 refugees. However, at each camp the Government's Administration for Refugee and Returnee Affairs was pursuing a common staff complement of 19 professional health workers. As a result, the annual cost of health workers per refugee varied from some \$20 to \$4 between camps. The diseconomies of operating small camps extend beyond health, but have an impact on this sector in particular because of the high fixed cost of operating a fully staffed clinic.

93. **The Board recommends that UNHCR work towards more consistent utilization levels per health worker across its camps, through an appropriate mix of:**

(a) **Considering the selective redeployment of some health worker posts between smaller and larger camps, as appropriate, and beyond health management;**

(b) **Directing new intakes of refugees to existing underutilized camps;**

(c) **Camp consolidation, working with national authorities to close smaller camps that would not be economical to sustain in the long term.**

94. In the countries visited in which UNHCR had invested in technical specialists, implementing partners considered that the coordination of activities at the country and camp levels had improved significantly. Technical specialists can provide continuity, seniority and a platform on which to build more continuous influence. Jordan and South Sudan had relied on emergency deployments and secondments to support the increasing activities during 2012 and 2013. Of the 10 health/nutrition/water, sanitation and hygiene staff working in UNHCR South Sudan at the time of the audit visit, 3 were United Nations Volunteers and 6 had been seconded from an implementing partner. While this had allowed the office to respond flexibly to the needs of beneficiaries, longer-term reliance on such arrangements poses a risk to the continuity of knowledge and delivery.

95. UNHCR currently has no corporate guidelines with respect to the ideal number of technical specialists who should be in place relative to the size or complexity of the country health programme. In its recent report on technical specialists,³ OIOS found that additional guidelines were required for supporting the deployment of technical specialists in the field and the use of an affiliated workforce for such functions. It found that there was a need to develop a risk-based model for the deployment of technical specialists to operations on the basis of the needs of populations of concern.

96. The Board endorses the OIOS recommendations that the UNHCR Division of Programme Support and Management: develop a risk-based model for deploying technical specialists to field operations; and review and revise the existing guidelines on the deployment of technical specialists. The Division should consider the extent to which UNHCR requires a core capacity of technical specialist staff positions to ensure continuity in delivering technical expertise.

Using continuous improvement to target areas of most benefit

97. UNHCR has piloted a health scorecard system in several countries in order to better understand the standard of the health services it is supporting and the scope for improvement. This has been a positive innovation, especially where UNHCR staff have completed the balanced scorecard jointly with implementing partners. In the countries visited in which balanced scorecards had been piloted, health facilities had, in general, received low scores. While low levels of capability may be revealed early in the introduction of any structured assessment system, action to address areas of poor performance had been inconsistent.

³ Audit report 2013/095, 18 November 2013, recommendations 2 and 4.

98. The Board recommends that UNHCR consider the wider application of its health scorecard system across the country network. It should ensure that, for each health centre where it uses the balanced scorecard, it develops, jointly with the implementing partner, an action plan to address areas of improvement and follow up at regular intervals to ensure that progress is being made. It should report against the balanced scorecard results in the biannual performance report and use the results in selecting which health implementing partners to work with.

D. Implementing partners

Key facts

1,550	Agreements with 947 implementing partners
\$1,069 million	Spent by UNHCR through partners
1,000	Independent external audits performed on partners

Background

99. In 2013, 40 per cent (\$1,069 million) of UNHCR expenses were incurred through 1,550 implementing partner agreements. Partnerships remain the Office's preferred mode of delivery for field operations and facilitate the swift and flexible deployment of resources, allowing UNHCR to maintain lower staffing levels and reduce its direct overhead. However, the use of partners brings with it the requirement to establish adequate control over their activities to ensure that funds are used effectively for the purposes intended.

Choice of delivery model

100. Partner agreements can be relatively simple and quick to conclude, but need to be used appropriately. In this respect, the Board's review of implementing partner agreements in 2013 identified some that appeared to be questionable. For example, agreements for logistics services totalling \$37.4 million could have been met through a commercial competitive contract. Although UNHCR acknowledges the need to remain watchful for such cases and had already identified some inappropriate agreements, management needs to emphasize the importance of using implementing partner agreements only for specified purposes. There are, however, certain emergency situations in which it is not always possible to use normal competitive procedures. For example, in some locations no commercial providers are present and using implementing partners is the only viable option open to UNHCR.

101. The Board recommends that UNHCR issue updated guidance to clarify the circumstances in which implementing partner agreements are unsuitable and commercial procurement may be more appropriate.

Selection of implementing partners

102. In 2013, UNHCR issued revised policies and procedures for selecting implementing partners' through implementing partner management committees, which oversee and document the selection process. By March 2014, 101 of the 123 country offices and headquarters units using partnership agreements had established such committees. Although it was too early to assess the impact of implementing partner management committees, the Board noted that such committees were operational in Ethiopia and South Sudan, providing advice to country representatives, and the committee in Ethiopia was credited with assisting UNHCR in engaging more non-governmental organization partners.

103. Due diligence procedures for the pre-selection of partners are based on implementing partners own declarations of their commitment to UNHCR core values. The procedures adopted are not as rigorous as, for example, vendor registration, in which key management personnel and company reference checks are carried out prior to the registration of the vendor. In addition, there is little evidence that UNHCR uses intelligence held by others, such as United Nations agencies, development banks or partners, to inform their assessment of potential partners. In particular, there is currently no mechanism in place for the sharing of information on partners whose performance has been unacceptable.

104. The development of a web-based partner portal has been commissioned to allow UNHCR staff to share knowledge and experience with respect to working with partners in various countries to support decisions regarding partner selection and project monitoring. Such a tool could be used to improve information-sharing with other United Nations agencies and the wider humanitarian and development community as appropriate.

105. The Board, in order to strengthen the implementing partner selection process, recommends that UNHCR:

- (a) Enhance its due diligence procedures with regard to the initial vetting of partners to include reference checks where appropriate;**
- (b) In consultation with other United Nations agencies and the wider humanitarian community, develop mechanisms to share intelligence on implementing partners.**

106. UNHCR informed the Board that the self-declaration of partners was only the initial step in the vendor registration process and that it was willing to participate in a United Nations-wide sharing of information on partners, but considered that it did not possess the mandate or the resources to lead such an initiative.

Monitoring implementing partner activities

107. UNHCR has a regime of monitoring and verification work to provide assurance as to the work of implementing partners, which includes:

- Submission of quarterly reports to UNHCR for review
- Verification visits to inspect implementing partner records and to verify reported progress
- Independent external audit and certification of expenditure reports submitted by implementing partners.

108. In order to confirm the operation of these controls in 2013, the Board examined quarterly reports for 20 partners and reviewed verification work performed in the offices visited. The quality of the reports examined from Headquarters was variable. In some cases, it was evident that thorough verification work had been performed; in others, there were gaps in the coverage. This was consistent with the Board's findings in the field, where verification in Jordan met a high standard, whereas weaknesses were identified in Ethiopia and South Sudan.

109. Until July 2013, staff in Ethiopia and South Sudan were not adequately qualified or trained to carry out effective verification work. While this was rectified when vacant project control officer posts were filled, five other countries, managing implementing partner programmes amounting to \$182 million, also lacked staff qualified to carry out verification work.

110. UNHCR agrees that its verification procedures require strengthening and plans to introduce a revised approach that will tailor such work to the assessed complexity and risk of the activity. The new procedures are crucial to the effective management and control of partners and will be introduced in 2015. In its future work, the Board will continue to monitor the adequacy of controls over implementing partners.

111. The current weaknesses may expose UNHCR to the risk that fraud or error by partners will remain undetected. Under current arrangements, verification work carried out in a high-risk environment is unlikely to differ significantly from that carried out in a low-risk environment. In this regard, the Board notes that failures in the operation of basic monitoring and verification controls contributed to a number of implementing partner fraud losses under investigation in 2014 (e.g., in Afghanistan).

Audit certificates

112. Independent assurance provided by external audits of implementing partner accounting records is a key element of the UNHCR monitoring and control regime. More than 1,000 external audit reports are received each year, and by the end of June 2014 UNHCR had received 918 audit certificates, covering 92 per cent of those required for the 2013 audit cycle. These covered 91 per cent of implementing partner expenses in 2013. UNHCR analysis revealed that 74 projects had qualified opinions, with a total financial impact of \$3.84 million. The Board reviewed the qualified audit reports and was satisfied that the Office's analysis of these was robust. Given the likely level of error in the remaining modified opinions, the Board concluded that the total of reported errors was not material.

Counter-fraud measures

113. In view of the importance of the issue, the Board has examined the response of UNHCR to previous observations regarding the need to strengthen counter-fraud measures (for responses to individual prior-year recommendations on fraud-related issues, see annex II). The Board is also aware of other United Nations entities that have suffered significant losses owing to fraud, and reports elsewhere on a high-profile case (see [A/69/5 \(Vol. I\)](#)). As UNHCR operates in the same high-risk environments in which others have suffered fraud losses, is heavily dependent on implementing partners and is currently investigating significant losses due to implementing partner irregularities, it is essential that fraud risks be assessed and that strong counter-fraud measures be put in place.

114. Although UNHCR has taken action to update its counter-fraud measures, including issuing updated counter-fraud and anti-money-laundering policies and developing plans to conduct fraud risk assessments, the pace of progress is slow and the measures taken fall short of what is required. Reported levels of fraud remain remarkably low compared with total expenses, and in 2013 only minor internal frauds committed by staff members were identified.

115. There is a general lack of awareness of external fraud risk in UNHCR, limited staff training on the subject, and a lack of urgency in driving improvements to counter-fraud measures. Responsibility for tackling this issue has not yet been assigned to an individual senior responsible officer, and the Inspector General's Office remains underresourced to tackle fraud in a proactive, timely and comprehensive manner. The organization's response to fraud and corruption risks lags well behind that of many donors and major non-governmental organizations.

116. The Board strongly encourages UNHCR to take concerted and urgent action to implement a comprehensive counter-fraud strategy. The elements of such an approach would typically include measures to deter, prevent, detect and respond effectively to fraud. Developing a strong and resilient counter-fraud culture across the organization will require strong leadership and dedicated resources.

E. Disclosures by management

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

117. UNHCR reported that it had formally written off assets of \$8.6 million (2012: \$19.2 million). This balance included \$8.4 million in unpaid donor contributions and \$118,000 in other current assets, as disclosed in note 10 to the financial statements. In addition, \$468,000 in inventory assets were written off.

2. Ex gratia payments

118. UNHCR reported that it had accrued for two ex gratia payments in 2013, as authorized by the High Commissioner in January 2014, totalling \$165,000 (2012: one totalling \$5,000). This corresponds with the Board's review of UNHCR financial and management records, which have not identified any other such payments during the 2013 financial year.

3. Cases of fraud and presumptive fraud

119. UNHCR reported 16 cases of proven financial fraud in 2013, resulting in financial losses of between \$15,000 and \$261,000 (2012: two cases accounting for losses of between \$189,240 and \$224,000). All these frauds were committed by staff members and involved embezzlement, medical insurance fraud, misuse of assets, non-compliance with administrative instruction and theft. No criminal prosecutions against the individuals concerned were brought by UNHCR in respect of the frauds committed.

F. Acknowledgement

120. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner, the Deputy and Assistant High Commissioners, the Controller and members of their staffs.

(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
(Lead Auditor)

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

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

30 June 2014

Annex I

Mandate, scope and methodology

The Board of Auditors has audited the financial statements of UNHCR and has reviewed its operations for the financial period ended 31 December 2013 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner for Refugees and, where applicable, the Financial Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNHCR as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner for Refugees. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNHCR operations under United Nations financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. This year, the Board reports on the Office's delivery of health services, its work in relation to the Syrian Arab Republic situation and its management of implementing partners.

During the course of the audit, the Board visited UNHCR headquarters in Geneva and Budapest and examined field operations in Ethiopia, Jordan, South Sudan and Turkey. The Board continued to work collaboratively with the Office of Internal Oversight Services to provide coordinated coverage.

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 report was discussed with UNHCR management, whose views have been appropriately reflected.

Annex II

Status of implementation of recommendations

1. As at 31 March 2014, of the 65 open recommendations made for 2012 and previous years, 4 (6 per cent) had not been implemented, 18 (28 per cent) remained under implementation and 43 (66 per cent) had been either implemented or superseded.

Recommendations not implemented

2. UNHCR has made little progress on improving counter-fraud measures. Comprehensive fraud risk assessments have not been performed, risk tolerance is not defined for fraud, and fraud risk assessments on implementing partners have not been carried out.

3. With respect to supplier performance, UNHCR informed the Board of its intention to analyse the performance of its top global framework suppliers before 2016. The Board considers that UNHCR should free up management capacity before then to undertake this work. As for the requirement to market-test key locally procured services on specific cycles, the Office's response does not address the recommendation, as the Procurement Manual does not specify the need to market-test periodically.

Recommendations partially implemented

4. While there has been positive progress overall across many recommendations, the progress on risk management continues to be disappointing. In the Board's view, this area has not been given appropriate senior management attention. Similarly, there has been limited progress on the Board's 2010 recommendations that UNHCR:

(a) Establish and entrench programme evaluation at the country level;

(b) Review the various approaches to project tracking across its network of offices to identify best practice and assess compatibility with the corporate information systems;

(c) Implement a risk-based approach to managing implementing partners and equip verification teams with common checklists to document the partner visits carried out.

5. Five of the 2011 recommendations are assessed as having been partially implemented. Various actions have been taken to address the points, but UNHCR needs to:

(a) Reconsider the level of resources required to strengthen its financial capacity in the field;

(b) Finalize its revised internal control framework;

(c) Operationalize its tool for tracking supplier performance for global framework items;

(d) Establish lead times for the procurement of medical supplies, particularly those on the essential medicines list.

6. Five recommendations from 2012 are assessed as having been partially implemented. Three will be considered implemented when the fleet manual is finalized in 2014. UNHCR needs to roll out its interim solution to capture and analyse fuel consumption and vehicle maintenance costs pending the full implementation of its fleet management software in 2015. UNHCR also needs to put into operation its project monitoring toolkit to allow verification teams to review reported expenditure against partner performance.

7. The table below sets out the status of all of the Board's previous recommendations.

Status of implementation of the Board's previous recommendations

No.	Financial period in which first made/ paragraph reference	Summary of recommendation	Fully implemented/ superseded	Under implementation	Not implemented
1	2010/para. 33	Examine and address the reasons for deficiencies in country office financial management and reporting capacity	X		
2	2010/para. 34	Enhance its monthly financial closure processes to include, for example, documented review and validation of asset and liability balances, review of income and expenditure against budgets, and sign-off by the relevant responsible officers at headquarters and in the field on the components of the trial balance for which they are responsible	X		
3	2010/para. 56	Intensify its efforts to cleanse the data supporting non-expendable valuations, and enhance the guidance and information on asset management provided to country offices	X		
4	2010/para. 63	Regularly review all inventory items for obsolescence and damage, and write down the values accordingly	X		
5	2010/para. 73	Review and cleanse its accounting records, including all asset and liability balances; and enhance its month-end closure procedures in order to fully reconcile all the accounts and maintain integrity of accounting records	X		
6	2010/para. 92	Streamline its performance measurement to focus on mission-critical activities in a more comprehensive way, embracing output volumes, service quality and efficiency of delivery. The prioritization of activities is a managerial responsibility, but criteria should include financial materiality, or the extent to which activities are planned to materially benefit major populations of concern	X		
7	2010/para. 99	Develop comparative and cost-based information to improve the evidence base for allocation decisions and provide a stronger link to enforce accountability. Particular emphasis should be placed on allowing for comparisons between country operations, on the relative contributions made by UNHCR to changes in the conditions of populations of concern, and on linking financial and output data to assess efficiency and cost-effectiveness	X		
8	2010/para. 100	Develop a summarized scorecard to enhance the senior management review of performance and risks at the country and corporate levels, aligned with the development of Focus, in support of the implementation of results-based management	X		
9	2010/para. 104	Re-establish and entrench the principles laid down in its own guidance by establishing at the country level a policy clearly specifying the circumstances in which country operations should normally commission programme and project evaluations, and requiring explicit planning and budgeting for evaluation during project design		X	

No.	Financial period in which first made/ paragraph reference	Summary of recommendation			
			Fully implemented/ superseded	Under implementation	Not implemented
10	2010/para. 107	As a matter of urgency, establish a simple organization-wide risk management approach, building on existing reporting arrangements		X	
11	2010/para. 114	Review the various approaches to project tracking across its network in order to identify best practice with wider applicability and assess compatibility with the corporate information technology strategy		X	
12	2010/para. 117	Adopt a risk-based approach to managing partners on the basis of clearly defined requirements, objective and well-evidenced risk assessment of partners, and robust arrangements to monitor its consistent application by country offices		X	
13	2010/para. 124	Impose mandatory requirements on its country operations to consistently: (a) document their justification for partner selection; (b) formally assess the market for alternative partners at regular intervals; and (c) consider the alternative of commercial procurement whenever seeking a market-traded service	X		
14	2010/para. 127	Broaden the range of indicators used in partner agreements through revised guidance; and subject performance frameworks to management authorization before agreements are signed	X		
15	2010/para. 133	Establish common checklists that can be issued to officers in the field to detail the partner visits they undertake. The checklists should emphasize the need for firm action by country offices to tackle partner underperformance, and should require full documentation of the action taken		X	
16	2010/para. 150	Make it an explicit requirement that a comparative assessment against a “do-minimum” or “no-change” base option be included in each of the action plans it produces for internal and donor consideration on tackling protracted refugee situations	X		
17	2010/para. 154	Its guidance for country offices on designing durable solutions should be supplemented with concise checklists, compiled in the light of project experience, to help country teams better identify and budget for the costs that regularly arise in durable solutions	X		
18	2011/para. 26	Review its working capital requirements, including the adequacy of the \$50 million ceiling currently applied to the Working Capital and Guarantee Fund; and manage its programmes and cash flows with the aim of maintaining its average unencumbered cash holdings at a level equivalent to no more than two months of expenditure	X		
19	2011/para. 30	Enhance its internal financial reporting by developing a thorough understanding of the key information needs required at each level of management, including variance analysis and a dashboard of key indicators for senior management, with sufficient narrative to focus attention on the areas that require attention	X		
20	2011/para. 34	Analyse the causes of write-offs and allowances for doubtful accounts, and introduce monthly reviews of working capital balances in order to safeguard assets	X		
21	2011/para. 39, and 2012/ recommendation 40	Develop appropriate job descriptions and prioritize the recruitment of suitably qualified personnel for appointment to the approved additional finance and project control posts as soon as practicable; and establish the required number of posts for suitably qualified personnel within its finance and project control functions in the field		X	

No.	Financial period in which first made/ paragraph reference	Summary of recommendation	Fully implemented/ superseded	Under implementation	Not implemented
22	2011/para. 46 and 2012/para. 38	Implement appropriate high-level financial controls for monitoring activities in the field and review its existing accountability structures to identify and ensure that an appropriate internal controls framework exists and is in operation; and benchmark its accountability structure against similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control		X	
23	2011/para. 48	Review and update its current anti-fraud policies and procedures to ensure its fraud detection and monitoring systems are appropriate; and develop comprehensive guidance which addresses anti-money-laundering	X		
24	2011/para. 70	Review the attributed useful economic lives of assets, giving particular attention to the useful lives of vehicles in the light of the proposed fleet management policy currently under development	X		
25	2011/para. 73	Monitor compliance by country offices with the terms of rights-of-use agreements; and issue instructions to representatives reasserting their responsibility to maintain accurate and up-to-date records of UNHCR assets loaned to implementing partners	X		
26	2011/para. 77	Use the work performed in 2011 on cleansing asset data to identify any systematic shortcomings in systems and working practices; and establish enhanced systems and controls for generating asset data	X		
27	2011/para. 97	Continue to work to cleanse its asset register, focusing initially on those assets with a residual value	X		
28	2011/para. 106	The supply function structure and the accountability lines recommended by the Division of Emergency, Security and Supply, already applied in some countries, should be applied consistently throughout the UNHCR network	X		
29	2011/para. 120	Prioritize: (a) improved recording on its enterprise resource planning system (Management Systems Renewal Project), by local supply teams or, if this is not achieved, reversion by UNHCR to centralized shipment tracking in order to provide a viable delivery time measure; (b) comparability between the emergency and non-emergency delivery performance measures maintained by UNHCR; (c) capturing aspects of professional competence within the staffing indicator maintained by UNHCR; (d) cascading the corporate key performance indicators developed by UNHCR to form a basis for country-level reporting on supply performance		X	
30	2011/para. 124	In the guidance issued by the Division of Emergency, Security and Supply, reiterate the need for country-level supply officers to assess the scope for grouping orders, identifying the most beneficial routes of supply and, where appropriate, the development of national framework agreements	X		
31	2011/para. 130	Investigate the potential to institute quantified analysis of warehouse requirements for all major non-food item and material deliveries that are in the pipeline in the Management Systems Renewal Project system		X	
32	2011/para. 131	Require supply staff to verify that there is access to sufficient warehouse capacity before ordering large quantities of goods	X		

No.	Financial period in which first made/ paragraph reference	Summary of recommendation	Fully implemented/ superseded	Under implementation	Not implemented
33	2011/para. 138	Implement its plans to create reliable supplier performance information as quickly as possible; and systematically use this information to manage supplier performance and contracts and make evidence-based decisions in awarding framework agreements			X
34	2011/para. 142	Avoid duplicated and divergent efforts by different country offices by: (a) defining the information to be collated and retained for tracking supplier performance in terms of the timeliness, quality and completeness of consignment delivery; and (b) developing an easy-to-use template for supply units to capture such data consistently		X	
35	2011/para. 149	Emphasize in its guidance to supply officers the underlying planning principle that the collective uncertainties in regard to tendering, supplier performance, logistics, scope for government intervention and involvement by multiple partners will tend to extend practical lead times for medical supplies well beyond theoretical durations. In some cases, this will demand earlier requisitioning		X	
36	2011/para. 150	Require its country operations, as part of annual work planning, to assess whether they have the necessary expertise and scale to act as the procurer of medical supplies, and whether an alternative agency is better placed to procure such specialist items in their country	X		
37	2011/para. 155	Amend its Supply Manual to require country supply teams to regularly market-test key locally procured services according to specific cycles			X
38	2011/para. 158	Develop a clear strategy for extending the range of support to the field for the procurement of key services based on: (a) analysis of the extent of expenditure on services such as security, telephony, fuel supply or vehicle maintenance across the country network; (b) analysis of the extent to which global suppliers have a market presence in key UNHCR locations, and expert advice on the extent of savings that could be achieved from more consistent contracting and the consolidation of global buying power; and (c) feedback from supply officers in the field on priorities for establishing global framework agreements	X		
39	2011/para. 160	The strategy for contracting services should incorporate: (a) clear prioritization as to which services will be examined and tested in each year from 2012 to 2015; and (b) approval from the Contracts Committee of the choices made, and the commitment of in-house and consultancy resources to developing and letting frameworks	X		
40	2011/para. 163	Where global framework agreements are not found to be feasible, consider the production of generic service specifications for adaptation by local supply officers on a country-by-country basis	X		
41	2012/para. 26	Review the level of assets currently held to ensure that they are not excessive in relation to foreseeable requirements	X		
42	2012/para. 32	Review and challenge the business need for bank accounts with low levels of transactions; and consider the rationale for maintaining local United States dollar bank accounts, particularly where these transactions could be processed from headquarters	X		

No.	<i>Financial period in which first made/ paragraph reference</i>		<i>Summary of recommendation</i>	<i>Fully implemented/ superseded</i>	<i>Under implementation</i>	<i>Not implemented</i>
43	2012/para. 43		Review its current scheme for the delegation of authority in order to establish a consistent framework for authorizing the write-off or disposal of assets	X		
44	2012/para. 51		Review its procedures for the management of inventory to ensure that they remain appropriate for the operating environments; identify and address the reasons for the widespread non-compliance with current inventory procedures; and develop and implement revised inventory procedures to ensure that physical inventory and accounting records remain up-to-date and reliable	X		
45	2012/para. 53		Implement a monthly or at least a quarterly stocktaking regime, including a full reconciliation of its inventory with the accounting system	X		
46	2012/para. 55		Perform a review of low-value inventory holdings to ascertain whether there is a genuine business need to maintain them	X		
47	2012/para. 57		Enhance its inventory management systems to support more informed replenishment decisions, including by alerting supply officers when inventory levels are below a designated minimum level and directing supply officers to the most efficient replenishment option		X	
48	2012/para. 59		Develop and regularly update an organizational inventory procurement plan that: (a) considers both local and centrally managed requirements for standard inventory items; and (b) is based on past experience with demand and the most likely scenarios, while also maintaining the required level of buffer inventory		X	
49	2012/para. 64		Develop an inventory performance report dashboard with measurable key performance indicators for management review on a monthly basis	X		
50	2012/para. 68		Designate a senior risk officer with a clear mandate to implement the updated anti-fraud strategic framework; perform a comprehensive fraud risk assessment to identify its main areas of risk exposure; and define its tolerance for the different types of fraud risk identified			X
51	2012/para. 74		Seek an appropriate comprehensive independent review of the investigation function of the Inspector General's Office, to include follow-up to the previous peer review recommendations and to benchmark its current practice against appropriate standards	X		
52	2012/para. 76		Require country representatives to conduct fraud risk assessments in relation to all implementing partners as part of its overall risk-based approach			X
53	2012/para. 82		Analyse biannual activity reports in conjunction with financial reports to monitor how costs relate to activities carried out and to better assess whether the implementing partner is on track to meet its targets or whether UNHCR needs to intervene; and more closely align instalment payments with the implementing partner's planned activities and service delivery to minimize inefficiencies or delays in programme delivery due to fluctuations in funding		X	
54	2012/para. 88		Revise its chart of accounts to separate vehicle costs from other inputs, and clearly communicate this change through guidance and training of staff	X		

No.	Financial period in which first made/ paragraph reference	Summary of recommendation			
			Fully implemented/ superseded	Under implementation	Not implemented
55	2012/para. 89	Expedite its planned completion of IPSAS transitional arrangements to bring all vehicles onto the asset registers to better capture residual values and impairment	X		
56	2012/para. 93	Compile a fleet management manual by the end of 2014, consolidating extant office memorandums and addressing key gaps in coverage, including the fleet management practices to be followed at the country level; and establish a policy stating that country fleets exceeding 30 vehicles should be managed by staff qualified in the areas of logistics and fleet management		X	
57	2012/para. 94	Deploy a standard vehicle fuel consumption and maintenance cost analysis tool to all country offices by the end of 2013, in the form of either a global fleet management project input template or an offline spreadsheet		X	
58	2012/para. 98	The Division of Emergency, Security and Supply should establish sufficient capacity to manage the accumulated backlog of disposals, prioritizing disposal markets and country fleets with the highest likely resale values	X		
59	2012/para. 100	In assuming the lead responsibility for vehicle acquisition and choices, the UNHCR Division of Emergency, Security and Supply should: (a) use data on UNHCR utilization by vehicle type to identify and withdraw underused models; and (b) set the objectives of reducing the number of models in the fleet and select standard models, taking into account cost-of-use data, availability criteria and the views of country teams, particularly lead drivers	X		
60	2012/para. 103	Maintain information on vehicle utilization levels across the country network to provide a basis for consideration of redeployment between country operations	X		
61	2012/para. 105	Include in the new fleet management manual guidance on how to assess alternatives to the use of distant garages when remote servicing can result in excessive mileage, extended vehicle downtime and high transit costs. Guidance should include requirements for: (a) periodic testing of local markets for the availability of closer commercial maintenance facilities of the requisite standard; (b) periodic review of the scope for United Nations agencies, non-governmental organizations and implementing partners to procure maintenance collectively, to leverage greater bargaining power or attract reliable operators to open facilities nearby; and (c) consideration of the maintenance of a stock of oil and filters at the field office level to enable the most basic (category A) servicing to take place in the field		X	
62	2012/para. 109	As part of the global fleet management project, develop a vehicle safety section within the fleet management manual (a) emphasizing the need for the proactive management of vehicle safety in country offices, and (b) requiring the quarterly analysis of driver performance on the basis of satellite tracking data, such as excessive maximum and average speeds, excessive driving hours and vehicle use outside working hours		X	
63	2012/para. 107	If the global fleet management project does not proceed according to timetable, UNHCR must evaluate its insurable risks and provide either a proper self-insurance fund or commercial insurance to meet them	X		

No.	Financial period in which first made/ paragraph reference	Summary of recommendation	Fully implemented/ superseded	Under implementation	Not implemented
64	2012/para. 113	Consider the case for establishing central guidance for country teams on cost-effectiveness criteria in health services. The Board is willing to work with UNHCR to inform its consideration of how it might do this before committing to any particular measurement framework or approach	X		
65	2012/para. 117	Consider the wider application of its health scorecard system across the country network	X		
Totals			43 (66%)	18 (28%)	4 (6%)

Chapter III

Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements

Letter dated 31 March 2014 from the United Nations High Commissioner for Refugees and the Controller and Director of the Division of Financial and Administrative Management of the Office of the High Commissioner addressed to the Chair of the Board of Auditors

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds administered by the High Commissioner.

To fulfil this responsibility, the Office of the High Commissioner operates within prescribed accounting policies and standards, and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the Board of Auditors during their respective audits.

In this context, the financial statements contained in chapter V, comprising statements I to V and the supporting notes, were prepared in accordance with the financial rules for voluntary funds administered by the High Commissioner ([A/AC.96/503/Rev.10](#)) and the International Public Sector Accounting Standards. In management's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2013 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

The accounts are hereby:

Approved:
(Signed) António **Guterres**
United Nations High Commissioner for Refugees

Certified:
(Signed) Kumiko **Matsuura-Mueller**
Controller and Director
Division of Financial and Administrative Management

Chapter IV

Financial report for the year ended 31 December 2013

A. Introduction

1. The United Nations High Commissioner for Refugees has the honour to submit the financial report and financial statements on the accounts of the voluntary funds administered by him for the year ended 31 December 2013, in accordance with United Nations financial regulation 6.2 of the Financial Regulations and Rules of the United Nations ([ST/SGB/2013/4](#)) and article 11 of the financial rules for voluntary funds administered by the High Commissioner ([A/AC.96/503/Rev.10](#)).
2. The financial report provides financial information relating to the voluntary funds administered by the High Commissioner, in accordance with the International Public Sector Accounting Standards. The voluntary funds include the Annual Programme Fund, the Global Reintegration Projects Fund, the Global Internally Displaced Persons Projects Fund, the Junior Professional Officers Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Working Capital and Guarantee Fund. It presents an overview of the operational context, financial analysis and budgetary performance by major activity groupings, highlighting trends and significant changes.
3. The financial report is designed to be read in conjunction with the financial statements, consisting of five statements and supporting notes.

B. Operational context and activities overview

4. The Office of the United Nations High Commissioner for Refugees (UNHCR) is mandated by the General Assembly to lead and coordinate international action for the protection of refugees and the resolution of various issues related to refugees. It is also mandated to address the problems of other groups, including former refugees who have returned to their homelands; to provide assistance for these returnees aimed at sustainable reintegration, and monitor their safety and well-being; and to address the situation of stateless persons who are without a nationality or risk becoming stateless. In addition, on the basis of specific requests from the Secretary-General or the principal organs of the United Nations and with the consent of the State concerned, UNHCR may provide humanitarian assistance and protection to internally displaced persons, in cooperation with the United Nations Emergency Relief Coordinator.
5. UNHCR works in partnership with Governments, intergovernmental organizations, international organizations and non-governmental organizations. It is committed to consulting refugees and others who benefit from the organization's activities on decisions that affect their lives, through participatory assessments. Through the application of an age, gender and diversity approach in its operations, UNHCR seeks to ensure that all persons of concern enjoy their rights equally.
6. During the reporting period, UNHCR continued to carry out its mandate as outlined above. The year 2013 was marked by multiple refugee crises, reaching levels unseen in the previous decade.

7. By the end of 2013, the total population of concern to UNHCR had reached some 42.9 million persons, comprising the following groups: 11.7 million refugees and people in refugee-like situations; 1.2 million asylum-seekers; almost 414,600 refugees who had repatriated; 23.9 million internally displaced persons protected or assisted by UNHCR; 1.4 million internally displaced persons who had returned to their places of origin; 3.5 million stateless persons; and 836,100 other persons of concern. Thus, the combination of refugees and internally displaced persons constituted some 83 per cent of the total population of concern. The following are the countries where the overwhelming majority of persons of concern are: the Syrian Arab Republic (almost 7 million), Colombia (5.4 million), the Democratic Republic of the Congo (3.8 million), Pakistan (2.5 million), the Sudan (2.1 million) and Iraq (1.5 million).

8. UNHCR was also actively engaged in system-wide responses to large-scale humanitarian emergencies, fulfilling its cluster-lead responsibilities in the areas of protection, emergency shelter and camp coordination and camp management within the broader response framework and in line with the Transformative Agenda.

9. In 2013, the total estimated budgetary requirements for addressing the needs of all persons of concern amounted to \$5,335.4 million (\$4,255.6 million in 2012). Against available funds of \$3,234.1 million (\$2,593.8 million in 2012), UNHCR implemented activities in the amount of \$2,971.8 million (\$2,357.7 million in 2012) (see table IV.1). The delivery of services to persons of concern has been based on its global strategic priorities: a favourable protection environment, fair protection processes and documentation, security from violence and exploitation, basic needs and services and durable solutions.

C. Financial analysis

10. The overall financial position of UNHCR continued to remain solid at the end of 2013. As at 31 December 2013, total fund balances and reserves amounted to \$1,528.8 million (see statement I), representing an increase of \$494.4 million (or 47.8 per cent) compared with the restated balance as at 31 December 2012. This increase was a result of the performance surplus of \$460.4 million (see statement II) (restated surplus of \$113.4 million in 2012), plus the gain arising from the actuarial valuation of after-service health insurance of \$34 million (see statement III) (loss of \$71.1 million in 2012). The total fund balances and reserves represent the net of all assets and liabilities as shown in statement I.

11. As at 31 December 2013, the level of net current assets (current assets less current liabilities) was \$1,596.4 million, increasing from \$1,216.7 million in 2012. With a current ratio (current assets to current liabilities) of 8.66 (9.21 in 2012), UNHCR maintained strong short-term liquidity at year-end. The increase of \$379.7 million in net current assets is a result of the variations in the current assets and current liabilities as described below.

12. Total cash and cash equivalents amounted to \$614.3 million as at 31 December 2013, representing an increase of \$183.3 million compared with \$431 million as at 31 December 2012. The statement of cash flow (statement IV) shows that the increase was due mainly to the cash inflow from operating activities of \$358.3 million, offset primarily by cash outflows for the investment of \$58.3 million in property, plant and equipment and the investment in short-term deposits of \$120 million. Of the total cash

and cash equivalents holdings of \$614.3 million, \$550.9 million related to operational activities, \$50 million to the Working Capital and Guarantee Fund and \$13.4 million to the Junior Professional Officers Fund (see table 3.1.2). In addition, UNHCR had a short-term investment of \$120 million as at 31 December 2013, of which \$58.3 million was also available for operational needs, \$26.7 million related to the Staff Benefits Fund and \$35 million related to the Medical Insurance Plan. Total operational cash deriving from cash and cash equivalents and investments amounts to \$609.2 million, which is equivalent to 2.1 months of operational needs based on the average of 2013 fourth-quarter expenses. In addition to the requirement to fund ongoing operational activities in 2014, the total cash holding is also linked to the level of legal commitments (open purchase orders) that UNHCR had at 31 December 2013 for \$315.3 million (see note 9.2), showing a significant increase compared with \$160.1 million at the end of 2012. These legal commitments/open purchase orders will require cash disbursement early in 2014.

13. Inventories (net of allowance for obsolescence) increased by \$20 million, or 16.4 per cent, to \$142.1 million as at 31 December 2013 (\$122.1 million at 31 December 2012). The increase in the inventory at the end of the year reflects the overall level of operational activity during the year. Total inventory procured during the year amounted to \$336.8 million (\$211.2 million in 2012), while distribution amounted to \$316.6 million, an increase of 80.2 per cent compared with the distribution in 2012 (\$175.7 million). During 2013, the inventory turnover ratio was 2.4 (1.64 in 2012) and the year-end balance of inventories covered approximately six months (nine months in 2012) of distribution to persons of concern, which is required for the procurement cycle (lead time) for new acquisitions.

14. Following the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012, the financial statements of UNHCR for 2013 have been prepared in accordance with IPSAS. In 2012, UNHCR applied the transition provision under IPSAS 17: Property, plant and equipment, to the extent that property, plant and equipment acquired before 1 January 2011 (with the exception of permanent buildings) were not recognized in the financial statements in 2012. During 2013, UNHCR has recognized all property, plant and equipment in service in the financial statements, which in turn has resulted in the restatement of those relevant figures in the 2012 financial statements. Additional recognition of property, plant and equipment amounted to \$53.9 million at net book value, and related depreciation for the year 2012 increased by \$17.5 million. The overall impact of the restatement is shown in the statement of changes in net assets (statement III) and in table 3.5.2.

15. At 31 December 2013, the value of property, plant and equipment had increased by a further \$9.3 million to \$145.4 million compared with the restated amount of \$136.1 million as at 31 December 2012. An impairment loss of \$2.3 million was recognized during 2013, linked primarily to motor vehicles. During 2013, UNHCR launched a global fleet management project that is designed to create more effective and efficient vehicle management and that will lead to the disposal of those vehicles that have been in use past their recommended useful life.

16. The Office's liability for employee benefits as at 31 December 2013 amounted to \$565 million (\$570.3 million in 2012), of which \$77.4 million was a current liability and \$487.6 million a non-current liability. "Employee benefits" refers to short-term benefits, post-employment and other long-term benefits, as shown in

table 3.8.1. The two largest components, after-service health insurance (\$417.6 million) and repatriation benefits (\$78.9 million), have been determined and valued by an independent actuary and amount to a liability of \$496.5 million in total. This has resulted in an actuarial gain for after-service health insurance of \$34 million, which has been recognized directly in reserves, as shown in statement III. The principal reason for this actuarial gain for after-service health insurance was the increase in the discount rate from 3.3 per cent in December 2012 to 3.8 per cent in December 2013. No significant change was noted by the actuary for health cost trends.

17. In 2011, the Standing Committee of the Executive Committee of the Programme of the High Commissioner approved a funding plan to provide for unfunded after-service health insurance liabilities equal to 3 per cent of net base salary, with effect from 1 January 2012. As at 31 December 2013, UNHCR had funded \$22.7 million (\$10.9 million in 2012) for after-service health insurance. The unfunded balance of \$394.9 million (\$410.7 million in 2012) is reflected in the Staff Benefits Fund.

18. The fund balances and reserves for the organization at year-end stood at \$1,528.8 million (\$1,034.4 million in 2012). The fund balances and reserves comprise the accumulated fund balances and reserves, the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Staff Benefits Fund, as described above.

19. For the 2013 reporting period, the accumulated fund balances and reserves amounted to \$1,973.8 million (\$1,497.8 million in 2012), which includes the Annual Programme Fund at \$1,813.6 million (\$1,347.7 million in 2012), within which are the operational reserve of \$10 million and the new or additional mandate-related activities reserve of \$20 million. Also included in the accumulated fund balances and reserves are the Reintegration Projects Fund, the Internally Displaced Persons Projects Fund, the United Nations Regular Budget Fund, the Junior Professional Officers Fund and the special account for the Common Humanitarian Pipeline. Further details are provided in note 3.11.

20. As at 31 December 2013, the Working Capital and Guarantee Fund had a balance of \$50 million and the Medical Insurance Plan had a balance of \$35 million.

21. In 2013, UNHCR did not borrow from the Central Emergency Response Fund, created by the General Assembly in 1992 for use by operational organizations in the early stages of emergencies.

22. The table below provides some key financial ratios as at 31 December 2013, compared with those as at 31 December 2012.

	<i>As at 31 December 2013</i>	<i>As at 31 December 2012 (restated)</i>
Current assets to current liabilities	8.66	9.21
Total assets: to total liabilities	3.19	2.60
Cash and cash equivalents to current liabilities	2.95	2.91

23. The current ratio (current assets to current liabilities) is a liquidity ratio that is a useful way to analyse the balance between those assets that will materialize within the next 12 months as against those liabilities/payments that the organization needs to settle within the next 12 months. The higher the current ratio is, the more capable the organization is of meeting its obligations. The ratio of 8.66 is high in comparison with many other organizations but needs to be interpreted in the context of the specific activities performed by UNHCR. Normally, entities that have control over the timing of revenue generation attempt to synchronize the generation of liabilities with the pattern of revenue; therefore, a straight comparison between current asset and current liability provides a good indication of the ability of the entity to meet its current obligations. In the case of UNHCR, much of the revenue recognized as receivable over the next 12 months is pledged when the annual pledging conference takes place, just before year-end. The contribution pledges are generally based on a budget designed to match the budgeted costs of delivering programmes for the same period. However, the budgeted projection of expenses does not constitute a liability, resulting in a mismatch in the timing of recognition of the revenue assets and the corresponding liabilities. This mismatch produces a higher current ratio than would be the case if the revenues pledged were matched with the costs of programmes they were intended to fund.

24. The total assets-to-liabilities ratio improved from 2.60 in 2012 to 3.19 in 2013. This was due mostly to increases in cash and equivalents, investments and contributions receivables, owing to further expansion in the operational activities of the organization in 2013.

25. The cash ratio (cash and cash equivalents to current liabilities) remained stable at 2.95, compared with 2.91 in 2012.

26. In terms of financial performance (see statement II), UNHCR ended the year with a net surplus (revenue minus expenses) of \$460.4 million (\$113.4 million in 2012).

27. The total revenue for 2013 of \$3,164.6 million (\$2,436.9 million in 2012) includes voluntary contributions from donors, including in-kind contributions and regular budget from the United Nations (see note 5). Total revenue includes voluntary contributions of \$841.2 million (\$659.2 million in 2012) confirmed by donors that relate to future years (2014-2017). Compared with 2012, voluntary contributions increased by 29 per cent in 2013, owing to a significant increase in the contributions towards the Syrian Arab Republic situation.

28. The total expenses for the financial period amounted to \$2,704.2 million (\$2,323.4 million in 2012). Expenses increased by 16 per cent compared with 2012, reflecting the significant increase in operational activity described in section B above (operational context and activities overview).

29. Expenses pertaining to agreements signed with implementing partners, amounting to \$1,069 million, increased by 19 per cent compared with 2012 (\$897.2 million), mainly as a result of increased activities under pillar 1, global refugee programme (Syrian Arab Republic situation and other major emergencies).

30. Expenses for supplies and consumables for beneficiaries, amounting to \$320.8 million, increased by 71 per cent compared with 2012 (\$187.6 million), owing mainly to increased distribution of tents, bedding materials, household items and medical supplies to address the needs of the major operations unfolding in 2013.

31. Expenses against individual and family payments to beneficiaries, amounting to \$87.3 million, decreased by 15 per cent compared with 2012 (\$102.8 million) as a result of the termination of the cash interventions programmes for repatriation in Liberia (reduction of \$9 million) and a significant reduction in the cash distribution programmes in Afghanistan (reduction of \$6 million).

32. The year 2013 continued to be characterized by historically low interest rates in respect of the United States dollar and the euro. This, combined with the organization's investment management objective of emphasizing capital preservation and liquidity over the rate of return, explains the modest interest revenue of \$1.5 million (\$1.8 million in 2012) generated during the year.

33. The distribution of the surplus for 2013 is shown in the statement of changes in net assets (statement III). The surplus for the year of \$460.4 million includes revenue of \$841.2 million relating to monetary contributions and pledges from donors recorded and recognized in 2013 but intended for future-period activities (2014-2017), as shown in table 5.1.2. In addition, UNHCR had legal commitments (open purchase orders) of \$315.3 million as at 31 December 2013, for goods and services to be received in early 2014. Accordingly, some of the revenue recognized in 2013 will only be matched by expenses to be incurred during 2014 and subsequent years.

34. The financial statements present information by segment, in accordance with IPSAS 18: Segment reporting (see note 8). A segment is a distinguishable activity or group of activities for which information is reported separately.

D. Programme budget performance highlights

35. While the financial statements have been prepared on an accrual basis, the programme budget of UNHCR continues to be formulated and presented on a modified cash basis. Therefore, for the purpose of budgetary management and performance analysis, expenses are translated into an equivalent basis. A summary of the comparison of budget and actual amounts is shown in statement V.

36. All figures quoted in the present section as expenditure, income or funds available refer to modified cash basis figures, comparable with budgets and exclusive of the Working Capital Fund, the Staff Benefits Fund, the Medical Insurance Plan and any special accounts.

37. The global needs assessment budget of UNHCR is formulated on the basis of assessed needs, which is a unique feature within the United Nations system of organizations. An assessment of the needs of persons of concern to UNHCR serves as the basis for the formulation of the programme budget.

38. Subsequent to the approval of the budget by the Executive Committee, a global appeal is launched for fundraising purposes. The High Commissioner authorizes the allocation of funds for the implementation of programmes and projects on the basis of the availability of funds. During the implementation period, the High Commissioner may revise the budget with supplementary budgets, in accordance with UNHCR financial rule 7.5, to meet the needs of emerging situations.

39. The initial budget approved by the Executive Committee for 2013 amounted to \$3,418.6 million. Subsequently, the Executive Committee approved a revised budget amounting to \$3,924.2 million. The final budget as at 31 December 2013 amounted to \$5,335.4 million, representing the sum of the approved revised budget and the supplementary budgets established by the High Commissioner, which amounted to \$1,413.7 million less \$2.5 million, which was reduced for the Mali situation (see statement V, footnote b).

40. Requirements based on operationally assessed needs have reflected a steady increase, from \$3,288.7 million in 2010 to \$3,821.7 million in 2011 (a 16 per cent increase) to \$4,255.6 million in 2012 (an additional 11 per cent increase), finally reaching \$5,335.4 million in 2013 (representing a further 25 per cent increase compared with 2012).

41. The total implementation level has increased consistently in recent years. With an expenditure level of \$2,971.8 million in 2013, it more than doubled compared with the expenditure level in 2007 (\$1,342.0 million).

42. The resource requirements of UNHCR are grouped under each of the four main programme pillars: global refugee programme (pillar 1), global stateless programme (pillar 2), global reintegration projects (pillar 3) and global internally displaced persons projects (pillar 4).

43. Table IV.1 shows the breakdown of total requirements, funds available and expenditure by pillar, with the United Nations Regular Budget Fund and the Junior Professional Officers Fund included under pillar 1. The difference between the total requirements for 2013 (global needs assessment budget) and the funds available represents the unmet needs of persons of concern to UNHCR in 2013, amounting to \$2,101.3 million.

Table IV.1
Total requirements, funds available and expenditure, 2013

(Millions of United States dollars)

	<i>Pillar 1^a</i>	<i>Pillar 2</i>	<i>Pillar 3</i>	<i>Pillar 4</i>	<i>Total</i>
Total requirements (global needs assessment budget)	4 187.5	79.2	248.5	820.2	5 335.4
Funds available	2 628.3	39.0	93.8	473.0	3 234.1
Expenditure	2 393.7	36.1	91.4	450.6	2 971.8
Carry-over	234.6	2.9	2.4	22.4	262.3
Expenditure on total requirements (percentage)	57	46	37	55	56
Expenditure on funds available (percentage)	91	93	97	95	92

^a Inclusive of the United Nations Regular Budget Fund, the Junior Professional Officers Fund, operational reserve and reserve for new or additional mandate-related activities.

44. The supplementary budgets established in 2013 pertained to emergency responses for the situation in the Syrian Arab Republic, the situation in the Democratic Republic of the Congo, the situation in Myanmar, the return of internally displaced persons in Yemen, the situation in the Central African Republic, the western Sudanese influx to Chad, and internally displaced persons in the Philippines typhoon emergency.

45. Total expenditure for 2013 amounted to \$2,971.8 million, compared with \$2,357.7 million in 2012, an increase of \$614.1 million (or 26 per cent). Figure I provides the distribution of 2013 expenditure by pillar, and figure II is a graphic illustration of annual budget expenditure over the past seven years.

Figure I
2013 expenditure: distribution by pillar

(Percentage)

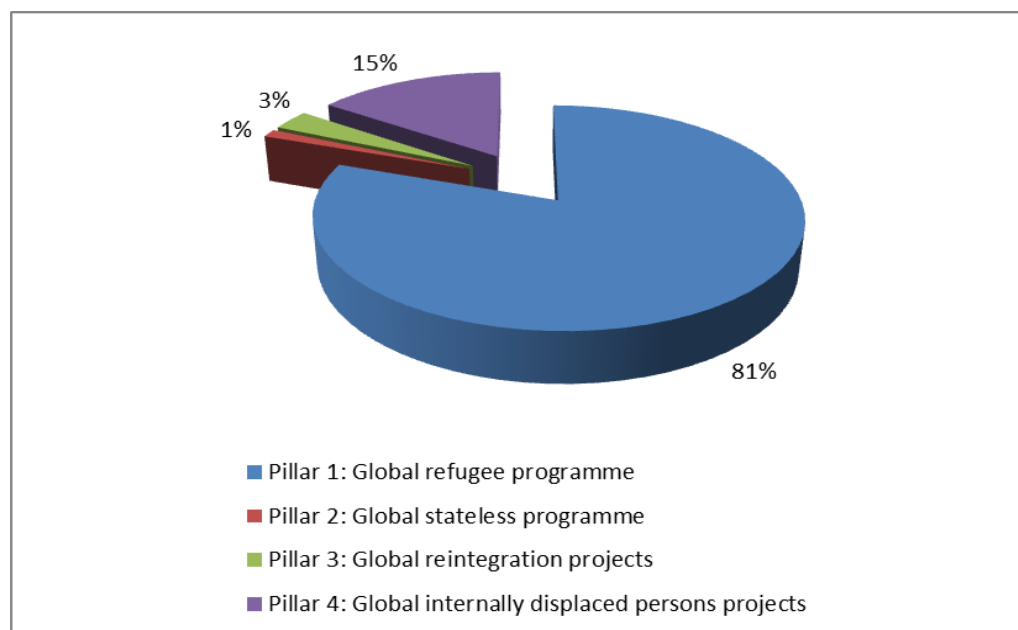
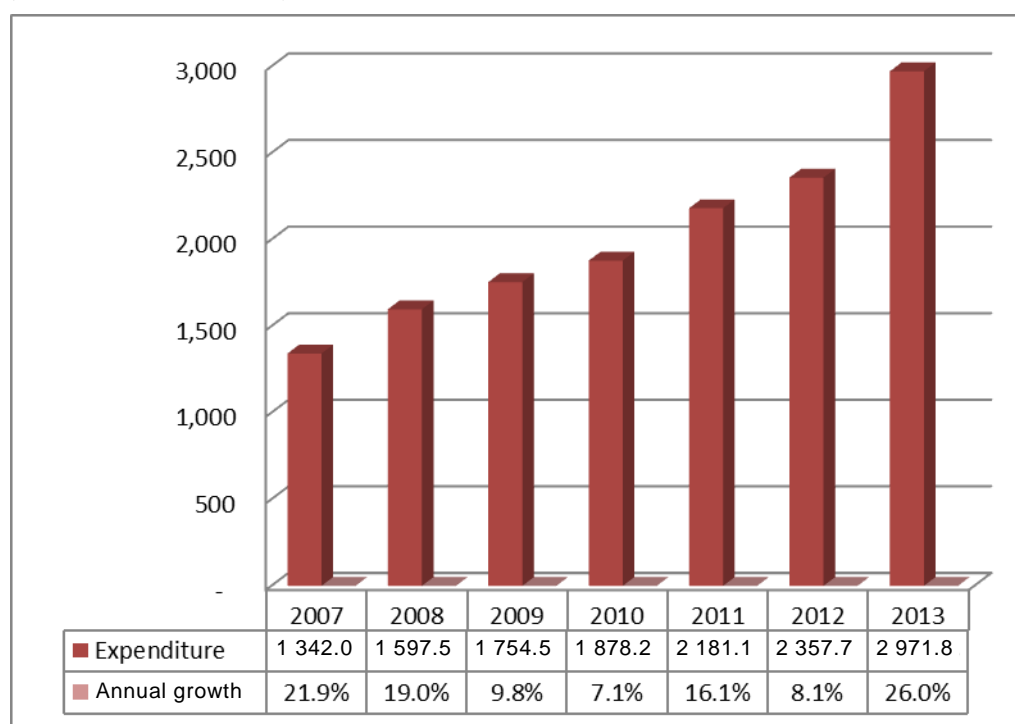


Figure II
Expenditure, 2007-2013

(Millions of United States dollars)



46. Table IV.2 shows 2013 expenditure, broken down in terms of programme cost, support cost, management and administrative cost and the Junior Professional Officers Programme, as well as a comparison with 2012 expenditure.

Table IV.2
Expenditure, 2013

(Millions of United States dollars)

	2013		2012	
	Amount	Percentage	Amount	Percentage
Programme	2 528.8	85.1	1 941.5	82.3
Programme support	311.7	10.5	286.9	12.2
Management and administration	123.3	4.1	120.7	5.1
Junior Professional Officers Programme	8.0	0.3	8.6	0.4
Total expenditure	2 971.8	100.0	2 357.7	100.0

47. The evolution of the expenditure for programme, programme support and management and administration (excluding the Junior Professional Officers Programme) is presented graphically in figures III (in millions of United States dollars) and IV (in percentages) for the period from 2007 to 2013.

Figure III
Evolution of expenditure in United States dollars, 2007-2013

(Millions of United States dollars)

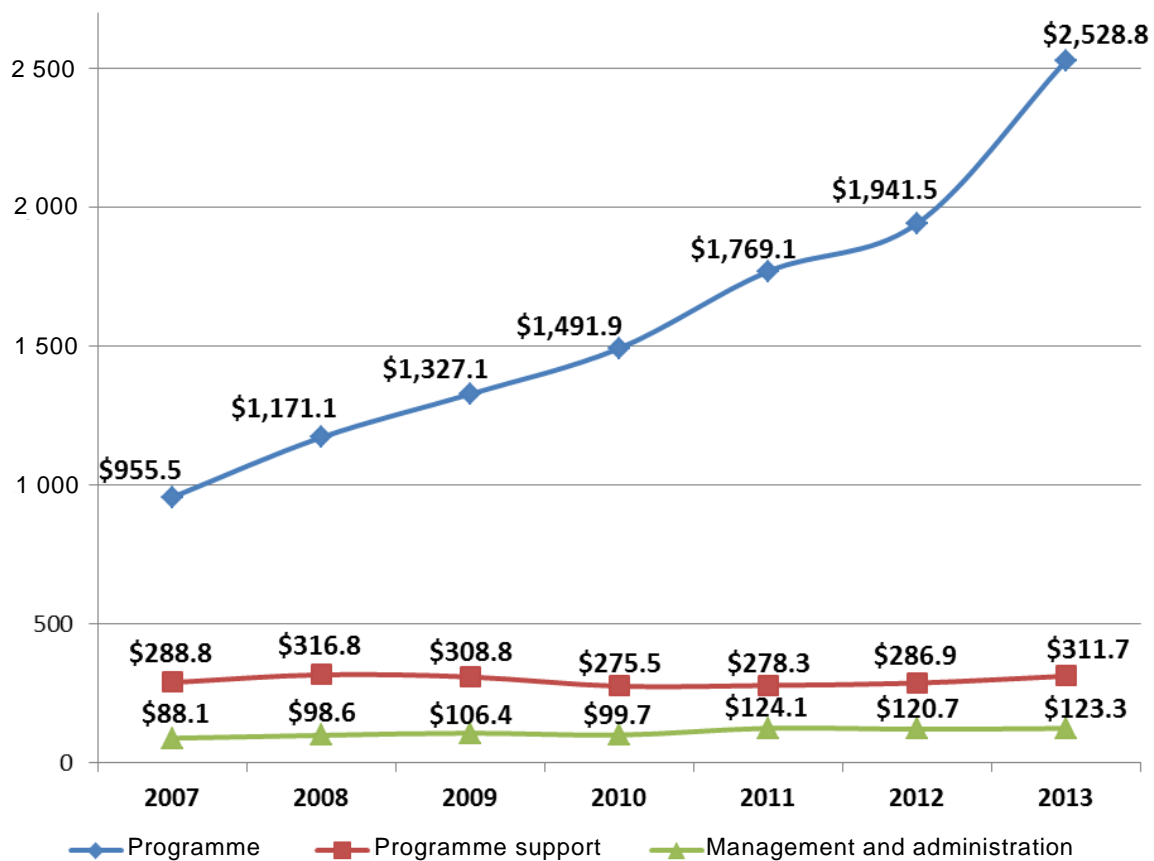
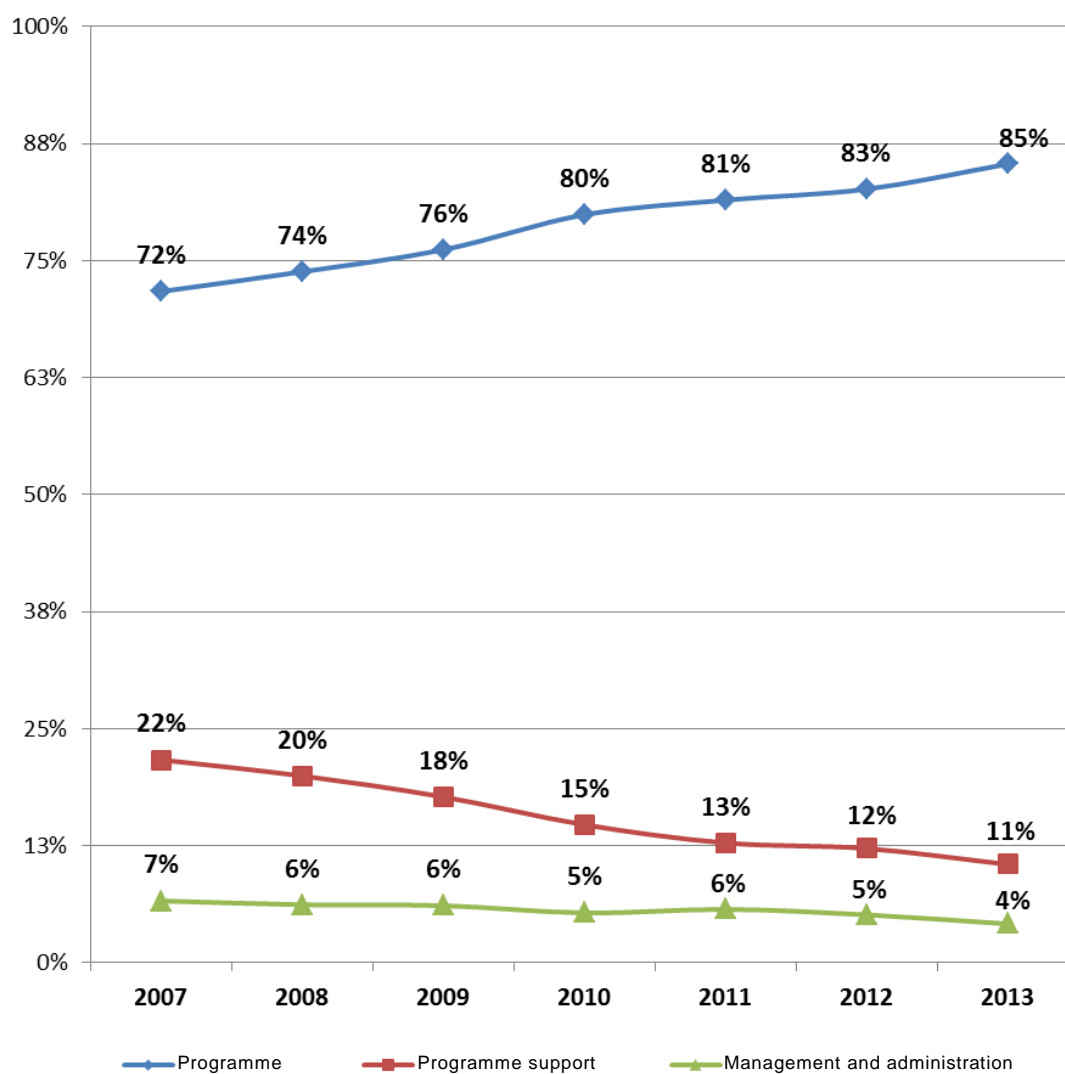


Figure IV
Evolution of expenditure, 2007-2013



E. Risk management

Enterprise risk management

48. As an integral part of the organization's efforts to improve performance, transparency and accountability, UNHCR initiated a project in 2012 to develop and implement a "light-touch" enterprise risk management framework. More than 20 focus group discussions took place at headquarters by the end of 2012, and the main elements of the enterprise risk management concepts and system were designed and piloted in two field operations. Two more pilots took place during 2013. A full-time Chief Risk Officer was appointed in October 2013, and the project was transitioned to a small, dedicated unit on a full-time basis. A multifunctional project advisory group was created in 2013 and has been providing cross-functional advice on the enterprise risk management framework.

49. The finalization of the enterprise risk management framework and its formal organization-wide launch are scheduled for the first half of 2014, following which the project advisory group will be discontinued. UNHCR had to modify its initial roll-out schedule owing to capacity gaps in the course of 2013.

Financial risk management

50. Financial risk management is carried out by the Office of the Controller, in compliance with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner for Refugees, and United Nations financial rules where applicable. It applies rigorous strategic planning and resource allocation, together with integrated liquidity and foreign exchange management. The Finance Investment and Strategic Committee, chaired by the Controller, provides guidance on financial risk management.

51. UNHCR maintains and manages a robust currency portfolio, derived from the receipt of voluntary contributions and the disbursement of payments in various currencies that are significantly naturally hedged. Therefore, the organization resorts only to limited monthly foreign exchange hedging transactions, with no open contracts to report at year-end. Integrated supply, finance and treasury management systems provide the basis for managing global cash flows on a real-time basis, and also provide sound cash-flow forecasting capability.

52. UNHCR risk management policies limit the amount of credit exposure to any one institution and include the application of minimum credit quality guidelines. All surplus fund placements have been concluded with financial institutions that have been accorded the strongest ratings by the primary rating agencies.

F. Enhancing transparency and accountability

Benefits of the International Public Sector Accounting Standards

53. The adoption of IPSAS is a United Nations system-wide initiative in the context of the reform of United Nations management practices and the improvement of transparency and accountability. With the successful implementation of IPSAS in 2012, UNHCR has adopted best practices in financial reporting for the international public sector and laid the foundation for greater transparency, more judicious stewardship of its resources and increased availability of information to support

results-based management. Ongoing efforts to comply with IPSAS have resulted in considerable improvements to the Office's financial management and reporting, as well as to asset management by operations.

54. With respect to financial management and reporting, the transition to accrual accounting has enhanced the quality and transparency of information presented in the financial statements of UNHCR. Assets, liabilities, revenues and expenses are being captured more comprehensively and accurately, leading to a more accurate reflection of the overall financial performance and position of the organization. This facilitates better-informed decision-making by senior management and more transparent and relevant information for UNHCR donors and other stakeholders.

55. An overarching effect for operations has been the increased awareness of the importance of establishing and maintaining complete and accurate data with respect to inventories and property, plant and equipment. A reliable asset database is a prerequisite for transparency on the efficient use of assets and for informed management decisions regarding the acquisition, maintenance and disposal of assets. Management in the field and at headquarters now has more comprehensive and more reliable information on inventories and property, plant and equipment, which in turn has triggered more comprehensive supply chain planning to determine acquisition needs.

56. More specifically, the implementation of IPSAS has resulted in the following benefits in relation to inventories:

(a) Inventory transactions are recorded in a more timely manner and more correctly;

(b) Core relief items inventories are monitored more closely across warehouses resulting in an optimization of inventory levels;

(c) A critical review of the number and locations of warehouses resulted in the closing of warehouses with no or little turnover and will, over time, further optimize the warehouse network.

57. With respect to property, plant and equipment, IPSAS adoption has resulted in the following benefits:

(a) More timely and correct recording of transactions relating to property, plant and equipment and a comprehensive cleansing of historical data;

(b) Identification and disposal of impaired and surplus property, plant and equipment, improving the efficient use of resources and reducing the average age of property, plant and equipment;

(c) Better safeguarding and monitoring of property, plant and equipment.

58. While UNHCR has now established a solid foundation for IPSAS compliance, organization-wide efforts will continue to be pursued in order to ensure that managers take full ownership and drive the delivery of the intended benefits of IPSAS implementation.

Internal controls and ongoing relevant developments

59. According to UNHCR financial rule 10.1, the Controller is responsible to the High Commissioner for establishing internal controls to ensure: (a) the regularity of

receipt, custody and disposal of all assets entrusted to her; and (b) the conformity of commitments and expenses with the directives of the Executive Committee or, as appropriate, with the purpose and conditions of the funds or accounts administered by UNHCR.

60. Internal control and accountability processes are exercised continually at all operational levels within the organization in line with the requirements established through the following core documents:

- (a) The global management accountability framework, which comprehensively maps accountabilities, responsibilities and authorities across the organization and relates them to the corresponding management policies, tools and guidance;
- (b) The financial internal control framework and delegation-of-authority plans;
- (c) The resource allocation framework;
- (d) The budgetary internal control framework and budgetary control plan;
- (e) Policies on the implementation of projects by partners, project partnership agreements, and project monitoring, control and audit.

61. While a system of internal controls designed to achieve the organization's objectives and related policies is already in place, as described above, UNHCR has initiated a review of the structure and scope of various layers of financial internal controls in order to streamline and consolidate them into a global financial framework, in line with the best practices advocated by the Committee of Sponsoring Organizations of the Treadway Commission and recent developments in this field.

62. UNHCR is also benefiting from a robust system for the review of the effectiveness of internal controls, which is conducted by the bodies and mechanisms identified below.

Office of Internal Oversight Services

63. The Office of Internal Oversight Services (OIOS) has performed internal audit services at UNHCR since 1997, in accordance with UNHCR financial rule 12.1 and United Nations financial regulation 5.15. A memorandum of understanding between UNHCR and OIOS defines the arrangements for internal audit services to be provided by OIOS. The UNHCR Audit Service of the Internal Audit Division of OIOS is based in Geneva, with an office in Nairobi and resident auditors located in Jordan, Pakistan and Senegal. The internal auditors undertake regular missions to review UNHCR operations in the field and organizational units, functions and systems at headquarters. The audit findings and recommendations are issued as internal audit reports addressed to the High Commissioner. OIOS also provides an annual summary report on its activities and assessments both to the Executive Committee and to the General Assembly as part of the OIOS annual report.

Independent audit of projects implemented by partners

64. As UNHCR carries out a high percentage of its activities through implementing partners, the audit of projects implemented by partners has been mandatory since 1997. It is an important management tool for field offices and

headquarters, as it provides evidence of the sound programme and financial accountability of implementing partners, which helps to enhance the credibility of UNHCR with donors and Member States. Audits of projects implemented by partners assist the organization in obtaining:

- (a) Reasonable assurance that the final report submitted by the partner is free from material misstatement and in accordance with the terms of the project partnership agreement;
- (b) An evaluation of the partner's compliance with the project partnership agreement;
- (c) An assessment of the partner's internal controls and financial management practices.

65. UNHCR continues its efforts to improve the process of conducting project audits, pursuing enhanced quality of audit reports and more effective procurement and selection of audit service providers, as well as analysis of audit results and internal controls applied by the partners, in order to identify key risks, develop mitigation measures and obtain a higher level of reassurance with respect to the utilization of resources.

Independent Audit and Oversight Committee

66. The Independent Audit and Oversight Committee assists the High Commissioner and the Executive Committee in exercising their oversight responsibilities, in accordance with relevant best practice, industry standards and the financial and staff regulations and rules applicable to UNHCR. In 2013, the Committee held three sessions, during which it discussed and made observations on various issues relating to oversight, including internal audit, inspection, evaluation, internal control and enterprise risk management.

Internal Compliance and Accountability Committee

67. In June 2012, UNHCR established the Internal Compliance and Accountability Committee, whose role it is to:

- (a) Ensure effective organizational accountability by reviewing, prioritizing and monitoring outstanding critical recommendations identified by internal and external oversight bodies;
- (b) Ensure that changes of policy and procedures recommended by oversight bodies are properly reviewed and, where appropriate, implemented;
- (c) Recommend additional policies for enhanced accountability;
- (d) Support the effective implementation of the individual accountability framework represented by the global management accountability framework.

Inspector General's Office

68. The Inspector General's Office is an independent internal body headed by the Inspector General and comprising two services (Inspection and Investigation) that act independently in conducting inspections of field offices and headquarters units, undertaking investigations into possible misconduct by UNHCR personnel and conducting ad hoc inquiries regarding violent attacks on UNHCR personnel and

operations where these involve fatalities, major injuries or large-scale damage to UNHCR assets. The Inspector General's Office provides independent oversight to support the effective, efficient and accountable management of UNHCR field operations and headquarters activities, while informing the High Commissioner of challenges, problems and deficiencies in delivering the UNHCR mandate.

Other tools and mechanisms

69. It is worth noting the following efforts made by UNHCR on a continuous basis to strengthen internal controls, to maximize the effective and efficient use of its resources and to safeguard its assets:

(a) Focusing management attention on effective follow-up to recommendations made by internal and external oversight bodies, reporting regularly to the Independent Audit and Oversight Committee and the Executive Committee on the volume and nature of the outstanding recommendations;

(b) Documenting all actions to be taken to address the recommendations by the Board of Auditors;

(c) Reviewing and streamlining internal policies, procedures and guidance available to staff;

(d) Holding periodic senior management committee meetings to review and discuss aspects relating to the reinforcement of risk and performance management practices across the organization.

External audit

70. The Board of Auditors performs the external audit in accordance with article VII of the Financial Regulations and Rules of the United Nations. The High Commissioner submits the financial statements for the financial period to the Board of Auditors. The Board's review of the effectiveness of internal controls is limited to that necessary to enable it to express its audit opinion on the financial statements.

G. Going concern

71. The consequences of any potential reductions, delays in receipt or defaults in payments of contributions, in particular within the context of the global economic and financial situation, have been evaluated by the management of UNHCR. Management considers that the organization has adequate resources to continue its operations as planned in the medium term. This assertion is based on the approval by the Executive Committee of the revised budget requirements for 2014 during its meeting in October 2013, and the historical trend of the collection of pledges in recent years. Therefore, UNHCR has adopted the going-concern basis in the preparation of its financial statements.

Chapter V

Financial statements for the year ended 31 December 2013

United Nations High Commissioner for Refugees

I. Statement of financial position as at 31 December 2013

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2013</i>	<i>31 December 2012 (restated)</i>
Assets			
Current assets			
Cash and cash equivalents	Note 3.1	614 281	430 968
Investments	Note 3.1	120 000	–
Contributions receivable	Note 3.2	777 442	748 769
Inventories	Note 3.3	142 060	122 064
Other current assets	Note 3.4	150 839	63 128
Total current assets		1 804 622	1 364 929
Non-current assets			
Contributions receivable	Note 3.2	268 154	174 678
Property, plant and equipment	Note 3.5	145 395	136 124
Intangible assets	Note 3.6	7 562	5 471
Total non-current assets		421 111	316 273
Total assets		2 225 733	1 681 202
Liabilities			
Current liabilities			
Accounts payable and accruals	Note 3.7	128 025	74 435
Employee benefits	Note 3.8	77 395	72 435
Other current liabilities	Note 3.9	2 850	1 406
Total current liabilities		208 270	148 276
Non-current liabilities			
Employee benefits	Note 3.8	487 642	497 828
Provisions	Note 3.10	1 061	740
Total non-current liabilities		488 703	498 568
Total liabilities		696 973	646 844
Net assets		1 528 760	1 034 358
Fund balances and reserves			
Accumulated fund balances and reserves	Note 3.11	1 973 812	1 497 803
Working Capital and Guarantee Fund	Note 3.12	50 000	50 000
Medical Insurance Plan	Note 3.13	35 001	35 481
Staff Benefits Fund	Note 3.14	(530 053)	(548 926)
Total fund balances and reserves		1 528 760	1 034 358

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees**II. Statement of financial performance for the year ended 31 December 2013**

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2013</i>	<i>31 December 2012 (restated)</i>
Revenue			
Voluntary contributions	Note 5.1	3 105 519	2 411 436
United Nations regular budget	Note 5.2	38 996	11 856
Interest revenue		1 478	1 753
Other revenue	Note 5.3	18 598	11 820
Total revenue		3 164 591	2 436 865
Expenses			
Implementing partner expenses	Note 6.1	1 068 966	897 208
Salaries and employee benefits	Note 6.2	717 642	688 068
Contractual services	Note 6.3	173 082	161 176
Supplies and consumables for beneficiaries	Note 6.4	320 822	187 590
Operating expenses	Note 6.5	157 165	135 433
Individual and family payments to beneficiaries	Note 6.6	87 333	102 754
Equipment and office supplies	Note 6.7	44 513	43 170
Travel expenses		44 942	41 347
Fuels and lubricants		29 893	28 496
Consultants		20 799	21 851
Depreciation, amortization and impairment	Notes 3.5, 3.6	39 653	30 460
Finance costs	Note 6.8	(10 729)	(20 626)
Other expenses	Note 6.9	10 106	6 507
Total expenses		2 704 187	2 323 434
Surplus for the year		460 404	113 431

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees

III. Statement of changes in net assets for the year ended 31 December 2013

(Thousands of United States dollars)

	<i>Reference</i>	<i>Accumulated fund balances and reserves</i>	<i>Working Capital and Guarantee Fund</i>	<i>Staff Benefits Fund</i>	<i>Medical Insurance Plan</i>	<i>Total</i>
Net assets at 1 January 2012 (audited)		1 296 285	50 000	(457 306)	39 489	928 468
Surplus for the year 2012 (audited)		143 083	22 033	(33 473)	(708)	130 935
Additional depreciation for 2012 due to recognition of property, plant and equipment in 2013 relating to prior years	Note 3.5	(17 504)	–	–	–	(17 504)
Surplus for the year 2012 (restated)		125 579	22 033	(33 473)	(708)	113 431
Additional recognition of property, plant and equipment in 2013 relating to prior years	Note 3.5	53 906	–	–	–	53 906
Loss on after-service health insurance actuarial valuation		–	–	(71 053)	–	(71 053)
Funding of long-term employee liabilities		–	–	9 606	–	9 606
Transfers		22 033	(22 033)	3 300	(3 300)	–
Total movements during 2012 (restated)		201 518	-	(91 620)	(4 008)	105 890
Net assets at 31 December 2012 (restated)		1 497 803	50 000	(548 926)	35 481	1 034 358
Movements in fund balances and reserves in 2013						
Surplus for the period	Notes 3.11, 3.12, 3.13, 3.14	474 519	11 626	(28 815)	3 074	460 404
Gain on after-service health insurance actuarial valuation	Note 3.8	–	–	33 998	–	33 998
Funding of long-term employee liabilities	Notes 3.8, 3.14	(10 136)	–	10 136	–	–
Transfers	Notes 3.11, 3.12, 3.13, 3.14	11 626	(11 626)	3 554	(3 554)	–
Total movements during 2013		476 009	–	18 873	(480)	494 402
Total net assets at 31 December 2013		1 973 812	50 000	(530 053)	35 001	1 528 760

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees
IV. Statement of cash flow for the year ended 31 December 2013

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2013</i>	<i>31 December 2012 (restated)</i>
Cash flows from operating activities:			
Surplus for the period		460 404	113 431
Depreciation, amortization and impairment	Notes 3.5, 3.6	39 653	30 460
(Increase)/decrease in contributions receivable	Note 3.2	(122 149)	(189 922)
(Increase)/decrease in inventories	Note 3.3	(19 996)	(29 579)
(Increase)/decrease in other assets	Note 3.4	(87 711)	(3 757)
Increase/(decrease) in accounts payable and accruals	Note 3.7	53 590	5 120
Increase/(decrease) in employee benefits liabilities, net of actuarial gain/loss on after-service health insurance liabilities		28 772	41 052
Increase/(decrease) in provisions	Note 3.10	321	140
Increase/(decrease) in other liabilities	Note 3.9	1 444	(4 976)
(Gain)/loss on disposal of property, plant and equipment		10 209	3 827
Revenue from sale of assets		(6 022)	(1 558)
Revenue from in-kind contributions of property, plant and equipment		(240)	(786)
Net cash flows from operating activities		358 275	(36 548)
Cash flows from investing activities:			
Purchase of property, plant and equipment	Note 3.5	(58 282)	(62 867)
Purchase of intangible assets	Note 3.6	(2 702)	(6 028)
Proceeds from sale of assets		6 022	1 558
Investment — term deposit		(120 000)	—
Net cash flows from investing activities		(174 962)	(67 337)
Cash flows from financing activities		—	—
Net cash flows from financing activities		—	—
Net increase (decrease) in cash and cash equivalents		183 313	(103 885)
Cash and cash equivalents at beginning of the year		430 968	534 853
Cash and cash equivalents at end of the year		614 281	430 968

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees
V. Statement of comparison of budget and actual amounts for the year ended
31 December 2013

(Thousands of United States dollars)

	<i>Reference</i>	<i>Global needs assessment budget</i>		<i>Actual on comparable basis</i>	<i>Variances: Final budget and actual amounts</i>
		<i>Original^a</i>	<i>Final^b</i>		
Field operations					
Africa		1 516 780	1 966 755	972 125	994 630
Middle East and North Africa		480 810	1 613 316	1 058 006	555 310
Asia and the Pacific		538 466	594 660	291 598	303 062
Europe		166 844	385 143	170 798	214 345
Americas		98 189	102 076	61 116	40 960
Total field operations		2 801 089	4 661 950	2 553 643	2 108 307
Global programmes		168 300	224 857	216 660	8 197
Headquarters		176 491	197 534	193 512	4 022
Operational reserve and new or additional activities — mandate-related reserve		260 712	239 033	—	239 033
Junior Professional Officers Fund		12 000	12 000	8 010	3 990
Total	Note 7	3 418 592	5 335 374	2 971 825	2 363 549

^a The initial budget of \$3,418.6 million was approved by the Executive Committee of the Programme of the High Commissioner at its sixty-second session (3-7 October 2011), as contained in [A/66/12/Add.1](#).

^b At its sixty-third session, the Executive Committee approved the revised budget of \$3,924.2 million (see [A/67/12/Add.1](#)). The final budget figure represents the sum of the approved revised budget and the supplementary budget established by the High Commissioner, in accordance with UNHCR financial rule 7.5, in the amount of \$1,413.7 million, less than \$2.5 million, which was reduced for the Mali situation.

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees
Notes to the financial statements

Note 1

Office of the United Nations High Commissioner for Refugees, its objectives and activities

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) was established by the General Assembly in its resolution 319 A (IV). Its mandate is laid down in the statute of the Office of the United Nations High Commissioner for Refugees (Assembly resolution 428 (V), annex). According to the statute, the High Commissioner, acting under the authority of the General Assembly, shall assume the function of providing international protection, under the auspices of the United Nations, to refugees who fall within the scope of the statute and of seeking permanent solutions for the problem of refugees.

2. The General Assembly has also called upon the High Commissioner to provide assistance to returnees, as well as to monitor their safety and well-being on return (Assembly resolution [40/118](#)). In addition, on the basis of specific requests from the Secretary-General or the competent principal organs of the United Nations, and with the consent of the State concerned, the High Commissioner provides humanitarian assistance and protection to internally displaced persons (Assembly resolution [48/116](#)). As regards the High Commissioner's assistance activities, the basic provisions of the statute were expanded by the Assembly in its resolution 832 (IX).

3. The overall objectives of UNHCR are to provide international protection to refugees and to seek durable solutions to refugee problems. UNHCR seeks to safeguard the fundamental principles of asylum and non-refoulement and to ensure that the basic rights of refugees are respected and that they are treated in a dignified and humane manner. UNHCR has also developed, at the request of the General Assembly and the Governments concerned, substantial material assistance programmes to meet needs of persons of concern. Subsequent resolutions of the Assembly, the Economic and Social Council and the Executive Committee of the Programme of the United Nations High Commissioner for Refugees have called on UNHCR, in the context of its mandate, to assist other groups of persons regarded as falling within the concern of the High Commissioner. In complex humanitarian emergencies, UNHCR also contributes to the provision of humanitarian assistance.

4. The High Commissioner reports annually to the General Assembly through the Economic and Social Council. The Executive Committee of the Programme of the High Commissioner was established pursuant to Assembly resolution 1166 (XII) to advise the High Commissioner in the exercise of his or her functions and to approve the use of voluntary funds made available to the High Commissioner. The annual cycle of meetings of the Executive Committee consists of one plenary session and a number of intersessional meetings of its subsidiary body, the Standing Committee. In 2013, the Executive Committee consisted of 87 members. Each year, the report on the session of the Executive Committee is submitted to the Assembly as an addendum to the annual report of the High Commissioner.

5. UNHCR has its headquarters in Geneva, with a Global Service Centre in Budapest and its Information and Communications Technology Service Centre in Amman. It has a presence in 123 countries, where its core work is managed from a series of regional offices, branch offices, sub-offices and field offices, in the following five regions: Africa, the Americas, Asia and the Pacific, Europe, and the Middle East and North Africa. Global programmes are managed by the Department of Operations and functional Divisions.

Note 2

Accounting policies

Basis of preparation

6. The financial statements of UNHCR have been prepared on an accrual basis of accounting, in accordance with the International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board.

7. The financial statements have been prepared on a going-concern basis. This assertion is based on the approval by the UNHCR Executive Committee of the budget requirements for 2014 and 2015 during its meeting in October 2013, and the historical trend of collection of pledges in recent years. The accounting policies have been applied consistently throughout the financial period.

8. In accordance with the Financial Regulations and Rules of the United Nations ([ST/SGB/2013/4](#)), the functional and reporting currency of UNHCR is the United States dollar. All values are rounded to the nearest thousand.

9. Foreign currency transactions are translated into dollars using the United Nations operational rate of exchange, which approximates the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the year-end closing rate of the operational rate of exchange.

10. Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of foreign currency denominated monetary assets and liabilities are recognized in the statement of financial performance.

11. The statement of cash flow is prepared using the indirect method.

12. The financial statements necessarily include estimated amounts based on management's knowledge, judgement and assumptions with regard to events and actions. Estimates include, but are not limited to: the fair value of donated goods and services, accrued charges and liabilities for after-service employee benefits, the degree of impairment on accounts receivable, inventories, property, plant and equipment, and contingent assets and liabilities. Consideration of materiality is central in the development of accounting policies and the preparation of financial statements.

13. In 2013, some reclassification of items has been made in the financial statements to enhance presentation. The comparative amounts have also been reclassified. Information on the actual reclassified amounts is disclosed in the notes to the financial statements, as appropriate.

Revenue

14. In accordance with IPSAS requirements, and reflecting the nature of the work of UNHCR, revenue from the United Nations regular budget, voluntary contributions and pledges of voluntary contributions confirmed in writing are recognized as non-exchange transactions in accordance with IPSAS 23: Revenue from non-exchange transactions. UNHCR considers that, while there are restrictions on the use of contributions it receives, these restrictions do not meet the definition of a condition as described under IPSAS 23.

15. Voluntary and non-conditional cash contributions from donors for which no formal binding agreements are required are recognized as revenue when the cash contribution is received from the donor.

16. In-kind contributions of goods and services that directly support operations and activities and can be reliably measured are recognized and valued at fair value. These contributions include goods that are distributed to beneficiaries, use of premises, utilities, transport and personnel. In-kind contributions of goods are treated as both revenue and assets upon receipt of the goods. In-kind contributions of services are treated as both revenue and expense upon recognition.

17. Revenue arising from the rendering of services, sale of goods or use by others of UNHCR assets is recognized as exchange revenue in accordance with IPSAS 9: Revenue from exchange transactions.

Expenses

18. In accordance with the accrual basis of accounting, expense recognition occurs at the time of the delivery of goods or services by the supplier or service provider. Expenses are recorded and recognized in the financial statements for the periods to which they relate.

Financial instruments

19. Financial instruments are contractual arrangements that result in a financial asset for one entity and a financial liability or equity instrument for another. UNHCR financial instruments comprise cash and cash equivalents, investments, accounts receivable and accounts payable.

20. Financial instruments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that UNHCR has the intention and ability to hold to maturity. Held-to-maturity short-term financial instruments are stated at amortized cost.

Assets*Cash and cash equivalents*

21. Cash and cash equivalents are held at nominal value and comprise cash on hand, cash at banks and short-term deposits with maturities of three months or less.

Investments

22. UNHCR investments currently comprise term deposits with maturities ranging between 3 and 12 months. Investment revenue is recognized as it accrues and is included in interest revenue.

Contributions receivable

23. Current contributions receivable are stated at nominal value, less allowance for doubtful accounts. Long-term contributions receivable are stated at amortized cost using the effective interest method.

Inventories

24. Inventories constitute mostly stock items distributed free of charge to beneficiaries. They include non-food items such as tents, bedding materials, household items, medical hygienic supplies and apparel, and construction and related equipment materials. Some food items are also included in inventories.

25. Inventories are valued at the lower of cost or current replacement cost. An exception applies to inventory items received as in-kind contributions, which are measured at fair value as at the date of transfer to UNHCR.

26. The cost of inventories includes purchase cost (or fair value if received in kind) and all other costs incurred to bring the inventories to their present locations (which also includes the costs of moving inventory into UNHCR custody in the first recipient country). These other costs include procurement, transport and insurance.

27. The cost of inventories located in field offices is determined by using the specific identification of their individual actual cost. The cost of inventories located in central warehouses is determined on the weighted average basis.

28. Inventories are expensed when distributed directly by UNHCR to beneficiaries or when they are transferred to implementing partners or provided to other entities for relief assistance purposes.

29. Inventories are reviewed periodically for obsolescence, and an allowance is made on the basis of past experience.

Property, plant and equipment

30. Property, plant and equipment is recognized at historical cost, less accumulated depreciation and any impairment losses. Property, plant and equipment is depreciated over its estimated useful life using the straight-line method, except for land, which is not subject to depreciation.

31. Individual items of property, plant and equipment are capitalized when their original acquisition price is equal to or greater than the threshold of \$10,000.

32. The estimated useful lives for the various classes of property, plant and equipment are as follows:

<i>Class</i>	<i>Estimated useful life (in years)</i>
Permanent buildings — headquarters	40
Permanent buildings — other locations	20
Mobile buildings and semipermanent structures	5
Leasehold — major improvements and alterations	The lesser of the remaining lease term, plus the renewal option where relevant, and the asset's useful life.
Donated right of use — major improvements and alterations	The lesser of the expected period for which UNHCR will use the asset or the asset's useful life.
Motor vehicle equipment — heavy	10
Motor vehicle equipment — light	5
Equipment, including generators, telecommunications, security and safety, storage, and office furniture and fittings	5
Computers and workshop equipment	3

33. In the financial statements for the year 2012, and with the exception of permanent buildings, UNHCR has applied the transition provision under IPSAS 17: Property, plant and equipment. Consequently, property, plant and equipment items purchased, leased or donated before 1 January 2011 were not recognized. As at 31 December 2013, all property, plant and equipment items in service have been recognized in the financial statements. As a result, the 2012 comparative amounts have been restated.

34. Impairment reviews are undertaken for all assets at least annually.

Intangible assets

35. Intangible assets are stated at historical cost, less accumulated amortization and any impairment losses.

36. Intangible assets are capitalized if their original acquisition price is equal to or greater than the threshold of \$30,000, except for internally developed software, where the threshold is \$150,000.

37. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for the intangible asset classes are as follows:

<i>Class</i>	<i>Estimated useful life (in years)</i>
Software acquired externally	6 years
Software developed internally	6 years
Licences and rights, copyrights, intellectual property and other intangible assets	Shorter of the licence or rights period and useful life of 3 years

Liabilities

Accounts payable and accruals

38. Accounts payable are financial liabilities in respect of goods or services that have been acquired and received by UNHCR and for which the invoices have been received from the suppliers.

39. Accruals are liabilities for goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

Employee benefits

40. UNHCR recognizes the following categories of employee benefits:

- (a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period during which employees rendered the related service;
- (b) Post-employment benefits;
- (c) Other long-term employee benefits;
- (d) Termination benefits.

Short-term employee benefits

41. Short-term employee benefits in UNHCR comprise mainly salaries, wages and payroll-related allowances, first-time employee benefits, education grants and other benefits such as paid annual leave. Short-term employee benefits are measured at nominal value.

Post-employment benefits

42. Post-employment benefits in UNHCR include defined benefit plans such as the United Nations Joint Staff Pension Fund and after-service health insurance.

43. The liability recognized for these benefits is the present value of the defined benefit obligations at the reporting date. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from changes in actuarial assumptions are recognized directly in equity.

United Nations Joint Staff Pension Fund

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

45. 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. UNHCR and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Office's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNHCR has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25: Employee benefits. UNHCR contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

46. Other long-term employment benefits include end-of-service allowances and repatriation grants, including travel.

Provisions and contingent liabilities

47. A provision is made when UNHCR has a present legal or constructive obligation as a result of past events and it is probable that UNHCR will be required to settle the obligation.

48. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNHCR.

Segment reporting

49. In accordance with IPSAS 18: Segment reporting, the financial statements are also presented by segment. A segment is a distinguishable activity or group of activities for which financial information is reported separately for the purpose of evaluating the entity's past performance in achieving its objectives and in making decisions about the future allocation of resources.

50. UNHCR classifies all its activities into three segments: (a) programmes; (b) projects; and (c) special funds and accounts. UNHCR reports on the transactions of each segment during the year and on the balances held at the end of the year.

51. Programmes include the global refugee programme (pillar 1), the global stateless programme (pillar 2) and the activities funded by the United Nations Regular Budget Fund and the Junior Professional Officers Fund. The financial requirements for programmed activities relating to pillars 1 and 2 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). This also includes operational reserves from which the High Commissioner may make allocations to other parts of the annual budget, including supplementary budgets. The Global Refugee Programme relates to the UNHCR refugee mandate covering protection, assistance and durable solutions in countries of asylum (including all activities to facilitate the voluntary repatriation of refugees), together with capacity-building, advocacy and resource mobilization activities. The global stateless programme relates to the UNHCR mandate for statelessness, covering all programmes addressing stateless persons, including populations with undetermined nationality. The Junior Professional Officers Fund covers activities relating to the recruitment, training and development of young professionals sponsored by various Governments.

52. Projects include the global reintegration projects (pillar 3) and the global internally displaced persons projects (pillar 4). The financial requirements for

programmed activities relating to pillars 3 and 4 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). Global reintegration projects relate to an area where UNHCR has joint responsibilities with other United Nations system organizations (as part of the “Delivering as one” initiative), covering longer-term activities to reintegrate returning refugees into their country of origin or to locally integrate refugees into their country of asylum — with links to the broader framework of United Nations country programmes. Global internally displaced persons projects cover operations for internally displaced persons in which UNHCR is operating within the inter-agency cluster approach.

53. As at 31 December 2013, the special funds and accounts comprised the Working Capital and Guarantee Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Common Humanitarian Pipeline Special Account.

Budget comparison

54. While the accrual accounting method has been adopted as from 1 January 2012, the UNHCR budget continues to be formulated on a modified cash basis. In the statement of financial performance (statement II), expenses are classified and listed by the nature of expenses, whereas expenditure is classified by operation in the statement of comparison of budget and actual amounts (statement V).

55. The Executive Committee approves the biennial programme budget, which includes budgeted amounts for the direct costs of operations and management and administration. The UNHCR budget is based on a global needs assessment and provides a comprehensive statement of resources required to address the needs of persons of concern. The High Commissioner may, in the case of new needs that cannot be met fully from the operational reserve, approve supplementary budgets under the biennial programme budget, with such adjustments being reported to each subsequent meeting of the Standing Committee. The High Commissioner is authorized to implement the budgets to the extent that funds become available under the voluntary funds administered by the High Commissioner.

56. The statement of comparison of budget and actual amounts (statement V) shows the initial budget and compares the final budget to actual amounts on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and the financial statements differ, note 7 provides reconciliation between the actual amounts presented in statement V and the actual amounts presented in the statement of financial performance (statement II).

Note 3
Assets and liabilities**3.1 Cash and cash equivalents and investments**

Table 3.1.1

(Thousands of United States dollars)

	31 December 2013	31 December 2012 (restated)
Cash and cash equivalents		
Headquarters	16 884	39 207
Field offices	97 606	69 979
Short-term deposits	500 000	322 000
Total cash and cash equivalents before allowance	614 490	431 186
Allowance for doubtful bank balances	(209)	(218)
Total cash and cash equivalents	614 281	430 968

57. For comparability, the 2012 balance of \$0.2 million pertaining to allowance for doubtful bank balances has been reclassified from allowance in other current assets to cash and cash equivalents in 2013. The same amount has been reclassified to operational cash in table 3.1.2.

58. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in short-term deposit accounts are available at short notice.

59. Table 3.1.2 shows the purposes for which cash and cash equivalents were held.

Table 3.1.2

(Thousands of United States dollars)

	31 December 2013	31 December 2012 (restated)
Operational	550 876	319 510
Medical Insurance Plan	—	35 481
Working Capital and Guarantee Fund	49 978	49 986
Junior Professional Officers Fund	13 427	13 075
Staff Benefits Fund	—	12 916
Total cash and cash equivalents	614 281	430 968

60. Table 3.1.3 shows short-term investments held by source of funding.

Table 3.1.3

(Thousands of United States dollars)

	31 December 2013	31 December 2012
Staff Benefits Fund	26 706	—
Medical Insurance Plan	35 006	—
Operational	58 288	—
Short-term investments	120 000	—

61. As at 31 December 2013, investments amounted to \$120 million (zero at 31 December 2012). These represent investments pertaining to the Staff Benefits Fund, the Medical Insurance Plan and a temporary surplus of cash holdings in operational activities that are not required for immediate use, as shown in the table 3.1.3. These investments are placed in money markets with maturities ranging between 3 and 12 months. The UNHCR investment and risk management guidelines are applied and are overseen by the Finance Investment and Strategic Committee of UNHCR. The selected benchmark to measure the performance of returns on these investments is the one-year United States Treasury bills yield curve.

3.2 Contributions receivable

Table 3.2.1

(Thousands of United States dollars)

	31 December 2013	31 December 2012
Current contributions receivable		
Government	587 080	568 500
Other donors	149 968	125 686
United Nations system organizations	20 731	27 869
Private donors	37 619	32 122
Current contributions receivable before allowance	795 398	754 177
Allowance for doubtful accounts	(17 956)	(5 408)
Total current contributions receivable	777 442	748 769
Non-current contributions receivable		
Government	170 666	160 890
Other donors	95 878	13 647
United Nations system organizations	1 248	141
Private donors	362	—
Total non-current contributions receivable	268 154	174 678
Net contributions receivable	1 045 596	923 447

62. All contributions receivable have been recorded as revenue in the year in which the donor's contribution was confirmed in writing.

63. Table 3.2.2 provides the composition of contributions receivable by due date.

Table 3.2.2

(Thousands of United States dollars)

<i>Year due</i>	<i>31 December 2013</i>	<i>Percentage</i>	<i>31 December 2012</i>	<i>Percentage</i>
2011 and prior years	291	0.0	16 873	1.8
2012	6 156	0.6	136 702	14.8
2013	18 831	1.8	595 194	64.5
2014	752 164	71.9	111 010	12.0
2015	206 680	19.8	27 511	3.0
2016	56 139	5.4	36 157	3.9
2017	5 335	0.5		
Total contributions receivable	1 045 596	100.0	923 447	100.0

64. Contributions receivable relate to donor contributions for programmes, projects and special accounts. Donor contributions may include earmarking that requires UNHCR to use the contribution for a specific region/subregion, designated country or a thematic activity.

65. Table 3.2.3 provides an analysis of contributions receivable by type of earmarking.

Table 3.2.3

(Thousands of United States dollars)

	<i>31 December 2013</i>	<i>31 December 2012</i>
Unrestricted	384 986	454 763
Pending earmarking	240 707	231 824
Country level	386 635	210 371
Regional/subregional	16 392	14 072
Thematic	16 876	12 417
Total contributions receivable	1 045 596	923 447

66. Contributions pending earmarking of \$240.7 million arose primarily at the pledging conference in December 2013 from donors who were to decide on earmarking their funding.

67. The movement of the allowance for doubtful accounts during 2013 was as follows:

Table 3.2.4

(Thousands of United States dollars)

	<i>31 December 2012</i>	<i>Write-offs</i>	<i>Increase</i>	<i>(Decrease)</i>	<i>31 December 2013</i>
Allowance for doubtful accounts	5 408	(463)	13 267	(256)	17 956

68. Contributions receivable are shown net of allowances for doubtful accounts. The allowance is based on an estimate made for contributions receivable for which the receipt is considered uncertain.

3.3 Inventories

69. The following tables show the movements of inventory items during the year. Table 3.3.1 shows the total value of inventories as presented in the statement of financial position (statement I). Table 3.3.2 shows a reconciliation of inventories that reflects the opening balance, acquisitions during the year, reduced by the value of inventory items distributed and other adjustments, less the allowance for obsolete inventory.

Table 3.3.1

(Thousands of United States dollars)

<i>Inventory type</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Tents	52 557	50 803
Bedding materials	45 069	42 437
Household items	35 645	26 984
Medical hygienic supplies and apparel	16 243	12 699
Food and other supplies	3 707	6 349
Construction and related equipment materials	3 792	3 396
Material consumables	9	213
Subtotal	157 022	142 881
<i>Less: allowance for obsolescence</i>	<i>14 962</i>	<i>20 817</i>
Total inventory	142 060	122 064

Table 3.3.2

(Thousands of United States dollars)

<i>Inventory reconciliation</i>	<i>2013</i>	<i>2012</i>
Opening inventory as at 1 January	122 064	92 485
Cost of goods acquired ^a	336 790	211 221
Cost of goods distributed	(316 579)	(175 689)
Other adjustments	(6 070)	(5 515)
Decrease in allowance for obsolescence	5 855	(438)
Closing inventory as at 31 December	142 060	122 064

^a Including in-kind contributions.

70. UNHCR holds inventory items to be distributed to its beneficiaries, in 166 warehouses (183 in 2012) worldwide and 7 global central warehouses, located in Dubai (United Arab Emirates), Copenhagen (Denmark), Isaka (United Republic of Tanzania), Nairobi (Kenya), Accra (Ghana), Douala (Cameroon) and Amman (Jordan). Inventory items distributed totalled \$316.6 million during 2013 and are recorded as an expense in the statement of financial performance (statement II).

71. Inventory quantities derived from the UNHCR inventory tracking system are validated by physical stock counts and adjusted as necessary. Other adjustments also include inventory written off during the year for which no allowance had been made.

72. An allowance for obsolete inventory is made on the basis of past experience. A full allowance is made for all inventory items that are aged in excess of their standard shelf life, and an appropriate allowance is made for other inventory items that are considered slow-moving.

73. The movement of the allowance for obsolete inventory is as follows:

Table 3.3.3

(Thousands of United States dollars)

	<i>31 December 2012</i>	<i>Write-offs</i>	<i>Increase</i>	<i>(Decrease)</i>	<i>31 December 2013</i>
Allowance for obsolete inventory	20 817	(468)	3 915	(9 302)	14 962

74. At year-end, UNHCR held inventory items with a total value of \$142.1 million after the allowance for obsolescence. This is equivalent to approximately six months' distribution in 2013 and compares with nine months' distribution held at the end of 2012.

3.4 Other current assets

Table 3.4.1

(Thousands of United States dollars)

	31 December 2013	31 December 2012 (restated)
Prepayments	123 322	46 622
Deposits with suppliers	1 770	2 851
Value-added tax receivables	9 478	8 067
Receivables from implementing partners	2 837	2 777
Staff advances	5 086	6 728
Assets held for sale	9 000	–
Other receivables	6 934	3 826
Subtotal	158 427	70 871
<i>Less: allowance for other current assets</i>	<i>7 588</i>	<i>7 743</i>
Total other current assets	150 839	63 128

75. For comparability, the 2012 balance of \$0.2 million pertaining to allowance for doubtful bank balances has been reclassified to cash and cash equivalents in 2013.

76. Prepayments are payments made in advance of the period to which the expense relates and include implementing partner agreements, prepaid rent, education grants and travel. This includes advance payments of \$105.9 million made to implementing partners as follows: (a) 2013 project agreements with respect to which the delivery of services was extended into the following year, for \$97.5 million against 199 projects (\$28.6 million in 2012); and (b) first instalments paid prior to 1 January 2014 against 2014 budget year projects, for \$8.4 million (71 projects).

77. Deposits with suppliers include rental deposits and deposits necessary to secure supplies and services.

78. Value-added tax receivables relate to amounts due to be reimbursed to UNHCR by Governments.

79. Funding is provided to implementing partners on the basis of agreements entered into with UNHCR. Receivables from implementing partners are amounts confirmed by the partner as remaining unspent at the end of the agreement. As at 31 December 2013, the net amount receivable from implementing partners amounted to \$1 million (\$1.1 million in 2012), representing a gross amount receivable of \$2.8 million (\$2.8 million in 2012), less an allowance for doubtful accounts of \$1.8 million (\$1.7 million in 2012).

80. Staff advances consist primarily of advances towards rental subsidies, travel, medical expenses, salary and other staff entitlements.

81. Assets held for sale are composed primarily of motor vehicles in use beyond their useful economic life and are presented at fair value.

82. Other receivables include amounts due from other United Nations system organizations and miscellaneous receivables.

83. An allowance is made for those doubtful accounts included in other current assets for which the receipt is considered uncertain. The movement of the allowance for these doubtful accounts is as follows:

Table 3.4.2

(Thousands of United States dollars)

	31 December 2012 (restated)	Write-offs	Increase/(decrease)	31 December 2013
Allowance for other current assets	7 743	(181)	26	7 588

84. For comparability, the 2012 balance of \$0.2 million for allowance for doubtful bank balances has been reclassified to cash and cash equivalents in 2013.

3.5 Property, plant and equipment

85. The main asset classes for property, plant and equipment comprise: land and buildings, major alteration and improvements to properties, motor vehicles, computers and telecommunications equipment and generators.

86. In the financial statements for the period 2012, the transition provision under IPSAS 17: Property, plant and equipment had been invoked for property, plant and equipment acquired before 1 January 2011, except in respect of permanent buildings. Consequently, those items were not recognized in the 2012 financial statements.

87. As at 31 December 2013, all property, plant and equipment in service had been recognized, including those items that had been fully depreciated. The additional recognition resulted in the restatement of the property, plant and equipment balance as at 1 January 2012 with an additional cost of \$147.7 million and an associated accumulated depreciation of \$93.8 million. Consequently, the opening balance of net assets as at 1 January 2012 was restated and increased by \$53.9 million in the statement of changes in net assets (statement III). At the same time, a decrease of \$17.5 million is also shown in the changes to net assets for 2012 in statement III (restated) for the resulting additional depreciation expense.

88. An impairment loss of \$2.3 million was recognized in the statement of financial performance under “depreciation, amortization and impairment”, which was recognized primarily with respect to heavy vehicles, light vehicles and generators.

89. Currently, UNHCR holds some motor vehicles and other equipment beyond their economic lives. A management plan is in place to systematically dispose of these at best value. Proceeds from the disposal in 2014 are estimated to be \$9 million.

Table 3.5.1
Property, plant and equipment, 2013
(Thousands of United States dollars)

	<i>Land and buildings</i>	<i>Major alterations and improvements</i>	<i>Motor vehicles</i>	<i>Generators</i>	<i>Computer and telecommunications equipment</i>	<i>Other equipment</i>	<i>Total</i>
Cost/valuation							
Closing balance at 31 December 2012 (restated)	24 974	3 502	192 095	20 198	11 435	12 796	265 000
Additions — purchased	7 883	3 394	38 740	2 986	3 160	2 119	58 282
Additions — contributions in kind	78	—	—	150	12	—	240
Disposals	(1 023)	(41)	(11 486)	(1 312)	(83)	(6 917)	(20 862)
Closing balance at 31 December 2013	31 912	6 855	219 349	22 022	14 524	7 998	302 660
Accumulated depreciation							
Closing balance at 31 December 2012 (restated)	(8 344)	(933)	(98 186)	(11 483)	(3 655)	(6 275)	(128 876)
Disposals	284	7	5 249	958	33	4 122	10 653
Depreciation charge for the year	(2 665)	(917)	(25 397)	(3 015)	(2 427)	(2 355)	(36 776)
Impairment	(109)	—	(1 760)	(347)	(19)	(31)	(2 266)
Closing balance at 31 December 2013	(10 834)	(1 843)	(120 094)	(13 887)	(6 068)	(4 539)	(157 265)
Net book value							
Closing balance at 31 December 2012 (restated)	16 630	2 569	93 909	8 715	7 780	6 521	136 124
Closing balance at 31 December 2013	21 078	5 012	99 255	8 135	8 456	3 459	145 395

Table 3.5.2
Property, plant and equipment, 2012 (restated)

(Thousands of United States dollars)

	<i>Land and buildings</i>	<i>Major alterations and improvements</i>	<i>Motor vehicles</i>	<i>Generators</i>	<i>Computer and telecommunications equipment</i>	<i>Other equipment</i>	<i>Total</i>
Cost/valuation							
Opening balance at 1 January 2012	14 278	1 335	32 871	3 399	1 519	4 583	57 985
Property, plant and equipment recognized during 2013	6 936	–	115 689	13 199	4 444	7 460	147 728
Opening balance at 1 January 2012 (restated)	21 214	1 335	148 560	16 598	5 963	12 043	205 713
Additions — purchased	4 082	2 167	46 550	3 661	5 546	861	62 867
Additions — contributions in kind	489	–	207	90	–	–	786
Disposals	(811)	–	(3 222)	(151)	(74)	(108)	(4 366)
Closing balance at 31 December 2012 (restated)	24 974	3 502	192 095	20 198	11 435	12 796	265 000
Accumulated depreciation							
Opening balance at 1 January 2012	(2 900)	(121)	(2 007)	(253)	(126)	(283)	(5 690)
Depreciation of property, plant and equipment recognized during 2013	(3 451)	4	(75 812)	(8 413)	(2 447)	(3 703)	(93 822)
Opening balance at 1 January 2012 (restated)	(6 351)	(117)	(77 819)	(8 666)	(2 573)	(3 986)	(99 512)
Depreciation charge for the year	(1 182)	(816)	(8 011)	(951)	(463)	(976)	(12 399)
Additional depreciation in 2012 for property, plant and equipment recognized during 2013	(906)	–	(12 756)	(1 881)	(632)	(1 329)	(17 504)
Depreciation charge for the year (restated)	(2 088)	(816)	(20 767)	(2 832)	(1 095)	(2 305)	(29 903)
Disposals	95	–	400	15	13	16	539
Closing balance at 31 December 2012 (restated)	(8 344)	(933)	(98 186)	(11 483)	(3 655)	(6 275)	(128 876)
Net book value							
Opening balance at 1 January 2012	11 378	1 214	30 864	3 146	1 393	4 300	52 295
Property, plant and equipment recognized in the financial statements during 2013	3 485	4	39 877	4 786	1 997	3 757	53 906
Opening balance at 1 January 2012 (restated)	14 863	1 218	70 741	7 932	3 390	8 057	106 201
Closing balance at 31 December 2012 (restated)	16 630	2 569	93 909	8 715	7 780	6 521	136 124

3.6 Intangible assets

90. The movements in intangible assets during the year are as follows:

Table 3.6.1

(Thousands of United States dollars)

	<i>Licences and rights, copyrights and other</i>	<i>Intangible assets under development</i>	<i>Total 2013</i>
Cost			
Opening balance 1 January	1 822	4 206	6 028
Additions	45	2 657	2 702
Closing balance 31 December	1 867	6 863	8 730
Accumulated amortization			
Opening balance 1 January	(557)	—	(557)
Amortization charge for the year	(611)	—	(611)
Closing balance 31 December	(1 168)	—	(1 168)
Net book value			
Opening balance 1 January	1 265	4 206	5 471
Closing balance 31 December	699	6 863	7 562

Table 3.6.2

(Thousands of United States dollars)

	<i>Licences and rights, copyrights and other</i>	<i>Intangible assets under development</i>	<i>Total 2012</i>
Cost			
Opening balance 1 January	—	—	—
Additions	1 822	4 206	6 028
Closing balance 31 December	1 822	4 206	6 028
Accumulated amortization			
Opening balance 1 January	—	—	—
Amortization charge for the year	(557)	—	(557)
Closing balance 31 December	(557)	—	(557)
Net book value			
Opening balance 1 January	—	—	—
Closing balance 31 December	1 265	4 206	5 471

91. The capitalized value of internally developed software excludes those costs related to research and maintenance.

92. “Licences” represents primarily perpetual rights acquired for the use of desktop software after the expiration of the contract in January 2015. The cost will be amortized over three years ending in January 2015.

93. “Intangible assets under development” represents two software projects: Focus 2 and proGres.

3.7 Accounts payable and accruals

(Thousands of United States dollars)

	31 December 2013	31 December 2012
Accounts payable		
Commercial suppliers	31 780	24 480
Implementing partners	17 741	7 084
United Nations system organizations	2 568	3 315
Other payables	4 030	2 632
Total accounts payable	56 119	37 511
Accruals		
Commercial suppliers	56 126	24 215
Implementing partners	4 873	6 346
United Nations system organizations	9 312	4 865
Other payables	1 595	1 498
Total accruals	71 906	36 924
Total accounts payable and accruals	128 025	74 435

94. Accounts payable to commercial suppliers relate to amounts due for goods and services for which invoices have been received.

95. The amounts due to implementing partners represent payments being processed against agreements with those partners.

96. Other payables include amounts due to employees, volunteers, contractors and beneficiaries.

97. Accruals are liabilities for the cost of goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

3.8 Employee benefits liabilities

Table 3.8.1

(Thousands of United States dollars)

	2013	2012
Employee benefits liabilities		
Salaries and other staff benefits	8 278	8 420
Annual leave	59 188	55 336
After-service health insurance	417 590	421 588
Repatriation benefits	78 864	83 796
Other separation benefits	1 117	1 123
Total employee benefits liabilities	565 037	570 263
Composition		
Current	77 395	72 435
Non-current	487 642	497 828
Total employee benefits liabilities	565 037	570 263

98. Salaries and other staff benefits include short-term employee benefits such as salaries and wages, home leave, education grants and other benefits.

99. Annual leave liabilities are calculated for the unused annual leave balance at the end of 2013. Separating staff are entitled to be paid for unused annual leave that they may have accrued up to a maximum of 60 days.

100. After-service health insurance is available in the form of continued membership in the United Nations Staff Mutual Insurance Society, an insurance scheme managed by the United Nations Office at Geneva, or through the Medical Insurance Plan for retired locally recruited staff members who served at designated duty stations away from Headquarters and their eligible dependants.

Actuarial valuation of post-employment and other long-term liabilities

101. Liabilities related to after-service health insurance and repatriation benefits are calculated by an independent actuary. Actuarial assumptions are summarized as follows:

<i>Assumptions used in valuation of after-service health insurance obligations</i>	
Discount rate	3.8% — Weighted average of discount rates (2.7%-4.95%) of three major currencies representing after-service health insurance liabilities, i.e., United States dollar, euro and Swiss franc. Each year's projected after-service health insurance cash flow is discounted at a spot rate for high-quality corporate bonds payable in each major currency appropriate for that maturity.
Expected rate of medical cost increase	2.95% — Weighted average of health care cost trend rates (2.0%-4.0%) estimated for United States dollar, euro and Swiss francs claims reimbursement.
<i>Assumptions used in valuation of repatriation benefit obligations</i>	
Discount rate	4.3% — Each year's projected cash flow is discounted at a spot rate for high-quality corporate bonds payable in United States dollar appropriate for that maturity. The discount rate is the single equivalent rate that produces the same discounted present value.
Expected rate of salary increase	2.5%

After-service health insurance liability

Table 3.8.2

(Thousands of United States dollars)

	2013		2012	
	<i>Present value of future benefits</i>	<i>Accrued liability</i>	<i>Present value of future benefits</i>	<i>Accrued liability</i>
Gross liability	817 724	605 547	870 724	610 296
Offset from retiree contributions	(249 770)	(187 957)	(264 019)	(188 709)
Net liability as at 31 December	567 954	417 590	606 705	421 587

102. The present value of future benefits is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and active staff expected to retire. The accrued liability represents that portion of the present value of benefits that has accrued from the staff member's date of entry on duty until the valuation date. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Thus, for retirees and active staff members who are eligible to retire with benefits, the present value of future benefits and the accrued liability are equal. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula.

103. The following table presents a reconciliation of opening and closing balances of the after-service health insurance liability:

Table 3.8.3

(Thousands of United States dollars)

<i>After-service health insurance</i>	<i>2013</i>	<i>2012</i>
Defined benefit obligation at 1 January	421 587	325 162
Service expense cost for year	20 887	13 195
Interest expense cost for year	13 844	16 447
Benefits paid (net of participants' contribution)	(4 730)	(4 270)
Actuarial (gain)/loss	(33 998)	71 053
Defined benefit obligation at 31 December	417 590	421 587

104. The actuarial gains and losses are recognized as a direct charge or credit to reserves, while service and interest costs are recognized as an expense. The expense recognized in the statement of financial performance (statement II) in 2013 is \$34.7 million. The amount recognized in the statement of changes in net assets (statement III) for actuarial gain is \$34 million.

105. The after-service health insurance liability for active and retired staff and their dependants who are or were funded by the United Nations regular budget is not included in these financial statements as it constitutes a liability of the United Nations. Currently, the after-service health insurance expense for this group of staff is paid directly by the United Nations.

106. UNHCR has started funding after-service health insurance liabilities by charging 3 per cent of the net base salary with effect from 1 January 2012. The amount funded as at 31 December 2013 is \$22.7 million.

Table 3.8.4

(Thousands of United States dollars)

<i>After-service health insurance</i>	<i>2013</i>	<i>2012</i>
Defined benefit obligation at 31 December	417 590	421 587
Funded as at 31 December	(22 696)	(10 916)
Unfunded defined benefit obligation at 31 December	394 894	410 671

107. The contribution of UNHCR in 2014 for after-service health insurance is estimated at \$16.6 million.

Sensitivity analysis

108. In accordance with the actuarial report, the effect of an increase or decrease of one percentage point in the assumed medical cost trend rate on (a) the aggregate of the current service cost and interest cost component of net periodic post-employment medical cost and (b) the accumulated post-employment benefit obligation is shown in table 3.8.5.

Table 3.8.5

(Thousands of United States dollars)

	2013	2012
Effect on the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs		
One percentage point increase	7 516	7 883
One percentage point decrease	(5 847)	(4 976)
Effect on year-end accumulated post-employment benefit obligation		
One percentage point increase	89 126	89 781
One percentage point decrease	(69 642)	(70 287)

Repatriation benefits

109. In line with the Staff Rules and Staff Regulations of the United Nations, some staff members are entitled to repatriation grants and related relocation costs upon their separation from the Organization, based on the number of years of service. The Organization's accrued liability for repatriation grant and travel as at 31 December 2013, as determined by the actuary, is \$78.9 million, as shown in the table below.

Table 3.8.6

(Thousands of United States dollars)

	2013		2012	
	<i>Present value of future benefits</i>	<i>Accrued liability</i>	<i>Present value of future benefits</i>	<i>Accrued liability</i>
Repatriation grant	69 270	51 141	70 788	52 565
Travel and shipment	27 723	27 723	31 231	31 231
Net liability as at 31 December	96 993	78 864	102 019	83 796

110. The following table presents a reconciliation of opening and closing balances of the repatriation liability:

Table 3.8.7

(Thousands of United States dollars)

<i>Repatriation grant and travel</i>	2013	2012
Net obligation at 1 January	83 796	80 391
Service expense cost for the year	3 292	2 699
Interest expense cost for the year	2 675	3 947
Benefits paid	(4 076)	(3 611)
Actuarial (gain)/loss	(6 823)	370
Total obligation at 31 December	78 864	83 796

111. The repatriation liability for staff whose salaries are funded by the United Nations regular budget is included in these financial statements, as the settlement of this liability will be discharged by UNHCR.

112. The aggregate of the current-year service cost, interest expense and benefits paid are recognized as expense in the statement of financial performance (statement II). For 2013, the expense recognized is \$1.9 million. Actuarial gains or losses are recognized as expense in statement II. For 2013, the actuarial gain of \$6.8 million is recognized in other personnel costs.

Table 3.8.8

(Thousands of United States dollars)

<i>Repatriation grant and travel</i>	<i>2013</i>	<i>2012</i>
Total obligation at 31 December	78 864	83 796
Funded as at 31 December	(4 010)	(2 000)
Unfunded obligation at 31 December	74 854	81 796

113. Payments by UNHCR in 2014 for repatriation benefits are estimated to be \$6.2 million.

United Nations Joint Staff Pension Fund

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

115. The financial obligation of UNHCR 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.

116. 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 actuarial valuation as at 31 December 2013 is currently being conducted.

117. As 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.

118. 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 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.

119. In July 2012, the Pension Board noted, in its report on its 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 age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants in the Pension Fund, with effect not later than 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 Fund as at 31 December 2013.

120. During 2013, UNHCR contributions paid to the Pension Fund amounted to \$81.9 million (\$76.2 million in 2012). Contributions due in 2014 are expected to be \$87.9 million.

121. 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, which can be viewed on its website at www.unjspf.org.

3.9 Other current liabilities

122. Other current liabilities include contributions that have been received by UNHCR pending agreement and for which a corresponding liability is recognized until such time as the agreements with the respective donors have been finalized. Upon the finalization of the agreements, the amounts involved are recognized as revenue.

(Thousands of United States dollars)

	31 December 2013	31 December 2012
Contributions pending agreement	775	358
Other payables	2 075	1 048
Total other current liabilities	2 850	1 406

3.10 Provisions

(Thousands of United States dollars)

<i>Type of provision</i>	<i>31 December 2012</i>	<i>Utilization</i>	<i>Increase/ (decrease)</i>	<i>31 December 2013</i>
Provision for restoration for leasehold premises and donated right of use premises	740	—	321	1 061
Total provisions	740	—	321	1 061

123. The provision for the restoration for leasehold premises relates mostly to medium-term leases and to donated right of use premises where there is a contractual obligation to restore the premises to the original condition. The leases and rights of use on these premises are usually renewed, and, as a consequence, UNHCR treats the provision for restoration as a non-current liability.

3.11 Accumulated fund balances and reserves

(Thousands of United States dollars)

	<i>Closing balance 31 December 2012 (restated)</i>	<i>Surplus/(deficit)</i>	<i>Transfer in</i>	<i>Transfer out</i>	<i>Closing balance 31 December 2013</i>
Annual Programme Fund					
Annual Programme Fund, net of reserves	1 317 737	444 659	235 057	(213 849)	1 783 604
Operational reserve	10 000	—	61 461	(61 461)	10 000
New or additional activities — mandate-related reserve	20 000	—	3 053	(3 053)	20 000
Total Annual Programme Fund	1 347 737	444 659	299 571	(278 363)	1 813 604
United Nations Regular Budget Fund	11 481	(7 345)	—	—	4 136
Junior Professional Officers Fund	13 156	1 163	3	(963)	13 359
Reintegration Projects Fund	27 081	12 134	424	(4 105)	35 534
Internally Displaced Persons Projects Fund	93 880	22 726	4 902	(19 491)	102 017
Common Humanitarian Pipeline	4 468	1 182	—	(488)	5 162
Total accumulated fund balances and reserves	1 497 803	474 519	304 900	(303 410)	1 973 812

124. The balance of the accumulated fund balances and reserves as at 31 December 2012 has been restated owing to the additional recognition of property, plant and equipment in 2013 relating to prior years. The additional recognition resulted in a

net increase of \$36.4 million to the closing balance of the accumulated fund balances and reserves as at 31 December 2012.

125. Fund balances represent the unexpended portion of contributions recorded as revenue that are intended to be utilized in future operational requirements of the organization. Transfers under the Annual Programme Fund, operational reserve and the new or additional activities — mandate-related reserve relate to the utilization of the operational reserve and the new or additional activities — mandate-related reserve for programmes and projects and other transfers relate to the transfer of funds between pillars.

126. Transactions for pillar 1 (global refugee programme) and pillar 2 (global stateless programme) are recorded in:

- (a) The Annual Programme Fund;
- (b) The Regular Budget Fund;
- (c) The Junior Professional Officers Fund;

Transactions for pillar 3, global reintegration projects, and pillar 4, global internally displaced persons projects, are recorded in those respective funds.

127. The operational reserve is utilized to provide assistance to refugees, returnees and displaced persons for which there is no provision in the programmes and projects approved by the Executive Committee and other related activities. The reserve is maintained at not less than \$10 million by replenishments from the Working Capital and Guarantee Fund.

128. The new or additional activities — mandate-related reserve is utilized to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities that are consistent with the activities and strategies in the approved annual programme budget and the mandate of the Office. This reserve is constituted at \$50 million for each financial period of the biennial programme budget, or at a different level if so decided by the Executive Committee. For the financial period 2013, the Executive Committee has set the level at \$20 million.

129. A Special Account for the Common Humanitarian Pipeline was established in 2012 for the management and coordination of non-food items logistics in Darfur. UNHCR took over the leadership of this activity on 1 April 2012 from the World Food Programme. The main objective is to ensure that appropriate stock levels for non-food items are maintained and distributed twice a year (in preparation for the rainy season and the winter season). This activity is not included in the global needs assessment budget.

3.12 Working Capital and Guarantee Fund

130. The Working Capital and Guarantee Fund has an established ceiling of \$50 million approved by the Executive Committee. The Fund is maintained by revenue from interest on invested funds, savings from prior-year programmes, voluntary contributions and other miscellaneous revenue. The Fund is utilized to replenish the operational reserve and to meet essential payments and guarantee obligations pending receipt of contributions pledges.

(Thousands of United States dollars)

	<i>31 December 2012</i>	<i>Surplus</i>	<i>Transfer in</i>	<i>Transfer out</i>	<i>31 December 2013</i>
Working Capital and Guarantee Fund	50 000	11 626	104 156	(115 782)	50 000

3.13 Medical Insurance Plan

(Thousands of United States dollars)

	<i>31 December 2012</i>	<i>Surplus</i>	<i>Transfer in</i>	<i>Transfer out</i>	<i>31 December 2013</i>
Medical Insurance Plan	35 481	3 074	–	(3 554)	35 001

131. The Medical Insurance Plan was established by the General Assembly at its forty-first session in accordance with United Nations staff regulation 6.2. The Plan is maintained by premiums from field staff and proportional contributions from UNHCR, as well as by interest revenue. Expenses include claims processed during the year and associated administrative expenses. Coverage under the Plan is limited to locally recruited General Service staff members and National Professional Officers in the field.

132. During 2013, \$3.6 million, equivalent to 3 per cent of the net base salary of staff members participating in the Medical Insurance Plan, was transferred from the Plan to the Staff Benefits Fund towards funding the after-service health insurance liabilities in respect of participants in the Plan.

3.14 Staff Benefits Fund

(Thousands of United States dollars)

	<i>31 December 2013</i>			<i>31 December 2012</i>		
	<i>Liabilities</i>	<i>Funding</i>	<i>Net fund balance</i>	<i>Liabilities</i>	<i>Funding</i>	<i>Net fund balance</i>
After-service health insurance						
United Nations Staff Mutual Insurance Society	(306 281)	15 804	(290 477)	(302 628)	7 606	(295 022)
Medical Insurance Plan	(111 309)	6 892	(104 417)	(118 959)	3 310	(115 649)
Subtotal	(417 590)	22 696	(394 894)	(421 587)	10 916	(410 671)
Repatriation	(78 864)	4 010	(74 854)	(83 796)	2 000	(81 796)
Annual leave	(59 188)	–	(59 188)	(55 336)	–	(55 336)
Other separation benefits	(1 117)	–	(1 117)	(1 123)	–	(1 123)
Total	(556 759)	26 706	(530 053)	(561 842)	12 916	(548 926)

133. The Staff Benefits Fund was established to record transactions relating to end-of-service and post-retirement benefits.

134. In accordance with the decision of the Standing Committee in June 2011, UNHCR started funding after-service health insurance liabilities by charging 3 per cent of the net base salary with effect from 1 January 2012. The amount reserved since 2012 is \$22.7 million.

135. In addition, in accordance with the decision of the Standing Committee, \$4 million has been reserved for funding repatriation benefits since 2012.

136. During 2013, UNHCR Staff Benefits Fund balances were invested in money market instruments. These investments are in money market placements with maturities ranging between 3 and 12 months. UNHCR investment and risk management guidelines are applied and are overseen by the Finance Investment and Strategic Committee. The selected benchmark to measure the performance of returns on these investments is the one-year United States Treasury bills yield curve.

137. All of the funds, reserves and special accounts referred to above have been established by the Executive Committee or by the High Commissioner with the concurrence of the Executive Committee.

Note 4

Risk analysis

Credit risk

138. UNHCR risk management policies limit the amount of credit exposure to any counterparty and require strict adherence to minimum credit quality guidelines. Therefore, the risks of loss of principal or financial reward have been substantially mitigated through the application of stringent risk management evaluations. Surplus of funds representing operational and non-operational cash holdings are placed with major financial institutions worldwide taking into account geographical distribution and also specific threshold limits by counterparty. All surplus funds placements have been concluded with financial institutions that have been accorded the strongest credit ratings by the primary rating agencies, hence safeguarding highest credit quality.

139. Contributions receivable are composed primarily of voluntary contributions due from Member States. Historically, there have been no material amounts that have remained uncollected. Note 3.2 provides details of the status of the outstanding contributions and their ageing profile.

Liquidity risk

140. UNHCR liquid assets include cash and cash equivalents as well as investments. The total cash and cash equivalent holdings of UNHCR amounted to \$614.3 million as at 31 December 2013, compared with \$431.2 million as at 31 December 2012. Investments amounted to \$120 million as at 31 December 2013.

141. UNHCR total liquid assets are composed of unencumbered operational liquid assets amounting to the equivalent of \$609.2 million and encumbered non-operational liquid assets amounting to \$125.1 million (see note 3.1).

142. The average unencumbered operational liquid assets held during 2013 as a multiplier of average monthly expenses provide coverage of 2.1 months, which compares with an average of 1.7 months for 2012. UNHCR manages its cash requirements with the target of maintaining its average unencumbered operational liquid assets at a level equivalent to no more than two months' average cash outflows. The implementation of UNHCR programme and emergency activities are planned against pledged contributions and special appeals, together with cash flow forecasting and monitoring of the drawdown and receipt of donor contributions. Rigorous liquidity management procedures and monitoring are in place to ensure that sufficient liquid assets are available at any point in time to meet contractual liabilities as and when due.

Interest rate risk

143. The organization earns interest revenue derived from surplus balances that it maintains in operational and non-operational cash holdings throughout the year. In 2013, interest revenue earned amounted to \$1.5 million, compared with \$1.8 million in 2012. Despite the low interest rate environment worldwide and the short duration of placements, UNHCR achieved interest revenue results that were substantially above the set benchmark of returns on three-month United States Treasury bills for short-term placements and on one-year United States Treasury bills for investments, thereby providing effective interest rate management and safeguarding the funds. The implementation of the Office's programme and budget is not dependent on or affected by interest earnings.

Foreign exchange risk

144. The organization is affected by the foreign exchange risk derived from contributions received in 10 major currencies and cash outflows of payments in 96 currencies. UNHCR maintains and manages a multi-currency portfolio by establishing actual and forecast net cash flow positions that are highly correlated between receiving and paying currencies. Therefore, the organization resorts only to limited monthly hedging interventions, with no open contracts to report at year-end.

145. UNHCR risk management measures were applied to ensure that foreign exchange impacts were minimized and the value of cash holdings was safeguarded.

146. As at 31 December 2013, 84.4 per cent of the reported balances of cash and cash equivalents and investments were held in money market placements denominated in the United States dollar, 2.3 per cent in centralized headquarters accounts in major currency denominations, and 13.3 per cent in field accounts for the sole purpose of immediate disbursements for ongoing field operations.

**Note 5
Revenue****5.1 Voluntary contributions**

Table 5.1.1

(Thousands of United States dollars)

	2013	2012
Monetary contributions		
Government	2 500 855	1 932 446
Private	177 197	145 002
United Nations system organizations	90 177	104 832
Other donors	315 832	202 960
Refund to donors	(1 994)	(1 084)
Total monetary contributions	3 082 067	2 384 156
In-kind contributions		
Government	10 404	11 242
United Nations system organizations	483	9 962
Private donors	12 565	6 076
Total in-kind contributions	23 452	27 280
Total voluntary contributions	3 105 519	2 411 436

147. Monetary contribution revenue is reduced by refunds made to donors.

148. In-kind contributions represent donations of goods and services received that directly support operations. In-kind contributions include inventory items to be distributed to beneficiaries and the use of premises, utilities, transport and personnel. The amount of in-kind contributions in 2013 comprised \$12.1 million for goods (\$17.2 million in 2012) and \$11.4 million for services (\$10.1 million in 2012).

149. The total monetary contributions of \$3,082.1 million recorded in 2013 is further analysed below by year due and by type of earmarking:

Table 5.1.2
Monetary contributions recorded
(Thousands of United States dollars)

<i>By year due</i>	<i>2013</i>	<i>By year due</i>	<i>2012</i>
2013	2 240 885	2012	1 724 958
Future years		Future years	
2014	639 682	2013	539 504
2015	169 933	2014	56 092
2016	26 366	2015	27 445
2017	5 201	2016	36 157
Subtotal	841 182		659 198
Total monetary contributions	3 082 067		2 384 156

Table 5.1.3
Monetary contributions by type of earmarking
(Thousands of United States dollars)

<i>By type of earmarking</i>	<i>2013</i>	<i>2012</i>
Unrestricted	477 035	510 640
Pending earmarking	224 083	228 638
Country level	1 852 330	961 385
Regional/subregional level	496 391	651 257
Thematic	32 228	32 236
Total monetary contributions	3 082 067	2 384 156

5.2 United Nations regular budget

(Thousands of United States dollars)

	<i>2013</i>	<i>2012</i>
United Nations regular budget	38 996	11 856

150. The regular budget is allotted by the United Nations to UNHCR and covers staff and other management costs as determined under the statute of the Office (article 20). Revenue recognized in 2013 includes the allotment advice received in November 2013 for the budget year 2014, amounting to \$4.5 million. In accordance with IPSAS, this amount was recorded as revenue for 2013.

5.3 Other revenue

(Thousands of United States dollars)

	2013	2012
Use of guest-house accommodations	2 802	2 735
Sale of assets	6 022	2 120
Medical premium from Medical Insurance Plan participants	1 951	908
Use of office space and parking garage	778	866
Miscellaneous revenue	7 045	5 191
Total other revenue	18 598	11 820

Note 6**Expenses****6.1 Implementing partners**

151. Total expenses incurred by implementing partners during the financial period amounted to \$1,069.0 million (\$897.2 million in 2012) and is analysed by type of implementing partner and by pillar, as follows:

Table 6.1.1

(Thousands of United States dollars)

Pillar/special account	Government	International non-governmental organizations	Local non- governmental organizations	United Nations system organizations	Total expenses	
					2013	2012
Refugees	93 511	444 650	285 836	71 181	895 178	668 411
Stateless	1 435	1 250	4 764	754	8 203	11 065
Reintegration	3 189	15 074	19 960	1 142	39 365	50 881
Internally displaced persons	3 901	55 568	55 255	9 885	124 609	164 084
Common Humanitarian Pipeline	—	269	—	1 342	1 611	2 767
Total	102 036	516 811	365 815	84 304	1 068 966	897 208

152. Included under United Nations system organizations is \$43.4 million with the United Nations Office for Project Services (UNOPS) (\$20.6 million in 2012) and \$23.5 million with United Nations Volunteers (\$24.4 million in 2012). The agreements with UNOPS and United Nations Volunteers are for the provision of personnel to support operations. Included under local non-governmental organizations is \$39 million with partners (\$34.4 million in 2012) for fundraising and for increasing awareness.

153. Implementing partner expenses by rights group across pillars are shown in the table below.

Table 6.1.2

(Thousands of United States dollars)

<i>Rights group</i>	<i>Global refugee programme</i>	<i>Global stateless programme</i>	<i>Global reintegration programme</i>	<i>Internally displaced persons projects</i>	<i>Common Humanitarian Pipeline</i>	<i>Total expenses</i>	
						<i>2013</i>	<i>2012</i>
Basic needs and essential services	490 008	700	22 060	47 763	135	560 666	436 288
Community empowerment and self-reliance	68 401	301	5 002	16 204	–	89 908	86 314
Durable solutions	27 238	1 572	3 912	8 732	–	41 454	49 869
Fair protection processes and documentation	52 284	2 211	1 559	4 072	–	60 126	50 376
Favourable protection environment	24 383	1 602	1 594	8 758	–	36 337	24 653
Headquarters and regional support	71 722	40	–	7	–	71 769	42 571
Leadership, coordination and partnerships	12 166	151	41	5 031	223	17 612	15 703
Logistics and operations support	93 291	1 322	2 078	14 831	797	112 319	83 984
Security from violence and exploitation	29 322	3	704	15 295	–	45 324	39 607
Expenses reported by implementing partners against current-year agreements	868 815	7 902	36 950	120 693	1 155	1 035 515	829 365
Outstanding reports	18 124	201	384	141	1 321	20 171	39 322
Expense incurred against prior-year agreements	8 239	101	2 031	3 775	(866)	13 280	28 521
Total expense	895 178	8 204	39 365	124 609	1 610	1 068 966	897 208

154. Amounts pertaining to reports outstanding from implementing partners are shown in the table below.

Table 6.1.3

(Thousands of United States dollars)

<i>Reports from implementing partners</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
Current-year reports outstanding	20 171	39 322
Prior-year reports outstanding	962	1 051
Total for which reports are outstanding	21 133	40 373

155. The total amount of funds recovered from implementing partners in 2013 for unjustified expenses was \$0.2 million (\$0.3 million in 2012). These were determined during the UNHCR review of audit reports of projects implemented by partners.

156. Interest and miscellaneous revenue amounting to \$1.1 million (\$0.9 million in 2012) were received from implementing partners. Furthermore, a total of \$0.1 million (\$0.2 million in 2012) was written off during 2013 against amounts recoverable from implementing partners.

6.2 Salaries, employee benefits and other staff costs

(Thousands of United States dollars)

	<i>2013</i>	<i>2012 (restated)</i>
Salary	394 288	370 385
Pension	81 086	75 026
Allowances	63 403	62 371
Temporary assistance	41 755	38 769
Medical insurance — current	23 640	28 476
After-service health insurance	30 001	25 372
Reassignment	25 944	22 683
Education grant	22 438	17 633
Termination	8 340	9 535
Evacuation	5 822	6 788
Repatriation grant	1 891	5 035
Appointment	4 962	5 027
Reimbursement of income tax	4 332	4 913
Home leave	3 416	3 374
Annual leave accrual	3 851	3 584
Other personnel costs	2 473	9 097
Total salaries and employee benefits	717 642	688 068

157. For comparability, the 2012 expense of \$0.4 million pertaining to actuarial loss on repatriation liabilities has been reclassified from miscellaneous expenses in other expenses to other personnel costs in 2013. The 2012 expense of \$6.5 million for pension contributions pertaining to temporary staff has been reclassified from temporary assistance (\$4.3 million) and medical insurance (\$2.2 million) to pension expense.

158. In 2012, the medical insurance and repatriation grant expenses included the funding of after-service health insurance liabilities (\$7.6 million) and repatriation benefits (\$2 million). In 2013, the funding for these liabilities has been presented as a transfer of \$10.1 million from the accumulated fund balances and reserves to the Staff Benefits Fund in the statement of changes in net assets (statement III).

6.3 Contractual services

(Thousands of United States dollars)

	2013	2012 (restated)
Transport	32 678	30 572
Construction	23 232	29 338
Joint United Nations activities	28 023	24 303
Professional services	9 865	7 664
External resource assistance	15 101	16 322
Advertising	14 184	11 578
Marketing and data processing	9 908	9 336
Seminars	7 132	5 548
Other services	32 959	26 515
Total contractual services	173 082	161 176

159. For comparability, the 2012 expense of \$12.1 million pertaining to maintenance (\$9.6 million) and insurance (\$2.5 million) has been reclassified from professional services to operating expenses in 2013.

160. Other services include various specialized services of a technical, analytical and operational nature provided through contractual arrangements.

6.4 Supplies and consumables for beneficiaries

(Thousands of United States dollars)

	2013	2012
Distributed from inventory		
Tents	72 243	41 295
Bedding materials	94 514	39 814
Household items	56 194	35 479
Medical, hygienic supplies and apparel	54 001	25 092
Construction and related equipment materials	12 870	16 950
Food and other supplies	25 369	15 187
Material consumables	1 388	1 872
Total distributed from inventory	316 579	175 689
Distributed from supplies and other consumables		
Other supplies	4 243	11 901
Total supplies and consumables for beneficiaries	320 822	187 590

6.5 Operating expenses

(Thousands of United States dollars)

	2013	2012 (restated)
Maintenance	51 780	50 288
Rental of premises	37 886	34 808
Communications	27 316	24 599
Equipment	14 130	10 232
Utilities	10 343	6 313
Vehicles	814	2 013
Insurance	11 882	4 349
Other operating expenses	3 014	2 831
Total operating expenses	157 165	135 433

161. For comparability, the 2012 expense of \$12.1 million pertaining to maintenance and insurance has been reclassified from contractual services in 2013.

162. Expenses recognized under equipment and vehicles represent the purchase of items below the capitalization threshold of \$10,000.

6.6 Individual and family payments to beneficiaries

(Thousands of United States dollars)

	2013	2012
Subsistence allowance	62 571	61 678
Grants	13 617	28 255
Medical treatment	3 677	6 194
Travel allowance	686	741
Other payments	6 782	5 886
Total individual and family payments to beneficiaries	87 333	102 754

6.7 Equipment and office supplies

(Thousands of United States dollars)

	2013	2012
Computer equipment	18 609	17 463
Communications equipment	8 622	8 692
Security and safety equipment	1 835	2 783
Furniture and fixtures	3 187	2 749
General office supplies	12 260	11 483
Total equipment and office supplies	44 513	43 170

163. Expenses recognized under equipment and furniture and fixtures represent the purchase of items below the capitalization threshold of \$10,000.

6.8 Finance costs

(Thousands of United States dollars)

	2013	2012
Currency exchange differences		
Unrealized (gain)/loss	9 059	(23 232)
Realized (gain)/loss	(21 841)	263
Subtotal	(12 782)	(22 969)
Bank charges	2 053	2 343
Net gain for the year	(10 729)	(20 626)

164. The currency exchange adjustments for the year 2013 resulted in a net gain of \$12.8 million (\$23.0 million in 2012), as shown in the table above. The unrealized loss of \$9.1 million (unrealized gain of \$23.2 million in 2012) represents the revaluation of monetary assets and liabilities at year-end. The realized gain of \$21.8 million (realized loss of \$0.3 million in 2012) resulted from the settlement of

accounts receivable, accounts payable, exchange transactions and all other items during the year.

6.9 Other expenses

(Thousands of United States dollars)

	2013	2012 (restated)
Bad debt expense	21 251	1 568
Training	5 331	4 936
Miscellaneous expenses	(16 476)	3
Total other expenses	10 106	6 507

165. For comparability, the 2012 expense of \$0.4 million pertaining to actuarial loss on repatriation liabilities has been reclassified from miscellaneous expenses to salaries, employee benefits and other staff costs in 2013.

166. Bad debt expense increased by \$19.7 million in 2013, owing primarily to an increase in allowance for doubtful debts of \$12.5 million and the write-off of receivables of \$7.6 million for which an allowance was not created in prior years. The credit on miscellaneous expenses is due to the net reduction in the allowance for obsolete inventory by \$5.4 million and the reduction in expense due to the recognition of the fair value of vehicles and equipment to be disposed of.

Note 7

Statement of comparison of budget and actual amounts

167. As required by IPSAS 24: Presentation of budget information in financial statements, reconciliation is provided between the actual amounts on a comparable basis as presented in statement V and the actual amounts as shown in the financial accounts, identifying separately any basis, timing and entity differences, which are described below:

(a) **Basis differences:** the budget of UNHCR is formulated on a modified cash basis and the financial statements are prepared on an accrual basis, thereby giving rise to a basis difference;

(b) **Timing difference** occurs when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNHCR for the purpose of comparison between budgets and actual amounts;

(c) **Entity differences** occur when the budget does not include programmes or entities that are part of the main entity for which the financial statements are prepared. In UNHCR, the budget does not include activities relating to the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Common Humanitarian Pipeline;

(d) **Presentation differences** are due to differences in the format and classification schemes adopted for the presentation of the statement of financial performance (statement II) and the statement of comparison of budget and actual amounts (statement V). The UNHCR budget in statement V is presented on an

operational and geographical basis, while expenses are presented by nature of expense in statement II.

168. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of financial performance (statement II) for the year ended 31 December 2013 is presented below.

(Thousands of United States dollars)

	2013	2012 (restated)
Actual amount on comparable basis (statement V)	2 971 825	2 357 710
Basis differences		
Property, plant and equipment and intangible assets	(105 213)	(46 654)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	39 653	30 460
Inventory	(87 328)	(40 716)
Commitments (excluding those dealt with elsewhere under entity or basis differences)	(44 314)	32 010
Implementing partner expenditure	(71 722)	(4 531)
Employee benefits	(10 132)	–
Other	(19 507)	(29 400)
Total basis differences	(298 563)	(58 831)
Entity differences		
Working Capital and Guarantee Fund	(10 729)	(20 767)
Medical Insurance Plan	5 851	5 176
Staff Benefits Fund	28 915	33 483
Common Humanitarian Pipeline	6 888	6 663
Total entity differences	30 925	24 555
Actual amount in the statement of financial performance (statement II)	2 704 187	2 323 434

169. The actual amount in the statement of financial performance (statement II) for 2012 has been restated to \$2,323.4 million owing to the additional depreciation expense of \$17.5 million resulting from the recognition of property, plant and equipment in 2013 relating to prior years.

170. Explanations of material differences between the original budget and the final budget and the actual amounts are presented under the programme budget performance highlights (sect. D) of the financial report.

Note 8 Segment reporting

8.1 Statement of financial position by segment as at 31 December 2013

(Thousands of United States dollars)

	<i>Programmes</i>	<i>Projects</i>	<i>Special funds and accounts</i>	<i>Inter-segment</i>	<i>Total</i>
Assets					
Cash and cash equivalents	554 989	7 744	51 548	–	614 281
Investment	58 288	–	61 712	–	120 000
Contributions receivable	972 156	73 275	165	–	1 045 596
Inventories	101 781	36 274	4 005	–	142 060
Property, plant and equipment ^a	123 711	21 684	–	–	145 395
Intangible assets	6 291	1 271	–	–	7 562
Other assets	125 707	25 101	31	–	150 839
Total assets	1 942 923	165 349	117 461	–	2 225 733
Liabilities					
Accounts payable and accruals	101 433	26 000	592	–	128 025
Employee benefits	7 171	1 107	556 759	–	565 037
Provisions	863	198	–	–	1 061
Other liabilities	2 357	493	–	–	2 850
Total liabilities	111 824	27 798	557 351	–	696 973
Net assets	1 831 099	137 551	(439 890)	–	1 528 760
Fund balances and reserves					
Accumulated fund balances and reserves	1 831 099	137 551	5 162	–	1 973 812
Working Capital and Guarantee Fund	–	–	50 000	–	50 000
Medical Insurance Plan	–	–	35 001	–	35 001
Staff Benefits Fund	–	–	(530 053)	–	(530 053)
Total fund balances and reserves	1 831 099	137 551	(439 890)	–	1 528 760

^a Assets acquired during the year amounted to \$57.4 million, comprising \$48.8 million for the programmes segment and \$8.6 million for the projects segment.

8.2 Statement of financial performance by segment for the year ended 31 December 2013

(Thousands of United States dollars)

	<i>Programmes</i>	<i>Projects</i>	<i>Special funds and accounts</i>	<i>Inter-segment</i>	<i>Total</i>
Revenue					
Voluntary contribution	2 769 200	328 868	7 451	—	3 105 519
United Nations regular budget	38 996	—	—	—	38 996
Transfers	(157 504)	157 504	—	—	—
Interest revenue	303	—	1 175	—	1 478
Other revenue	16 582	23	8 747	(6 754)	18 598
Total revenue	2 667 577	486 395	17 373	(6 754)	3 164 591
Expenses					
Implementing partner expenses	903 305	164 051	1 610	—	1 068 966
Salaries and employee benefits	601 195	88 566	34 635	(6 754)	717 642
Contractual services	143 447	29 427	208	—	173 082
Supplies and consumables for beneficiaries	195 571	120 399	4 852	—	320 822
Operating expenses	135 692	21 368	105	—	157 165
Individual and family payments to beneficiaries	81 067	6 266	—	—	87 333
Equipment and office supplies	38 913	5 596	4	—	44 513
Travel expense	39 794	5 084	64	—	44 942
Fuels and lubricants	25 104	4 789	—	—	29 893
Consultants	19 590	1 209	—	—	20 799
Depreciation and amortization	33 257	6 396	—	—	39 653
Finance costs	—	—	(10 729)	—	(10 729)
Other expenses	12 163	(1 614)	(443)	—	10 106
Total expenses	2 229 098	451 537	30 306	(6 754)	2 704 187
Surplus/(deficit) for the Year	438 479	34 858	(12 933)	—	460 404

171. Some internal activities lead to accounting transactions that create inter-segment revenue and expense in the financial statements. The organization's share of medical insurance premium in respect of the Medical Insurance Plan has created inter-segment balances in 2013 for \$6.8 million (\$3.2 million in 2012) in the statement of financial performance (statement II).

172. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to operational needs and requirements.

173. Earmarked contributions are recorded to the applicable fund/pillar upon receipt. Unearmarked and broadly earmarked contributions are initially recorded under pillar 1 (global refugee programme) and are subsequently transferred to other pillars as needed to cover budgetary requirements. Accumulated fund balances under programmes, projects and special accounts represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements.

Note 9

Commitments and contingencies

9.1 Leases

174. Obligations for operating leases are as follows:

(Thousands of United States dollars)

	2013	2012
Obligations for operating leases		
Under 1 year	10 455	8 050
1-5 years	11 312	10 663
Beyond 5 years	1 224	–
Total obligations for operating leases	22 991	18 713

175. As at 31 December 2013 and 2012, UNHCR did not have any finance leases.

9.2 Commitments

176. As at 31 December 2013, UNHCR had commitments for the acquisition of goods and services, as well as capital commitments contracted but not delivered, as follows:

(Thousands of United States dollars)

	2013	2012
Inventory	143 787	73 178
Supplies	21 424	6 967
Property, plant and equipment	56 240	5 983
Services	41 665	28 799
Instalments due against project partnership agreements	36 067	32 964
Operating expenses	12 705	7 943
Consultants	2 180	3 091
Other commitments	1 200	1 187
Total open commitments	315 268	160 112

177. Under IPSAS 1: Presentation of financial statements, and on the basis of the delivery principle, commitments for future expenses are not recognized on the face of the financial statements. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods and services.

9.3 Legal or contingent liabilities

178. As at 31 December 2013, there were 22 outstanding cases relating to various claims from staff members or former staff members. None of these cases are resolved, although two cases are pending a decision with the United Nations Appeals Tribunal at an estimated cost to UNHCR of \$0.2 million. Furthermore, there are 14 unresolved third-party claims against UNHCR amounting to \$10.1 million. The total cost, should the unresolved appeals and claims be decided against UNHCR, is therefore estimated to be \$10.3 million.

Note 10

Losses, ex gratia payments and write-offs

179. UNHCR financial rule 10.5 provides that ex gratia payments may be approved by the Controller for an amount not exceeding \$5,000, when such payments are considered desirable in the interest of the organization. Ex gratia payments in excess of \$5,000 require the approval of the High Commissioner. A statement of ex gratia payments was submitted to the Board of Auditors and to the Executive Committee with the financial statements. For 2013, two ex gratia amounts were approved by the High Commissioner, totalling \$165,004.

180. Financial rule 10.6 provides that write-offs up to \$10,000 due to the loss of cash or of the book value of accounts receivable may be authorized by the Controller, while the write-off of amounts in excess of \$10,000 requires the approval of the High Commissioner. A statement of all amounts written off was submitted to the Board of Auditors. During 2013, cash losses, irrecoverable contributions receivable and other current assets, including amounts due from implementing partners, resulted in write-offs amounting to \$8.6 million (\$19.2 million in 2012).

181. Sixteen cases of fraud were reported in 2013, amounting to \$0.4 million (\$0.2 million in 2012).

Note 11

Related party disclosures

182. The key management personnel of UNHCR are the High Commissioner, the Deputy High Commissioner, the two Assistant High Commissioners and the Controller, as they have the authority and responsibility for planning, directing and controlling the activities of UNHCR.

(Thousands of United States dollars)

	<i>Number of posts</i>	<i>Compensation and post adjustments</i>	<i>Entitlements</i>	<i>Pension and health plans</i>	<i>Total remuneration</i>	<i>Outstanding advances against entitlements</i>	<i>Outstanding loans</i>
Key management personnel, 2013	5	1 120	172	229	1 521	—	—
Key management personnel, 2012	5	1 279	107	258	1 644	—	—

183. The table above summarizes aggregate remuneration paid to key management personnel, which includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and employer pension and current health insurance contributions. The post of the Assistant High Commissioner (Protection) was vacant from May to December 2013.

184. Key management personnel also qualify for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified. They are also participants in the Pension Fund.

Note 12

Events after the reporting date

185. The reporting date for the Office of the United Nations High Commissioner for Refugees is 31 December of each year. On the date of signing these financial statements, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have affected the present statements.