General Assembly
Official Records
Seventieth Session
Supplement No. 5I

A/70/5/Add.9

United Nations Human Settlements Programme

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

United Nations • New York, 2015

Note

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

ISSN 1020-2722

Contents

Chapter		Page
	Letters of transmittal	4
I.	Report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme: audit opinion	6
II.	Long-form report of the Board of Auditors	8
	Summary	8
	A. Mandate, scope and methodology	11
	B. Findings and recommendations	11
	1. Follow-up of recommendations from previous years	11
	2. Financial overview	12
	3. Implementation of the International Public Sector Accounting Standards	13
	4. Budget implementation	14
	5. Programme and project management	15
	6. Results-based management	17
	7. Assets management	18
	C. Disclosures by management	18
	1. Write-off of cash, receivables and property	18
	2. Ex gratia payments	18
	3. Cases of fraud and presumptive fraud	18
	D. Acknowledgement	19
	Annex Status of implementation of recommendations for the year ended 31 December 2013	20
III.	Certification of the financial statements	27
IV.	Administration's financial overview for the year ended 31 December 2014	28
V.	Financial statements and related explanatory notes for the year ended 31 December 2014	32
	I. Statement of financial position as at 31 December 2014	32
	II. Statement of financial performance for the year ended 31 December 2014	33
	III. Statement of changes in net assets for the year end 31 December 2014	34
	IV. Statement of cash flows for the year ended 31 December 2014	35
	V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014	36
	Notes to the financial statements	37

Letters of transmittal

Letter dated 31 March 2015 from the Executive Director of the United Nations Human Settlements Programme addressed to the Chair of the Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, I have the honour to transmit the financial report and accounts of the United Nations Human Settlements Programme, including associated trust funds and other related accounts, for the year ended 31 December 2014, which I hereby approve.

Copies of these financial statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(*Signed*) Joan **Clos**
Executive Director

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2014.

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

Chapter I

Report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Human Settlements Programme (UN-Habitat), which comprise the statement of financial position as at 31 December 2014 (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, and notes to the financial statements.

Responsibility of management for the financial statements

The Executive Director of UN-Habitat 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 controls as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on the 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 as to whether the financial statements, as a whole, are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as 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, the financial statements present fairly, in all material respects, the financial position of UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

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

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

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

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

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

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Human Settlements Programme (UN-Habitat) promotes socially and environmentally sustainable towns and cities, with the goal of providing adequate shelter for all. This includes providing information and support to Member States for developing policies and legislation to improve living conditions, as well as supporting operational activities, for example, improved water provision and sanitation.

The headquarters of UN-Habitat is in Nairobi. It has four main regional offices covering Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean. It also has liaison and information offices in New York, Brussels, Geneva, Moscow, Beijing, Chennai (India), Amman and Budapest and project offices in many other countries and cities across the globe. UN-Habitat employs some 338 core staff, approximately 102 of whom are based in offices away from headquarters, along with fluctuating numbers of staff on specific contracts, in particular in field offices.

The total revenue of UN-Habitat for the year 2014 was $205.44 million, while total expenses were $194.02 million, resulting in a surplus of revenue over expenses of $11.42 million for the year.

The Board of Auditors has audited the financial statements and reviewed the operations of UN-Habitat for the year ended 31 December 2014. The audit was carried out through the examination of the financial transactions and operations at the headquarters in Nairobi and field visits to the country offices in Egypt, Iraq, Myanmar, Pakistan, Sri Lanka and the State of Palestine.

Scope of the report

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

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 UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UN-Habitat 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 six main areas of UN-Habitat activities: programme and project management, budget processing and monitoring, results-based management, assets management, IPSAS implementation and financial management and reporting, as well as a detailed follow-up of action taken in response to recommendations made in previous years.

Audit opinion

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

Overall conclusion

UN-Habitat adopted IPSAS in 2014, which brought about significant changes to the accounting policies of UN-Habitat. These included the preparation of financial statements on an annual basis, compared with the biennial requirement of United Nations systems accounting standards, which is a modified cash basis. The adoption of the new accounting policies resulted in significant changes to the recognition of assets and liabilities. The Board's analysis of the financial position of UN-Habitat as at 31 December 2014 notes good financial health.

While the Board notes the successful first-time implementation of the IPSAS accounting framework and commends UN-Habitat for that major achievement, during its reviews it noted some deficiencies in financial statement presentation, recognition and valuation of assets and liabilities. Other areas with scope for improvement included programme and project management, budget implementation, results-based management and assets management. The Board also notes that the administration took positive steps to reconcile and revise financial statements before issuing the present report.

The Board, however, considers that UN-Habitat is now facing the challenge of improving systems, control operations, decision-making processes and financial management to realize the benefits of the improved financial information that the IPSAS-based accounting framework provides. To ensure that there is timely performance and accountability in the context of a decentralized structure, UN-Habitat also needs to consider further strengthening the oversight and monitoring of field-level activities.

Key findings

Underutilization of annual allocated funds

The Board noted from country visits[a] and evaluation reports that there had been project budget underutilization ranging from 5 to 67 per cent of the allotted budgets for the year 2014. UN-Habitat attributed the budget underutilization to political instability in three counties of implementation as well as long procedures and processes for recruitment of experts required for the projects in one country.

The Board acknowledges the challenges faced by UN-Habitat, but it is of the view that running the projects without the required expertise from the beginning slowed the progress of the projects significantly. As the recruitment process is within the purview of management, there was the possibility of identifying risks that could have an impact on the projects and the ways of managing them well in advance of the start dates of the projects. As a result of the delays, the large underutilization of the allocated funds will result in a substantial delay in the realization of the intended benefits of the projects.

Lack of performance indicators, targets and baselines in the project annual workplans

The Board found that annual workplans[b] for seven projects at one country office did not have the required three components of results-based management: performance indicators, targets and baseline data. In addition, it was found that UN-Habitat had not developed a results-based-management policy and manual to provide guidance on how to implement results-based management. The Board is of the view that, without clear guidance and the necessary components of results-based management for benchmarking, UN-Habitat cannot make any meaningful assessment of its achievements.

Main recommendations

In summary, the Board recommends that UN-Habitat:

(a) (i) **Identify in advance of the execution phase the risks that might affect project implementation in order to minimize the negative effects of delaying the intended benefits for the societies involved; and** (ii) **plan the recruitment process with respect to experts in the field offices to ensure that there is timely and adequate staffing for improved project performance;**

(b) **Make the assessment of its achievements more meaningful by collaborating with the country office to ensure that the annual workplans are aligned with performance indicators, targets and baseline data.**

[a] The Board visited Egypt, Iraq, Myanmar, Pakistan, Sri Lanka and the State of Palestine.
[b] The Board reviewed annual workplans of nine projects, with a total cumulative budget of $23.73 million for the period 2008-2014.

Key facts

$199.96 million	Original core and earmarked budget
$213.66 million	Final core and earmarked budget
$205.44 million	Revenue
$194.02 million	Expenses
338	UN-Habitat staff

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of UN-Habitat and has reviewed its operations for the financial period ended 31 December 2014 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and 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.

2. 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 UN-Habitat as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the 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. 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.

3. The Board also reviewed UN-Habitat 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.

4. During the course of the audit, the Board visited UN-Habitat headquarters in Nairobi and examined country office operations in Egypt, Iraq, Myanmar, Pakistan, Sri Lanka and the State of Palestine. The Board continued to work collaboratively with the Office of Internal Oversight Services to provide coordinated coverage.

B. Findings and recommendations

1. Follow-up of recommendations from previous years

5. As of April 2015, of the 15 recommendations made for the biennium 2012-2013 and previous years, 3 (20 per cent) remained under implementation, 11 (73 per cent) had been implemented and 1 (7 per cent) had not been implemented. Details are attached as annex I to the present report.

6. The recommendations that were under implementation required the decision to set up specific arrangements for funding the liabilities of UN-Habitat for end-of-service and post-retirement benefits, identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and bringing about improvement in the monitoring of project budget implementation.

7. The recommendation considered not to have been implemented requires UN-Habitat to review the cost and benefits of introducing procedures to mitigate exchange rate risks and losses. UN-Habitat explained that the implementation of the recommendation was beyond its authority. It is the Board's view that UN-Habitat

management has a duty to protect the entity from losses arising from exchange rate fluctuations.

2. Financial overview

Financial position

8. As at 31 December 2014, UN-Habitat net assets were $323.23 million, reflecting an increase of $7.07 million (or 2.2 per cent) from the opening balance of $316.16 million as at 1 January 2014. The overall financial position confirms that UN-Habitat remains financially sound and that there are sufficient assets to meet liabilities.

Revenue and expenses

9. Total revenue for the period under review was $205.44 million, while total expenses amounted to $194.02 million, resulting in a surplus of $11.42 million. Furthermore, In 2014 the net voluntary contributions amounted to $183.2 million, representing 89 per cent of the total revenue for the year.

Ratio analysis/financial indicators

10. Table II.1 analyses ratios for 2014. Overall, the ratios indicate that UN-Habitat had a good liquidity position and could meet its short-term obligations with its liquid assets.

Table II.1
Ratio analysis

Description of ratio	*31 December 2014*	*1 January 2014*
Current ratio[a]		
Current assets: current liabilities	4.72	3.78
Total assets: total liabilities[b]		
Assets: liabilities	3.89	3.66
Cash ratio[c]		
Cash plus investments: current liabilities	1.57	4.58
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	3.94	4.58

Source: UN-Habitat 2014 financial statements.

[a] A high ratio defined as greater than 1:1 indicates an entity’s ability to pay off its short-term liabilities.

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

[c] The cash ratio is an indicator of an entity’s liquidity by measuring the amount of cash, cash equivalents or invested funds 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 convert into cash. A higher ratio means a more liquid current position.

3. Implementation of the International Public Sector Accounting Standards

11. The General Assembly, in its resolution 60/283, endorsed the adoption of IPSAS by the United Nations to replace the United Nations system accounting standards. UN-Habitat adopted IPSAS with effect from 1 January 2014.

12. The change in reporting standards required entities to develop a series of IPSAS-compliant accounting policies relevant to its circumstances. It also required UN-Habitat to reconsider its assets and liabilities as at 31 December 2013 and make appropriate adjustments to ensure that the opening balances as at 1 January 2014 were IPSAS-compliant.

13. IPSAS-compliant financial statements were prepared for the first time in 2014. The Board's review of the first IPSAS opening balances and the end-of-year financial statements, as well as the evaluation of the appropriateness of the IPSAS accounting policies, did not identify material errors or deviations from IPSAS relating to the financial statements. However, during the course of audit, certain deficiencies were noted, but were subsequently rectified by the management in the revised financial statements. These related to the overstatement of cash and cash equivalents by $0.54 million and the overstatement of savings by $0.46 million as a result of understating expenses. The Board also noted that 36 per cent of all assets were fully depreciated but still in use, while management had not reassessed their useful lives, and that there were project assets of $11 million that were disposed of after the raising of audit concerns.

14. While we acknowledge that UN-Habitat has successfully completed the transition of its accounts to IPSAS-compliant financial statements, we also recognize the challenges that were faced by the administration in making that transformational change. These include noted deficiencies as presented below, which were not adjusted, as management considered them to be quantitatively immaterial. However, the Board is of the view that they should also be rectified because they have a potential risk of misstatement.

(i) Lack of standard operating procedures for assets below property, plant and equipment threshold

15. The Board found that UN-Habitat had used the IPSAS policy framework, which was prepared by United Nations Headquarters as guidance on the application of IPSAS across all United Nations organizations. However, this policy framework does not provide for the treatment of and accounting for project assets and those assets that fall below the established recognition threshold of $5,000. UN-Habitat assets of $0.3 million below the threshold were appropriately expensed, but they lacked adequate tracking records owing to the absence of the IPSAS-compliant standard operating procedures of UN-Habitat that would guide all offices on how they should be accounted for separately for safeguarding and uniformity purposes.

16. UN-Habitat explained that it had procedures in place to capture assets data accurately, including assets that were below the IPSAS threshold and not covered by the IPSAS policy framework. Furthermore, management stated that it was finalizing standard operating procedures for assets management, which would include both IPSAS and non-IPSAS items.

17. However, the Board's follow-up noted that the draft standard operating procedures were not specific standard operating procedures for the treatment of

assets below the property, plant and equipment threshold, but was in fact an end-of year stock count procedures. The Board considers that the creation of standard operating procedures specific to such assets remains an important activity for recording and safeguarding all assets.

(ii) Incorrect recognition of loans

18. The Board found that recognition of loans receivable included a total of $1.6 million as at 31 December 2014. The amount included outstanding concessionary loans issued to four implementing partners on the Experimental Reimbursable Seeding Operations Trust Fund. However, the Board noted that the loans were not recognized at fair value as required by IPSAS 29 (Application Guidance 89) and paragraph 37 of IPSAS 30.

19. IPSAS 29 (Application Guidance 84) recognizes the existence of concessionary loans and defines them as loans granted to or received by an entity at below market terms, which include housing loans granted to low-income families. Moreover, paragraph 37 of IPSAS 30 requires disclosure of these loans by showing reconciliation of the opening and closing carrying amounts, the nominal value of the loans at the end of the period and the purpose and terms of the various types of loans, as well as the valuation assumptions.

20. UN-Habitat explained that the United Nations Office at Nairobi, which is responsible for the preparation of the financial statements, had reviewed the possible valuation of the loans and found that the amount was immaterial. While the Board notes management's response, it is of the view that management needs to ensure that its approach to the valuation and recognition of components of financial statements fully comply with IPSAS provisions.

21. **The Board recommends that UN-Habitat strengthen its internal mechanisms to: (a) improve the preparation, presentation and accuracy of financial statements; (b) develop its own standard operating procedure to provide guidance on the recording of and accounting for the assets that are not covered by the IPSAS policy framework; and (c) ensure that all outstanding concessionary loans are reported at fair value, in compliance with IPSAS provisions.**

4. Budget implementation

Underutilization of annual allocated funds

22. The Board noted from country visits[1] and evaluation reports that there had been budget underutilization ranging from 5 to 67 per cent of the allotted budgets for the year 2014. Table II.2 provides further analysis of that underutilization in United States dollars and percentages.

[1] The Board visited Egypt, Iraq, Myanmar, Pakistan, Sri Lanka and the State of Palestine.

Table II.2
Project budget utilization for 2014
(United States dollars)

Description	*Egypt*	*Iraq*	*Myanmar*[a]	*Pakistan*	*Sri Lanka*	*State of Palestine*
Total number of projects	9	7	10	16	8	12
Budget	17 928 971	13 210 212	8 693 722	4 063 219	23 539 548	11 742 267
Actual expenditure	11 773 410	10 120 625	8 291 021	3 831 890	18 179 961	4 272 037
Unutilized	6 155 561	3 089 586	402 701	231 329	8 470 230	8 470 230
Budget unutilized (percentage)	34	23	5	6	23	66

Source: UN-Habitat project allotments report for 2014.
[a] Revised budget for Myanmar as at 31 December 2014.

23. UN-Habitat attributed the budget underutilization to political instability in Iraq, Sri Lanka and the State of Palestine, as well as long procedures and a long process for the recruitment of the experts required for the projects in Egypt.

24. The Board acknowledges the challenges faced by UN-Habitat, but it is of the view that running the projects without the required expertise from the beginning slowed the progress of the projects. As the recruitment process is within the purview of management, there was the possibility of identifying risks that could have an impact on the projects and the ways of managing them well in advance of the start of the projects. As a result of delays, the large underutilization of the allocated funds will result in a substantial delay in the realization of the intended benefits of the projects. UN-Habitat needs robust arrangements to expedite the recruitment of the experts required for the implementation of the projects in Egypt.

25. **The Board recommends that UN-Habitat: (a) identify the risks that might affect project implementation in advance of the execution phase to minimize the negative effects of delaying the intended benefits for the societies involved; and (b) plan and manage the recruitment process with respect to experts in the field office to ensure that there is timely and adequate staffing for improved project performance.**

5. Programme and project management

26. The Board conducted a review of the programmes and project management at UN-Habitat in order to obtain an assurance as to whether the funds disbursed to implementing partners as well as to the various programmes and projects had been used for the purpose intended, that the risk of fraud and error had been minimized and that the funds had delivered the desired outcomes in a cost-effective manner. However, the Board found the following discrepancies detailed below.

Delays in the completion of projects

27. The Board found delays in the completion of projects ranging from 3 to 14 months at the UN-Habitat Egypt country office, as shown in table II.3.

Table II.3
Delays in the completion of projects

Project name	*Value in United States dollars*	*Start date*	*Planned date of completion*	*Actual project completion date*	*Delay in months*
Strategic development in Greater Cairo Region	3 590 000	1 August 2008	31 December 2014	31 March 2015	three months
Public spaces and the right to the city, Greater Cairo Region	105 000	1 February 2013	31 January 2014	31 March 2015	14 months
Integrated neighbourhood development in refugee hosting area, Faisal, Cairo	54 118	22 January 2014	30 April 2014	31 December 2014	eight months
Total	**3 749 118**				

Source: Egypt country office project implementation documents.

28. The Board inquired about the reasons for the slow pace of budget implementation, and UN-Habitat attributed the delays to inadequate support from society, non-approval of cooperation agreements from related governing bodies and delays caused by long procurement processes with respect to project materials.

29. While the Board recognizes the reasons given by UN-Habitat for the delays, it is of the view that the slow pace in the completion of the projects will increase project costs and will delay the desired outcomes of the projects.

30. **The Board recommends that UN-Habitat ensure that the Egypt country Office: (a) sensitize the community about the benefits in order to obtain the desired support from the stakeholders; and (b) plan for the procurement of materials in advance of a project's execution phase to facilitate the achievement of the milestones within the set time frame.**

Delays in processing payments for community implementation agreements

31. The Board noted that the Myanmar country office had issued a directive setting out a maximum duration of 35 days for each unit under its jurisdiction to process payments relating to projects under community implementation agreements. The directive was intended to smoothen the implementation process by avoiding undue funding delays. However, the Board noted that the directive had not been adhered to, as the payment records showed delays ranging from 13 to 41 days beyond the mandatory 35.

32. UN-Habitat attributed the delays to the long processing time on the part of the country office and the late approval of community implementation agreements by the authorities involved. Furthermore, UN-Habitat explained that the country office had agreed with the United Nations Development Programme, which was involved in the authorization procedures, to assign a dedicated person to dealing with the UN-Habitat payments.

33. While the Board acknowledges the reasons stated by UN-Habitat, it is of the view that the delays in processing payments for the community implementation agreements have had impacts in terms of the completion of the project's activities and its failure to deliver the intended benefits to the communities in a timely manner.

34. **The Board recommends that UN-Habitat streamline the payment processes and monitor their implementation to ensure adherence to its deadline of 35 days.**

6. Results-based management

Project annual workplans lacking performance indicators, targets and baseline data

35. In its resolution 64/259, the General Assembly requested the Secretary-General to take appropriate measures to accelerate the implementation of results-based management in the United Nations.

36. The Board found that seven project annual workplans[2] at the Egypt country office did not have the required three components of results-based management: performance indicators, targets and baseline data.

Table II.4
Projects with annual workplans that lack performance indicators, targets and baselines

Project code	*Name*
C187	Strategic urban plans for small cities, Egypt
C226	Strategic development in the Greater Cairo Region
C243	Strategic national development support project, Egypt
C347	Public spaces and the right to the city, Greater Cairo Region, Egypt
C359	Human security through inclusive socioeconomic development in Upper Egypt
C346	XBEGYA1002: Safer cities free of violence against women and girls, Greater Cairo region, Egypt (BIIAG UP)
C375	Integrated neighbourhood development in refugee hosting area, Faisal, Cairo

Source: Egypt programme project annual workplan for 2014.

37. Furthermore, it was discovered that UN-Habitat had not formalized a results-based management policy and manual to provide guidance on how to implement results-based management. The Board is of the view that, without clear guidance and the necessary results-based management components, UN-Habitat cannot make any meaningful assessment of its results or achievements because of the lack of clear benchmarks.

38. UN-Habitat explained that results-based management had not been used in all projects, although all projects have a log frame with indicators and targets and are related to the workplans by reference to the activity number.

39. Despite the explanations from UN-Habitat, the Board found that the seven audited projects had started using the draft results-based management framework, and it is of the view that performance indicators for actual performance of the

[2] The Board reviewed the annual workplans for nine projects, with a total cumulative budget of $23.73 million for the period 2008-2014.

planned projects are preferable to log frame indicators that show performance throughout the lifetime of the project.

40. **The Board recommends that UN-Habitat ensure that the assessment of its achievements is more meaningful by collaborating with the Egypt country office to ensure that the annual workplans are aligned with performance indicators, targets and baseline data.**

7. Assets management

Assets lacking electronic barcodes

41. The UN-Habitat project manual of 2010, chapter IV, paragraph 41 (c), requires any item of property that has been located but was not previously barcoded or recorded in the inventory control system to be coded and recorded during the physical inventory process.

42. The Board noted from its visits to the six country offices that, of 2,375 assets reviewed, 1,091, costing $1.4 million and acquired between 2006 and 2014, had no barcode labels. For example, in two country offices regular paper labels had been used instead of the engineered barcodes and had not been aligned to the Hardcat system for asset registration and appropriate accounting. UN-Habitat explained that it would consult the United Nations Office at Nairobi to ensure that the barcode labels would be assigned to all assets.

43. Although the Board did not find losses of assets, it is of the view that the absence of soft barcodes and the inability to link the information to the Hardcat system exposes UN-Habitat to the risk of misstating the property, plant and equipment balance and possible loss of assets without early detection.

44. **UN-Habitat agreed with the Board's recommendation that it consider the possibility of speeding up the process of fixing electronic barcodes on all assets under its control to ensure the completeness of the property, plant and equipment register.**

C. Disclosures by management

45. UN-Habitat made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud, which, in our view, are not significant.

1. Write-off of cash, receivables and property

46. UN-Habitat informed the Board that, in accordance with financial rule 106.8, losses of cash and receivables amounting to $80,893.58 were written off in 2014.

2. Ex gratia payments

47. There were no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

48. In accordance with International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity, including those

resulting from fraud. Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

49. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or that have been brought to its attention. We also enquire whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries by the Office of Internal Oversight. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

50. In 2014, the Board did not identify any cases of fraud and presumptive fraud other than one case of fraud with no direct financial loss, which has been reported to the Board by UN-Habitat and adequately disclosed in the notes to the financial statements.

D. Acknowledgement

51. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff members of UN-Habitat.

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

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

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

30 June 2015

Annex

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

No.	Report reference	Recommendations	Action reported by the management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
1.	A/69/5/Add.9, para. 22	UN-Habitat agreed with the Board's recommendation that it implement activities to prioritize and expedite the process of data cleansing so that International Public Sector Accounting Standards (IPSAS) opening balances are finalized well in advance of the preparation of dry-run financial statements.	Data cleansing for IPSAS opening balances were completed in coordination with the United Nations Office at Nairobi.	The audit team verified the IPSAS opening balances and the recommendation is regarded as implemented.	X			
2.	A/69/5/Add.9, para. 25	UN-Habitat agreed with the Board's recommendation that, in advance of its next strategic plan for 2014-2019, it develop a results-based management policy, with a clear implementation manual that provides procedures for performance monitoring, evaluation and reporting.	UN-Habitat has been effectively implementing results-based management since 2008 and has made significant strides, as acknowledged by its Governing Council through its resolution 24/15 of 2013 when it requested the Executive Director "to maintain his current emphasis on results for the achievement of the programme objectives." UN-Habitat drafted and completed the internal review of a results-based management policy and a manual. The policy was scheduled for final approval by the senior management by 15 May 2015.	In the light of management's reply, the recommendation is considered to be implemented.	X			
3.	A/69/5/Add.9, para. 29	UN-Habitat agreed with the Board's recommendation that it improve its monitoring of project budget implementation by (a) establishing adequate authorization controls over the use of project funds for proper redeployments; and	(a) UN-Habitat, in coordination with the United Nations Office at Nairobi, enhanced controls over funds sufficiency to deal with the reported weakness. See attached annex 1 for a sample of the temporary manual	Under implementation.		X		

No.	Report reference	Recommendations	Action reported by the management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
		(b) maintaining liaison with United Nations Headquarters to address the budgetary control gaps in the Integrated Management Information System.	control until implementation of a permanent automated control through Umoja. (b) With the imminent deployment of Umoja, the newly developed procedures will adequately compensate for the budgetary control gaps in the Integrated Management Information System.					
4.	A/69/5/Add.9, para. 34	UN-Habitat agreed with the Board's recommendation that it (a) follow up with the United Nations agencies for the timely submission of the inter-organizational vouchers; and (b) clear all the outstanding unliquidated obligations after the end of the period in which they were created.	UN-Habitat cleared all unliquidated obligations from the previous year as part of the preparation for the Umoja implementation and IPSAS opening balances validation process.	Implemented.	X			
5.	A/69/5/Add.9, para. 39	UN-Habitat agreed with the Board's recommendation that it (a) set a timeline to implement the resolution of its Governing Council in identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and draw up comprehensive terms of reference for adequate operations and risk management; (b) set up and document a clear monitoring and assurance framework for the use and accountability of Experimental Reimbursable Seeding Operations funds; and (c) closely follow up the repayment from each borrower and ensure they adhere to the repayment schedule.	(a) UN-Habitat updated its Committee of Permanent Representatives on 23 November 2012 on the status of the implementation of Governing Council resolution 23/10, indicating that it had been unable to find a suitable partner or structure to which to transfer the Experimental Reimbursable Seeding Operations portfolio. As a result, and also considering the small size of the portfolio, UN-Habitat will administer the operation of the portfolio in-house. (b) As part of this process, UN-Habitat undertook field missions in February and March 2015 to conduct surveys of individual beneficiaries of Experimental Reimbursable Seeding Operations-funded projects in Nepal, Nicaragua	Under implementation.		X		

No.	Report reference	Recommendations	Action reported by the management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			and Uganda to ascertain whether individual loans had been used by end users for the intended purposes of respective projects. The results gathered were satisfactory and demonstrate that the funds were being used for the intended purpose. One last mission to the Occupied Palestine Territories is scheduled for May 2015. (c) UN-Habitat has also closely monitored the loan repayment, which has been on schedule with no defaults to date. UN-Habitat will provide an update on the findings of the surveys of the project beneficiaries and the status of the loan repayment to the Board of Auditors in April 2015.					
6.	A/69/5/Add.9, para. 42	UN-Habitat agreed with the Board's recommendation that it comply with the United Nations Procurement Manual and that it use a competitive procurement process wherever possible. Where UN-Habitat has to use the ex post facto process, the reasons for doing so should be documented and approval secured from the local committee on contracts.	UN-Habitat, in conjunction with the United Nations Office at Nairobi, established a process to monitor and clear any procurement exception. See annex 2.	In the light of management's reply, the recommendation is considered to be implemented.	X			
7.	A/69/5/Add.9, para. 46	UN-Habitat agreed with the Board's recommendation that it (a) monitor all United Nations Office at Nairobi contract management activities where it is a main beneficiary by ensuring, where appropriate, that competitive bidding procedures are used	UN-Habitat, with assistance from the United Nations Office at Nairobi, is issuing all procurement contracts in compliance with applicable rules and regulations. UN-Habitat, through the United Nations Office at Nairobi, is also ensuring	In the light of management's reply, the recommendation is considered to be implemented.	X			

No.	*Report reference*	*Recommendations*	*Action reported by the management*	*Board's assessment*	*Status after verification* *Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
		before awarding any consultancy contracts; and (b) enforce the registration requirement for all selected consultants.	proper registration of selected vendors.					
8.	A/69/5/Add.9, para. 50	UN-Habitat agreed with the Board's recommendation that it introduce cost-effective mitigation procedures such as opening official bank accounts and including penalty/recovery clauses in the contracts with team leaders.	The Sudan country office of UN-Habitat has converted the type of contracts for three staff members from service contract to fixed-term contracts. All the revenant advances have been provided to fixed-term contract holders, including the Head of Country Programme (P-5). In addition, the office ensures that advances are accumulated to a single staff member, where he or she is required to liquidate the first advance before being given a second one. See annex 3 for the staff contracts.	Implemented.	X			
9.	A/67/5/Add.8, para. 24	Review the costs and benefits of introducing procedures to mitigate exchange rate risks and losses. In coordination with the United Nations Office at Nairobi, and subject to guidance from United Nations Headquarters, this could include commercially available solutions.	The UN-Habitat treasury is administered by the United Nations Office at Nairobi, under the guidance of the United Nations Department of Management in New York. The implementation of this recommendation is beyond the authority of UN-Habitat.	The Board reiterates its recommendation.			X	
10.	A/67/5/Add.8, para. 36	Set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly.	UN-Habitat has sought and waited for guidance from United Nations Headquarters and, depending upon the advice received, may seek relevant authorization of the General Assembly and its Governing Council.	Under implementation.		X		

No.	Report reference	Recommendations	Action reported by the management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
11.	A/67/5/Add.8, para. 40	UN-Habitat and the United Nations Office at Nairobi investigate all unsupported balances within its ledgers and take steps to cleanse the ledgers of these balances through appropriate write-offs.	UN-Habitat, with assistance from the United Nations Office at Nairobi, has completed the review and made the necessary adjustments in the ledgers.	In the light of management's reply, the recommendation is considered to be implemented.	X			
12.	A/67/5/Add.8, para. 46	Establish a simple organization-wide risk management approach, building on its initial work and existing reporting arrangements, and aligned with recent United Nations Headquarters developments during 2012.	Since the recommendation was issued, UN-Habitat has taken several steps and made significant improvements in establishing enterprise risk management. These steps include: (1) an enterprise risk management consultant contracted to assist in the implementation of the enterprise risk management for the terms of reference and for the report (2) establishing enterprise risk management implementation guidelines (3) conducting critical risk assessment and implementing risk assessment template embedded in project document.	In the light of management's reply, the recommendation is considered to be implemented.	X			
13.	A/67/5/Add.8, para. 70	(a) Verify that evidence to support reported performance is robust; and (b) given the number of activities that support its reported performance, consider adopting a sample-based verification process.	A system was put in place in 2013 to support the documentation of evidence by UN-Habitat on its reported programme performance. Using the results framework for the 2008-2013 strategic plan, evidence on performance was collected on reported progress on indicators for focus areas. This information is on a shared drive and accessible to all staff directly. Significant progress has been made in strengthening the evidence to support the programme performance reporting of UN-Habitat for	In the light of management's reply, the recommendation is considered to be implemented.	X			

No.	Report reference	Recommendations	Action reported by the management	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			the 2014-2019 strategic plan. In addition to the results framework, a performance measurement plan was developed with baselines and targets through which the baseline information has been captured for all indicators. As the strategic plan is aligned with the biennial work programme, the baseline information has been fully captured in the Integrated Monitoring and Documentation System under indicator methodology. Updates to the actual names of indicator data is captured in the System. Using the programme performance data for 2014 (which is the first year of implementation of the new strategy), we are currently collecting evidence for all indicators and outputs, which will be tracked over a six-year period. The system is accessible to managers and results-based management focal points for update through the shared drive. As part of strengthening our programme performance self-assessment, our annual reports now include success stories and video documentaries that capture the voices from the beneficiaries of field projects. The videos are accessible through YouTube and UN-Habitat websites.					

No.	*Report reference*	*Recommendations*	*Action reported by the management*	*Board's assessment*	*Status after verification: Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
14.	A/67/5/Add.8, para. 78	The Senior Management Committee should regularly review, at least every six months, performance and progress against the biennial work programme and budget, and to document its consideration, including any actions to be taken.	Senior management programme performance review meetings are held regularly to assess the overall delivery of the biennial work programme and budget as well as the implementation of the medium-term strategic plan. These meetings are also the clearing house of all programme performance reports before they are submitted to the Committee of Permanent Representatives to UN-Habitat and the donors. The meetings are attended by all members of the senior management team, including the Office of the Executive Director, Deputy Executive Director, Branch Coordinators, Regional Office Directors and unit heads. The meeting is facilitated by the Quality Assurance Unit, which prepares the programme performance analysis and presents it to senior management for discussion. The review covers key achievements in terms of the highlights of the results achieved during a six-month or 12-month period, progress towards meeting indicator targets, status of the delivery of planned outputs and major challenges and risks and required actions.	Implemented.	X			
	Total		**15**		**11**	**3**	**1**	**0**
	Percentages		**100**		**73**	**20**	**7**	**0**

Chapter III
Certification of the financial statements

Letter dated 31 March 2015 from the Chief Finance Officer of the United Nations Office at Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2014 have been prepared in accordance with financial rule 106.1 of the United Nations and financial rule 306.10 of the United Nations Habitat and Human Settlements Foundation.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes, and the accompanying schedules, provide additional information and clarification of the financial activities undertaken by the United Nations Human Settlements Programme during the period covered by these statements.

The certification function defined in financial rules 105.5 and 105.7 to 105.9 of the United Nations is assigned to the United Nations Human Settlements Programme. Responsibility for the accounts and the performance of the approving function, as defined in article VI and financial rule 105.6 of the Financial Regulations and Rules of the United Nations, is assigned to the United Nations Office at Nairobi.

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2014 are correct.

(*Signed*) Christopher **Kirkcaldy**
Chief Finance Officer
United Nations Office at Nairobi

Chapter IV
Administration's financial overview for the year ended 31 December 2014

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report and the financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2014. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, the accounts were transmitted to the Board of Auditors on 31 March 2015.

2. These are the first financial statements submitted in compliance with the International Public Sector Accounting Standards (IPSAS) for UN-Habitat.

3. Given that this is the first year of preparation of IPSAS-compliant statements, comparative data for the year ended 31 December 2013 has only been reflected in the statement of financial position. These have been restated where applicable.

4. Regular budget funding, insofar as it relates to UN-Habitat, is included in volume I, United Nations (A/70/5 (Vol. I)), but for completeness has also been included in these financial statements.

5. The financial statements and schedules, as well as the notes thereon, are an integral part of the financial report.

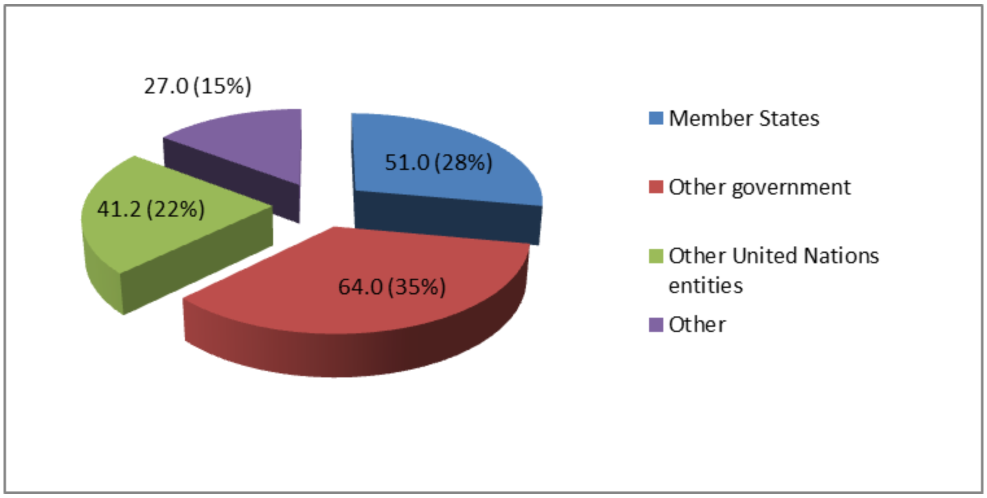
B. Overview

6. Statements I to V show the consolidated figure for all activities of UN-Habitat, comprising the Foundation General Purpose Fund, the regular budget, other trust funds supporting the programme of work of UN-Habitat and end-of-service and retirement benefits for the year ended 31 December 2014.

7. Given that this is the first of year of IPSAS comparison between the year ended 31 December 2013 and the current reporting date, it is not possible to compare income and expenditures from previous years.

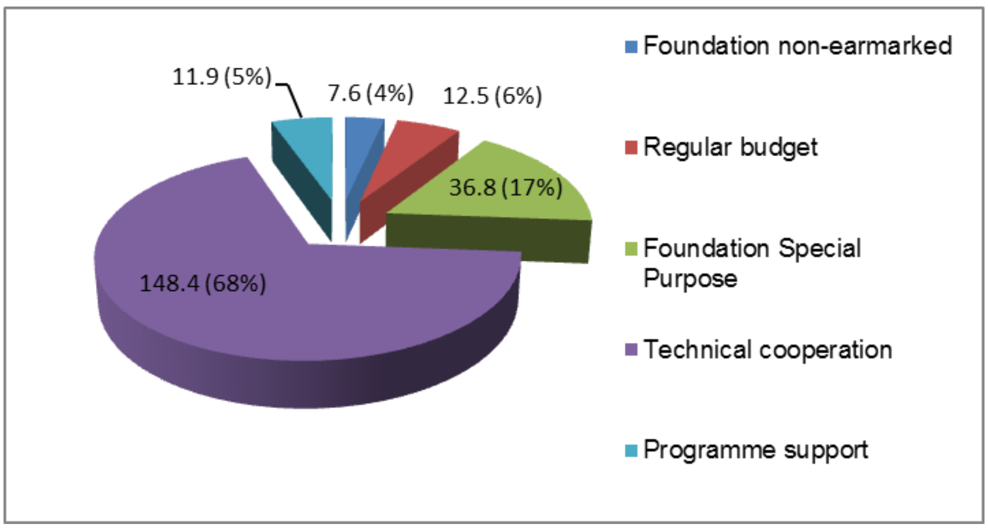
7.1. Figure IV.I shows the distribution of contributions by type of payment source.

Figure IV.I
Distribution of contributions by type of payment source
(Millions of United States dollars)



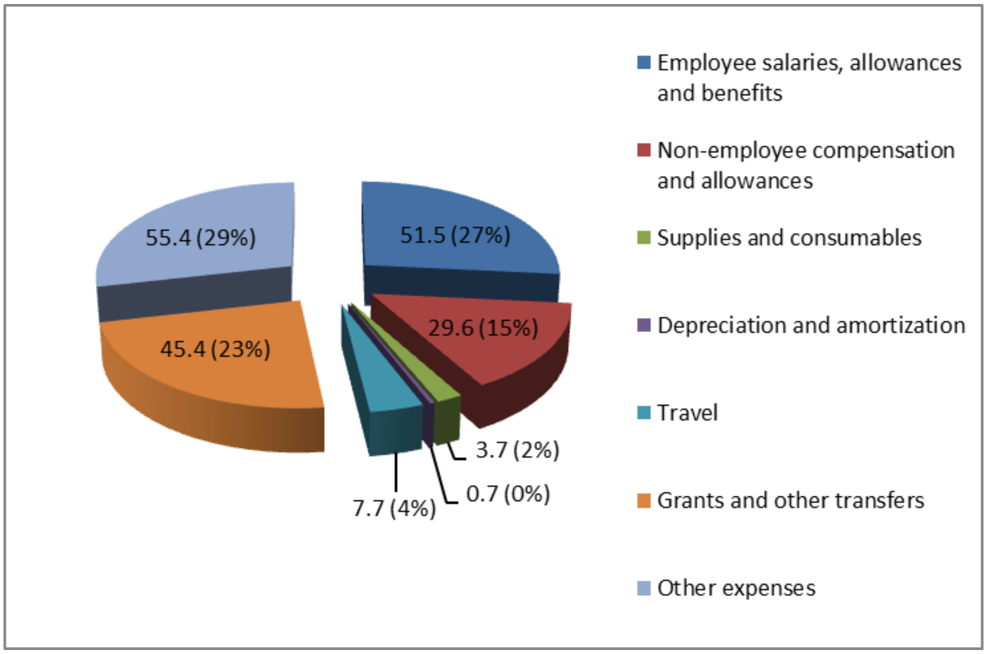
7.2 Figure IV.II shows income distribution by segment before elimination.

Figure IV.II
Income distribution by segment before elimination
(Millions of United States dollars)



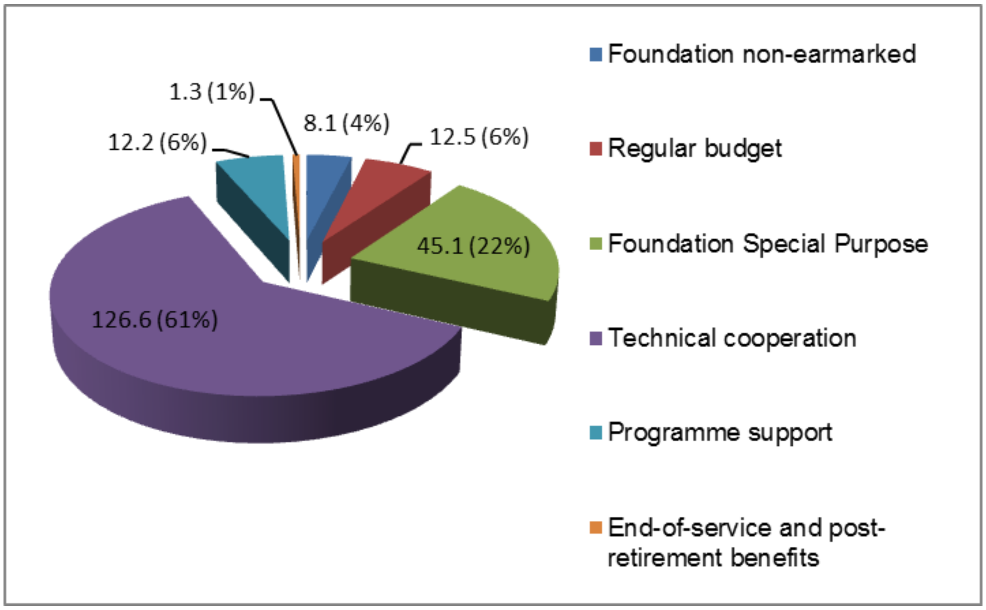
7.3 Expenditure for the year ended 31 December 2014 by nature of expense is shown in figure IV.III.

Figure IV.III
Expenditure for the year ended 31 December 2014 by nature of expense
(Millions of United States dollars)



7.4 Figure IV.IV shows expenditure distribution between segments before elimination.

Figure IV.IV
Expenditure distribution between segments before elimination
(Millions of United States dollars)



8. The cash and cash equivalents position as at 31 December 2014 increased by $10.0 million (27.3 per cent) to $46.7 million.

9. Total assets decreased by $14.3 million (3.2 per cent) to $435.2 million from $449.5 million as a result of the high implementation of pending project portfolios on earmarked agreements signed in previous years.

10. Total liabilities decreased by $21.3 million (16.0 per cent) to $112.0 million from $133.3 million.

11. The net assets increased $7.1 million (2.2 per cent) to $323.2 million from $316.2 million.

12. Table IV.1 summarizes other key indicators for UN-Habitat for the year ended 31 December 2014 compared to the year ended 31 December 2013.

Table IV.1
Other key indicators
(Millions of United States dollars)

	2014	*1 January 2014*	*Increase/ (decrease)*	*Per cent change*
Cash and cash equivalents	46.7	36.7	10.0	27.2
Short-term investments	76.2	94.2	(18.0)	(19.1)
Long-term investments	62.4	76.0	(13.6)	(17.9)
Total cash and investments	**185.3**	**206.9**	**(21.6)**	**(10.4)**
Contributions receivable	185.3	198.4	(13.1)	(6.6)
Loans receivable	1.6	1.8	(0.2)	(11.1)
Total receivables	**186.9**	**200.2**	**(13.3)**	**(6.6)**
Advance transfers	36.8	20.3	16.5	81.3
Other assets	24.1	19.2	4.9	25.5
Accounts payable and accrued payables	19.5	23.7	(4.2)	(17.7)
Employee benefits liabilities	35.9	27.9	8.0	28.7
Other liabilities	56.6	81.7	(25.1)	(30.7)

C. End-of-service and post-retirement accrued liabilities

13. UN-Habitat fully accrues for the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UN-Habitat makes monthly provisions for repatriation benefits at 8 per cent of net salary.

14. The 31 December 2014 accrued balances have been adjusted to reflect the estimated liabilities as at 31 December 2014, as reflected in the 2013 actuarial study carried out by a consulting firm engaged by the United Nations Secretariat on behalf of UN-Habitat. By fully charging these liabilities as at 31 December 2014, an amount of $29.3 million of cumulative unfunded expenditure is included in the cumulative surplus/(deficit) amount in the statement of net assets (statement III).

Chapter V

Financial statements and related explanatory notes for the year ended 31 December 2014

United Nations Human Settlements Programme

I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*	*Opening balance as at 1 January 2014*
Current assets			
Cash and cash equivalents	7	46 738	36 727
Short-term investments	8	76 194	94 238
Voluntary contributions receivable	9	185 274	198 385
Other accounts receivables	10	5	5
Loans receivable	11	109	123
Advance transfers	12	36 752	20 347
Other assets	13	24 129	19 202
Total current assets		**369 201**	**369 027**
Non-current assets			
Long-term investments	8	62 371	76 030
Loans receivable	11	1 509	1 650
Property, plant and equipment	15	2 115	2 744
Total non-current assets		**65 995**	**80 424**
Total assets		**435 196**	**449 451**
Current liabilities			
Accounts payable and accrued payables	17	19 514	23 652
Employee benefits liabilities	18	2 178	1 838
Other liabilities	20	56 598	81 721
Total current liabilities		**78 290**	**107 211**
Non-current liabilities			
Employee benefits liabilities	18	33 679	26 081
Total non-current liabilities		**33 679**	**26 081**
Total liabilities		**111 969**	**133 292**
Net assets			
Accumulated surpluses/(deficits), unrestricted	21	298 292	290 944
Accumulated surplus, restricted	21	–	–
Reserves	21	24 935	25 215
Total net assets		**323 227**	**316 159**
Total liabilities and net assets		**435 196**	**449 451**

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

United Nations Human Settlements Programme

II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*
Revenue		
Assessed contributions, regular budget	22	12 489
Voluntary contributions	22	183 154
Other transfers and allocations	22	8 122
Investment revenue	25	1 090
Other revenue	23	585
Total revenue		**205 440**
Expenses		
Employee salaries, allowances and benefits	24	51 528
Non-employee compensation and allowances	24	29 559
Grants and other transfers	24, 30	45 369
Supplies and consumables		3 706
Depreciation and amortization	15, 16	714
Travel		7 670
Other operating expenses	24	52 754
Other expenses	24	2 721
Total expenses		**194 021**
Surplus/deficit for the period		**11 419**

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

United Nations Human Settlements Programme

III. Statement of changes in net assets for the year ended 31 December 2014

(Thousands of United States dollars)

	Accumulated surpluses/(deficits), unrestricted	*Accumulated surplus, restricted*	*Reserves*	*Total*
Net assets at the beginning of the period (1 January 2014)	**131 121**	**–**	**25 215**	**156 336**
IPSAS adjustment				
Transfer from operating reserve to accumulated surplus	501			501
Initial recognition of receivables related to voluntary contributions	150 960			150 960
Initial recognition of accruals	(19 564)			(19 564)
Initial recognition of property, plant and equipment	2 744			2 744
Initial recognition of allowance for doubtful contributions	(48)			(48)
Initial recognition of conditional liabilities from agreements	(14 571)			(14 571)
Initial recognition of employee benefits accruals	(94)			(94)
Initial recognition of other employee benefits accruals	(3 137)			(3 137)
Derecognition of un-liquidated obligations	43 032			43 032
Total IPSAS adjustment	**159 823**	**–**	**–**	**159 823**
Restated balance at the beginning of the period	**290 944**	**–**	**25 215**	**316 159**
Changes in net assets				
Transfer from/to reserves	280	–	(280)	–
Other adjustments to net assets	1 250			1 250
Actuarial gains and losses	(5 601)			(5 601)
Total items recognized directly in net assets	**(4 071)**	**–**	**(280)**	**(4 351)**
Surplus/(deficit) for period	11 419	–	–	11 419
Total recognized revenue and expense for period	**7 348**	**–**	**(280)**	**7 068**
Net assets at end of period	**298 292**	**–**	**24 935**	**323 227**

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

United Nations Human Settlements Programme

IV. Statement of cash flows for the year ended 31 December 2014

(Thousands of United States dollars)

	Notes	*31 December 2014*
Cash flows from operating activities		
Surplus (deficit) for the period		11 419
Non-cash movements		
Depreciation and amortization	15, 16	714
Net loss on disposal of property, plant and equipment and inventory		455
Decrease in allowance for doubtful receivables		48
Current service and interest cost on employee benefits liabilities		3 334
Changes in assets		
(Increase)/decrease in voluntary contributions receivable		13 063
(Increase)/decrease in loans receivable		155
(Increase)/decrease in advance transfers		(16 405)
(Increase)/decrease in other assets		(4 927)
Changes in liabilities		
Increase/(decrease) in accounts payable		(4 138)
Increase/(decrease) in employee benefits		(997)
Increase/(decrease) in other liabilities		(25 124)
Investment revenue presented as investing activities		(1 090)
Net cash flows from operating activities		**(23 493)**
Cash flows from investing activities		
(Increase)/decrease in the cash pools		19 139
Acquisitions of property, plant and equipment	15	(541)
Investment revenue presented as investing activities		1 090
Net cash flows from investing activities		**19 688**
Cash flows from financing activities		
Adjustment to fund balances		1 250
Net cash flows from financing activities		**1 250**
Net increase/(decrease) in cash and cash equivalents		**(2 555)**
Cash and cash equivalents, beginning of period		10 068
Cash and cash equivalents, end of period	7	**7 513**

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

United Nations Human Settlements Programme

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014

(Thousands of United States dollars)

	Publically available budget[a]				
Budget part	*Original biennial*	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)*[b]
Programme resources					
Urban legislation, land and governance	4 237	2 118	625	120	(81)
Urban planning and design	3 113	1 557	436	182	(58)
Urban economy	3 349	1 674	432	66	(85)
Urban basic services	3 890	1 945	629	(348)	(155)
Housing and slum upgrading	3 638	1 819	974	604	(38)
Risk reduction and rehabilitation	4 426	2 213	783	302	(61)
Research and capacity development	4 453	2 227	800	1 126	41
Subtotal	**27 106**	**13 553**	**4 680**	**2 052**	**(56)**
Executive direction	13 776	6 888	4 621	4 215	(9)
Programme support	4 736	2 368	1 901	1 699	(11)
Total Foundation General Purpose	**45 618**	**22 809**	**11 202**	**7 966**	**(29)**
Foundation Special Budget	123 188	61 594	56 246	48 211	(14)
Regular budget					
Sections 15 and 23	21 217	11 630	10 524	11 866	13
Development account	3 332	1 666	1 666	979	(41)
Habitat III	2 044	1 022	1 159	166	(86)
Total regular budget	**26 593**	**14 318**	**13 349**	**13 011**	**(3)**
Technical cooperation	202 482	101 241	132 866	138 845	4
Grand total	**397 880**	**199 962**	**213 662**	**208 032**	**(3)**

[a] Budget relates to the current year proportion of publically available budgets which are approved for a two-year period.

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

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

United Nations Human Settlements Programme
Notes to the financial statements

Note 1
Reporting entity

United Nations Human Settlements Programme and its activities

1. On 16 December 1974, the General Assembly adopted resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation.

2. On 19 December 1977, the General Assembly adopted resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

3. On 21 December 2001, the General Assembly adopted resolution 56/206, by which, with effect from 1 January 2002, it transformed the United Nations Centre for Human Settlements, including the United Nations Habitat and Human Settlements Foundation, into the United Nations Human Settlements Programme (UN-Habitat) and the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme. By the same resolution, the Assembly confirmed that the Executive Director of the United Nations Human Settlements Programme should be responsible for the management of the United Nations Habitat and Human Settlements Foundation and UN-Habitat would become an autonomous body and a separate reporting entity within the United Nations.

4. UN-Habitat is supported by a United Nations regular budget allocation and voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources. UN-Habitat headquarters is located on United Nations Avenue in Nairobi, Kenya, at the United Nations Office at Nairobi complex.

5. UN-Habitat undertook a major reform in 2011 to sharpen the programmatic focus of its mandate to address current strategic urbanization challenges and achieve more efficient and effective service delivery, with the goal of maintaining its role as the lead programme of the United Nations for providing guidance and technical support on sustainable urbanization and shelter, both globally and at regional and country levels.

6. The main strategic objectives of the Programme are delivered through seven subprogrammes and various policies:

(a) Urban legislation, land and governance, which provides policy and operational support to Governments and cities with respect to governance, legislation and land;

(b) Urban planning and design, which provides city and national governments with a set of tested approaches, guidelines and tools to support the management of growth and improved sustainability, efficiency and equity of cities through planning and design at different scales;

(c) Urban economy, which promotes urban strategies and policies that strengthen the capacity of cities to realize their potential as engines of economic development and also enhance their contribution to employment and wealth creation;

(d) Urban basic services, which focuses on strengthening policies and institutional frameworks for expanding access to urban basic services, specifically targeted at the urban poor;

(e) Housing and slum upgrading, which advocates a twin-track approach to improve the supply and affordability of new housing alongside the implementation of citywide and national slum-upgrading programmes to improve housing conditions and quality of life for the urban poor;

(f) Risk reduction and rehabilitation, which aims at reducing urban risk and responding to urban crises and supports crisis-affected cities in terms of disaster prevention and response;

(g) Research and capacity development. which monitors and reports results of global monitoring and assessment on urbanization statistics and indicators to Governments and Habitat Agenda partners through its flagship reports;

(h) To improve the shelter conditions of the world's poor and to ensure the development of sustainable human settlements;

(i) To monitor and assess progress towards the attainment of the Habitat Agenda goals and the targets of the Millennium Declaration and the Johannesburg Plan of Implementation on slums, safe drinking water and sanitation;

(j) To strengthen the formulation and implementation of urban and housing policies, strategies and programmes and to develop related capacities, primarily at the national and local levels;

(k) To facilitate the mobilization of investments from international and domestic sources in support of adequate shelter, related infrastructure development programmes and housing finance institutions and mechanisms, particularly in developing countries and in countries with economies in transition.

United Nations Human Settlements Programme

7. The United Nations Human Settlements Programme (the Organization) is a separate financial reporting entity of the United Nations system and its financial statements include general and related funds, technical cooperation activities, general trust funds and other activities.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

8. In accordance with the United Nations Financial Regulations and Rules, the financial statements are prepared on an accrual basis in accordance with International Public Sector Accounting Standards (IPSAS). In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the United Nations Human Settlements Programme, and the cash flows over the financial year, consist of the following:

(a) Statement I: Statement of financial position;

(b) Statement II: Statement of financial performance;

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

(d) Statement IV: Statement of cash flows;

(e) Statement V: Statement of comparison of budgets and actual amounts;

(f) Summary of significant account policies and other explanatory notes.

9. The financial statements have been prepared on a going-concern basis and the accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of these financial statements.

10. This is the first set of financial statements prepared in compliance with IPSAS, which includes application of certain transitional provisions as identified below. Prior to 1 January 2014, the financial statements were prepared in accordance with the United Nations system accounting standards (UNSAS), a modified accrual basis of accounting.

11. The adoption of the new accounting standards, including the related IPSAS-compliant policies, has resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the last audited balance sheet dated 31 December 2013 has been restated and the resulting changes are summarized in the statement of changes in net assets.

Authorization for issue

12. These financial statements are certified by the Chief Financial Officer of the United Nations Office at Nairobi and approved by the Executive Director of the United Nations Human Settlements Programme. In accordance with the United Nations Financial Regulations and Rules, these financial statements as at 31 December 2014 are authorized for issue on 31 March 2015.

Measurement basis

13. The financial statements are prepared using the historic cost convention except for certain assets as stated in the notes to the financial statements. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Functional and presentation currency

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

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

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

Materiality and use of judgement and estimates

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

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

19. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/ amortization method for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets/liabilities.

Transitional provisions for International Public Sector Accounting Standards

20. As permitted on first-time adoption of IPSAS, the following transitional provisions have been applied:

(a) IPSAS 1: Presentation of financial statements: comparative information is provided only for the statement of financial position;

(b) IPSAS 4: Effects of changes in foreign exchange rates: the cumulative translation differences that may have existed at the date of first-time adoption of IPSAS accrual accounting are deemed to be zero;

(c) IPSAS 17: Property, plant and equipment, allows a transitional period of up to five years prior to full recognition of capitalized property, plant and equipment. The Organization partially invoked this transitional provision and has not recognized project assets, certain long-term donated-right-to-use arrangements and leasehold improvements;

(d) IPSAS 31: Intangible assets, is applied prospectively to intangible assets. Other than the new enterprise resource planning system, intangible assets acquired or internally developed before 1 January 2014 have not been capitalized in these financial statements. IPSAS 31 has been applied retrospectively to the expenditures associated with the Organization's new enterprise resource planning system, Umoja, which is being capitalized as an intangible asset in financial statements set out in volume I, United Nations.

Future pronouncements of the International Public Sector Accounting Standards Board

21. Future financial statements may be affected by the following significant future pronouncements from the IPSAS Board:

(a) Social benefits: the project's objective is to identify the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in the financial statements;

(b) Reporting service performance information: the project's objective is to use a principles-based approach to develop a consistent framework for reporting service performance information of public sector programmes and services that focuses on meeting the needs of users;

(c) Interests in other entities: the project will consider the revision of IPSAS 6: Consolidated and separate financial statements; IPSAS 7: Investments in associates; and IPSAS 8: Interests in joint ventures as they relate to the underlying International Financial Reporting Standards.

22. The progress and impact of these future accounting pronouncements on the financial statements of the United Nations Human Settlements Programme continue to be assessed and monitored.

Note 3
Significant accounting policies

Financial assets: classification

23. The Organization classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date (see table below). Classification of financial assets primarily depends on the purpose for which the financial assets are acquired.

Categories of financial assets

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents; receivables non-exchange and exchange transactions; loans and advances to implementing partners, executing agency, staff

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

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

26. Financial assets at fair value through surplus or deficit are those that have been either designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. These assets are

measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

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

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

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

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

Financial assets: investment in cash pools

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

32. The Organization's investment in the cash pools are included as part of cash and cash equivalents and short- and long-term investments in the statement of financial position depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

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

Financial assets: receivables from non-exchange transactions, contributions receivable

34. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the Organization by Member States, non-Member States and other donors based on enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts.

35. Voluntary contributions receivable and other accounts receivable are subject to an allowance for doubtful receivables that is calculated at a rate of 25 per cent for outstanding receivables between one and two years, 60 per cent for those between two and three years and 100 per cent for those in excess of three years.

36. For assessed contributions receivable, the allowance is calculated at a rate of 20 per cent for those outstanding between one and two years. 60 per cent for those between two and three years, 80 per cent for those between three and four years and 100 per cent for those over four years.

Financial assets: receivable from exchange transactions, other accounts receivables

37. Other receivables primarily include amounts receivable for goods or services provided to other entities, amounts receivable for operating lease arrangements and receivables from staff. Receivables from other United Nations reporting entities are also included in this category.

Financial assets: loans receivable

38. Loans receivable consist of loans that have been given out to implementing partners under a revolving housing finance loan fund programme called Experimental Reimbursable Seeding Operations (ERSO) and is receivable in accordance with the amortization schedules. These loans are given at below-market rates.

Investments accounted for using the equity method

39. The equity method initially records an interest in a jointly controlled entity at cost, and is adjusted thereafter for the post-acquisition change in the Organization's share of net assets. The Organization's share of the surplus or deficit of the investee is recognized in the statement of financial performance. The interest is recorded under investments unless there is a net liability position, in which case it is recorded under other liabilities. The Organization also has entered into arrangements for jointly financed activities where the interests in these jointly financed activities are accounted for using the equity method.

Other assets

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

Advance transfers

41. Advance transfers mainly relate to cash transferred to executing agencies/ implementing partners as an advance in order for them to provide agreed goods or services. Advances issued are initially recognized as assets, and then expenses are recognized when goods are delivered or services are rendered by the executing agencies/implementing partners and confirmed by receipt of certified expense reports as applicable. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual is needed. Balances due for a refund are transferred to other receivables where necessary and are subject to an allowance for doubtful receivables.

Inventories

42. Inventory balances are recognized as current assets and include the categories and subcategories set out in the table below.

Categories and subcategories of inventory balances

Categories	*Subcategories*
Held for sale or external distribution	Books and publications, stamps
Raw materials and works in progress associated with items held for sale or external distribution	Constructions materials/supplies, works in progress
Strategic reserves	Fuel reserves, bottled water and rations reserves, strategic deployment stocks

43. The Organization's inventories include assets held for sale or external distribution, raw materials and works in progress associated with items held for sale or external distribution, and strategic reserves of consumables and supplies.

44. The cost of inventory in stock is determined using the average price cost basis. The cost of inventories includes the cost of purchase plus other costs incurred in bringing the items to the destination and condition for use. Inventory acquired through non-exchange transactions (i.e., donated goods) are measured at fair value as at the date of acquisition. Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no/nominal charge or for consumption in the production of goods/services are valued at the lower of cost and current replacement cost.

45. The carrying amount of inventories is expensed when inventories are sold, exchanged, distributed externally or consumed by the Organization. Net realizable value is the net amount that is expected to be realized from the sale of inventories in the ordinary course of operations. Current replacement cost is the estimated cost that would be incurred to acquire the asset.

46. Inventories are subject to physical verification based on value and risk as assessed by management. Valuations are net of write-downs from cost to current replacement cost/net realizable value, which are recognized in the statement of financial performance.

Heritage assets

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

Property, plant and equipment

48. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; prefabricated buildings; communication and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (building, infrastructure and

assets under construction). Recognition of property, plant and equipment involves the following:

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

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

(c) For property, plant and equipment acquired at nil or nominal cost including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire;

(d) Property, plant and equipment are capitalized when their cost is greater or equal to the threshold of $5,000, or $100,000 for leasehold improvements and self-constructed assets.

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

Estimated useful lives of property, plant and equipment classes

Class	*Subclass*	*Estimated useful life*
Communications and information technology equipment	Information technology equipment	4 years
	Communication and audiovisual equipment	7 years
Vehicles	Light wheeled vehicles	6 years
	Heavy wheeled and engineering support vehicles	12 years
	Specialized vehicles, trailers and attachments	6-12 years
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years

Class	*Subclass*	*Estimated useful life*
	Water treatment and fuel distribution equipment	7 years
	Transportation equipment	7 years
	Heavy engineering and construction equipment	12 years
	Printing and publishing equipment	20 years
Furniture and fixtures	Library reference material	3 years
	Office equipment	4 years
	Fixtures and fittings	7 years
	Furniture	10 years
Buildings	Temporary and mobile buildings	7 years
	Fixed buildings	Up to 50 years
	Finance lease or donated-right-to-use buildings	Shorter of term of arrangement or life of building
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation, landscaping	Up to 50 years
Leasehold improvements	Fixtures, fittings and minor construction work	Shorter of lease term or 5 years

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

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

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

53. Land, buildings and infrastructure assets with a year-end net book value greater than $100,000 are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000. Impairment

assessments are conducted when events or changes in circumstance indicate that carrying amounts may not be recoverable.

Intangible assets

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

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

56. Intangible assets with definite useful lives are amortized on a straight-line method over their estimated useful lives starting from the month of acquisition or when the intangible assets become operational.

57. The useful lives of major classes of intangible assets have been estimated in the table below.

Estimates of useful lives of major classes of intangible assets

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

58. Annual impairment reviews of intangible assets are conducted where assets are under construction or have an indefinite useful life. Other intangible assets are subject to impairment review only when there are indicators of impairment.

Financial liabilities: classification

59. Financial liabilities are classified as “other financial liabilities”. They include accounts payable, transfers payable, unspent funds held for future refunds and other liability such as inter-fund balances payable. Financial liabilities classified as other financial liabilities are initially recognized at fair value. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The organization re-evaluates classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued payables

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

Financial liabilities: transfers payable

61. Transfers payable relates to amounts owed to executing entities/implementing agencies and partners and residual balances due to be returned to donors.

Advance receipts and other liabilities

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

Leases: the Organization as lessee

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

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

Leases: the Organization as lessor

65. The Organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported within property, plant and equipment. Lease income from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

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

67. In the case of an operating lease, an expense and a corresponding revenue equal to the annual market rent of similar properties is recognized in the financial statements. In the case of a finance lease (principally with a lease term of more than 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property or the term of the arrangement. If property is transferred with specific conditions, deferred revenue for the amount is recognized equal to the entire fair market value of the property (or share of the property) occupied by the Organization, which is progressively recognized as revenue and offsets the corresponding depreciation charge. If property is transferred without any specific condition, revenue for the same amount is recognized immediately upon assuming control of the property.

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

69. The threshold for the recognition of revenue and expense is a yearly rental value equivalent of $5,000 for donated-rights-to-use premises and $5,000 for machinery and equipment.

Employee benefits

70. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.

71. Employee benefits are classified into short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

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

Post-employment benefits

73. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined benefit plans. The Organization also has an after-service life insurance plan that covers life insurance premiums for eligible retirees; the post-employment benefit liability related to the after-service life insurance plan is not material.

Defined benefit plans

74. Defined benefit plans are those where the Organization's obligation is to provide agreed benefits, and therefore the Organization bears the actuarial risks. The

liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, including actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The Organization has elected to recognize changes in the liability for defined benefit plans from actuarial gains and losses in surplus/deficit. As at end of the reporting year, the Organization did not hold any plan assets as defined by IPSAS 25: Employee benefits.

75. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

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

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

78. Appendix D benefits: appendix D to the Staff Rules governs compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations.

Pension plan: United Nations Joint Staff Pension Fund

79. The Organization is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. 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 being that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The Organization, along with other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the Pension Fund's multi-employer funded, defined benefit plan on an IPSAS 25 basis with sufficient reliability for accounting

purposes. Therefore, as allowed by IPSAS 25, the Organization treats this plan as if it were a defined contribution plan. Thus, obligations for contributions to the Pension Fund are recognized as an employee benefit expense in the statement of financial performance.

Termination benefits

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

Other long-term employee benefits

81. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Other long-term employee benefits comprise liabilities related to the commutation of annual leave balances at the end of service.

82. The liabilities for annual leave represent unused accumulating compensated absence up to a maximum of 60 days, whereby an employee is entitled to monetary settlement of this balance upon separation from service. Therefore the Organization recognizes as a liability the actuarial value of the total accumulated leave days of all staff members as at the date of the statement of financial position. Annual leave benefits are calculated on the same actuarial basis as other post-employment benefits. Actuarial gains and losses on other long-term employee benefits are recognized in the statement of financial performance.

Provisions

83. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Organization has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation as at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities

84. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Organization; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying

economic benefits or service potential will be required to settle the obligations; or the amount of the obligations cannot be reliably measured.

Contingent assets

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

Commitments

86. Commitments are future expenses to be incurred by the Organization on contracts entered into by the reporting date and that the Organization has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the Organization in future periods, non-cancellable minimum lease payments and other non-cancellable commitments.

Non-exchange revenue: assessed contributions

87. Assessed contributions for the Organization comprise the UN-Habitat regular budget allocation. Assessed contributions are assessed and approved for a budget period of one or more years. A one-year proportion of the assessed contributions are recognized as revenue at the beginning of that year. Assessed contributions include the amounts assessed to the Member States to finance the activities of the Organization in accordance with the agreed scale of assessments. Revenue from assessed contributions from Member States is presented in the statement of financial performance.

Non-exchange revenue: voluntary contributions

88. Voluntary contributions and other transfers, which are supported by legally enforceable agreements, are recognized as revenue at the time the agreement becomes binding, which is the point when the Organization is deemed to acquire control of the asset. However, where cash is received subject to specific conditions or when contributions are explicitly given for a specific operation to commence in a future financial year, recognition is deferred until those conditions have been satisfied.

89. Voluntary pledges and other promised donations that are not supported by binding agreements with the terms of offer and acceptance are recognized as revenue upon receipt of cash. Pledges and promised donations, as well as agreements not yet formalized by acceptance, are disclosed as contingent assets.

90. Unused funds returned to the donor are netted against revenue if those funds are recognized as revenue during the year or shown as reduction of net assets if the funds were recognized in the previous year.

91. Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf.

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

Exchange revenue

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

(a) Revenue from sales of publications, books, stamps, and by the United Nations Gift Centre is recognized when the sale occurs and risks and rewards have been transferred;

(b) Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to governments, United Nations entities and other partners is recognized when the service is performed;

(c) Revenue from jointly financed activities represents amounts charged to other United Nations organizations for their share of joint costs paid for by the United Nations;

(d) Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(e) Exchange revenue also includes income from the rental of premises, the sale of used or surplus property, services to visitors from guided tours and income from net gains resulting from currency exchange adjustments.

94. An indirect cost recovery is charged to trust fund and other “extrabudgetary” activities to ensure that the additional costs of supporting activities financed from extrabudgetary contributions is not borne by assessed funds and/or other core resources that are central to the budget process at the United Nations Secretariat. The indirect cost recovery is eliminated for the purposes of financial statements preparation as disclosed in note 5 on segment reporting. The indirect cost recovery charge agreed with the donor is included as part of voluntary contributions. It is expressed as a percentage of direct costs (actual expenditure and unliquidated obligations).

Investment revenue

95. Investment revenue includes interest income and the Organization’s net share of cash pool investment income and transaction costs associated with the operation of investments. Transaction costs that are directly attributable to cash pool investment activity are expensed as incurred in the cash pool and the net income is distributed proportionately to the participating funds. Gains and losses arising from

changes in the fair value of financial instruments at fair value through surplus or deficit are included.

Expenses

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

97. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

98. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt and write-off expenses. Other expenses relate to hospitality and official functions, foreign exchange losses and donation/transfer of assets.

99. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects. Supplies and consumables relate to the cost of inventory used and expenses for supplies.

100. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are implemented by executing entities/implementing partners to service a target population which typically includes governments, non-governmental organizations and United Nations agencies. Transfers to implementing partners are initially recorded as advances, and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the Organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point that the Organization has a binding obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/ implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

Self-insurance funds and multi-partner trust funds

101. Self-insurance funds and multi-partner trust fund activities are assessed to determine the existence of control and whether or not the Organization is considered

to be the principal of the programme/activity. Where control exists and the Organization is exposed to the risks and rewards associated with these activities, such programmes/activities are considered to be the Organization's operations and are therefore reported in full in these financial statements. Where joint control exists but the Organization is not considered to be the principal, the activities are jointly controlled operations. Such jointly controlled operations are accounted for by recognizing the liabilities and expenses incurred by the Organization, the assets it controls and its share of any revenue earned.

Note 4
First implementation of International Public Sector Accounting Standards: opening balances

102. On 1 January 2014, the organization adopted IPSAS accrual-based financial accounting standards; the conversion to full accrual accounting resulted in significant changes to accounting policies and in the types and measurement of assets, liabilities, revenue and expenses recognized.

103. Accordingly, adjustments and reclassifications were made to the Organization's UNSAS balance sheet as at 31 December 2013 to arrive at the restated 1 January 2014 IPSAS opening statement of financial position. The revised statement of financial position is described in these financial statements as the IPSAS opening balances as at 1 January 2014.

104. The net effect of the changes resulting from the adoption of IPSAS adjustments amounted to a $159.8 million increase in net assets. Line-by-line adjustments to net assets are shown in the statement of changes in net assets.

Note 5
Segment reporting

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

106. Segment reporting information is provided on the basis of six segments:

(a) Foundation non-earmarked;

(b) Regular budget;

(c) Foundation Special Purpose;

(d) Technical cooperation;

(e) Programme support;

(f) End-of-service and post-retirement benefits.

107. The IPSAS policy framework 23.4.2 states that, during the transitional phase before the full deployment of the Umoja enterprise resource planning system, only the statement of financial performance elements will be considered for disclosure; however, the Organization has decided to publish both the statement of financial position and the statement of financial performance in the tables below.

All funds, statement of financial position as at 31 December 2014 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Assets							
Current assets							
Cash and cash equivalents	2 731	–	17 801	23 012	3 194	–	46 738
Investments	1 662	–	32 708	35 603	6 221	–	76 194
Voluntary contributions receivable	1 875	–	68 769	114 630	–	–	185 274
Other accounts receivable	–	–	5	–	–	–	5
Loans receivable	–	–	109	–	–	–	109
Advances or prepayments	446	–	342	240	247	–	1 275
Advance transfers	208	–	8 251	28 293	–	–	36 752
Other assets	5 393	–	567	10 353	916	5 625	22 854
Total current assets	**12 315**	**–**	**128 552**	**212 131**	**10 578**	**5 625**	**369 201**
Non-current assets							
Investments	4 820	–	21 583	31 428	4 540	–	62 371
Loans receivable	–	–	1 509	–	–	–	1 509
Property, plant and equipment	73	–	91	1 951	–	–	2 115
Total non-current assets	**4 893**	**–**	**23 183**	**33 379**	**4 540**	**–**	**65 995**
Total assets	**17 208**	**–**	**151 735**	**245 510**	**15 118**	**5 625**	**435 196**
Liabilities							
Current liabilities							
Accounts payable	177	–	3 805	15 295	237	–	19 514
Advance receipts	231	–	–	–	–	–	231
Employee benefits liabilities	175	–	201	258	270	1 274	2 178
Other liabilities	127	–	20 225	34 247	1 768	–	56 367
Total current liabilities	**710**	**–**	**24 231**	**49 800**	**2 275**	**1 274**	**78 290**

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Non-current liabilities							
Employee benefits liabilities	–	–	–	–	–	33 679	33 679
Total non-current liabilities	**–**	**–**	**–**	**–**	**–**	**33 679**	**33 679**
Total liabilities	**710**	**–**	**24 231**	**49 800**	**2 275**	**34 953**	**111 969**
Net assets							
Accumulated surpluses/(deficits), unrestricted	9 878	–	123 481	184 350	9 911	(29 328)	298 292
Accumulated surplus, restricted	–	–	–	–	–	–	–
Reserves	6 620	–	4 023	11 360	2 932	–	24 935
Total net assets	**16 498**	**–**	**127 504**	**195 710**	**12 843**	**(29 328)**	**323 227**
Total liabilities and net assets	**17 208**	**–**	**151 735**	**245 510**	**15 118**	**5 625**	**435 196**

All funds, statement of financial performance for the period ended 31 December 2014 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*Total*
Revenue								
Assessed contributions	–	12 489	–	–	–	–	–	12 489
Voluntary contributions	7 547	–	27 426	125 165	–	–	–	160 138
Inter-organizational arrangements	–	–	8 555	14 461	–	–	–	23 016
Other transfers and allocations	–	–	–	8 122	–	–	–	8 122
Investment revenue	63	–	338	612	77	–	–	1 090
Other exchange revenue	–	–	525	60	11 865	–	(11 865)	585
Total revenue	**7 610**	**12 489**	**36 844**	**148 420**	**11 942**	**–**	**(11 865)**	**205 440**
Expenses								
Employee salaries, allowances and benefits	6 755	11 027	11 363	13 041	8 054	1 288	–	51 528
Non-employee compensation and allowances	470	345	7 259	21 457	28	–	–	29 559
Grants and other transfers	52	271	8 582	36 464	–	–	–	45 369
Supplies and consumables	72	74	1 068	2 474	18	–	–	3 706
Depreciation and amortization	6	–	69	639	–	–	–	714
Travel	287	243	3 769	3 306	65	–	–	7 670
Other operating expenses	294	529	11 529	48 264	4 003	–	(11 865)	52 754
Other expenses	198	–	1 487	963	73	–	–	2 721
Total expenses	**8 134**	**12 489**	**45 126**	**126 608**	**12 241**	**1 288**	**(11 865)**	**194 021**
Surplus/(deficit) for the period	**(524)**	**–**	**(8 282)**	**21 812**	**(299)**	**(1 288)**	**–**	**11 419**

Note 6
Comparison to budget

108. The Organization prepares budgets on a modified accrual basis as opposed to the IPSAS full accrual basis as presented in the statement of financial performance, which reflects expenses by nature. The statement of comparison of budget and actual amounts (statement V) presents the difference between budget amounts and actual expenditure on a comparable basis.

109. Approved budgets are those that permit expenses to be incurred and are approved by the Governing Council. For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through Governing Council resolutions.

110. The original budget amounts are the 2014 proportions of the appropriations approved by the Governing Council for the biennium 2014-2015 on 19 April 2013. The final budget reflects the original budget appropriation with any amendments by the Executive Director. Differences between original and final budget amounts are considered in the table below.

111. Material differences between the final budget appropriation and actual expenditure on modified accrual basis are deemed to be those greater than 10 per cent.

Differences between original and final budget amounts

Budget area	*Material differences greater than 10 per cent*
Urban legislation, land and governance	Expenditure 81 per cent less than final appropriation
Urban planning and design	Expenditure 58 per cent less than final appropriation
Urban economy	Expenditure 85 per cent less than final appropriation
Urban basic services	Expenditure 155 per cent less than final appropriation
Housing and slum upgrading	Expenditure 38 per cent less than final appropriation
Risk reduction and rehabilitation	Expenditure 61 per cent less than final appropriation
Research and capacity development	Expenditure 41 per cent more than final appropriation
Executive direction	Immaterial difference
Programme support	Expenditure 11 per cent less than final appropriation
Foundation Special Budget	Expenditure 14 per cent less than final appropriation
Sections 15 and 23	Expenditure 13 per cent more than final appropriation
Development account	Expenditure 41 per cent less than final appropriation
Habitat III	Expenditure 86 per cent less than final appropriation
Technical cooperation	Immaterial difference

112. UN-Habitat applied full cost recovery according to General Assembly resolution 67/226. Actual expenditure in budget areas 1 to 7 is shown net of cost recovery.

113. Actual expenditure in Foundation Special Purpose is lower owing to a variation in the timing of cash flow from donors in relation to earmarked contribution agreements.

114. Actual expenditure in regular budget sections 15 and 23 is higher than the annual allotment owing to an increase in personnel costs.

115. Actual expenditure in the regular budget development account is lower than the annual allotment because the allotment advice to authorize expenditure was received halfway through the year.

116. Actual expenditure for regular budget Habitat III is lower than the final annual allotment due to the time taken to fill vacant positions.

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

117. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is shown in the table below.

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Actual amounts on comparable basis (statement V)	**208 032**	**–**	**–**	**208 032**
Basis differences[a]	(225 950)	20 143	(4 781)	(210 588)
Entity differences[b]	–	–	–	–
Timing differences[c]				
Presentation differences[d]	–	–	–	–
Actual amount in statement of cash flows (statement IV)	**(17 917)**	**20 143**	**(4 781)**	**(2 555)**

[a] Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the non-cash elements such as unliquidated obligations; payments against prior year obligations; property, plant and equipment; and outstanding assessed contributions are included as basis differences.

[b] Entity differences represent cash flows of fund groups other than the Organization that are reported in the financial statements. The financial statements include results for all fund groups.

[c] Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. For the purposes of comparison of budget and actual amounts, there are no timing differences for the Organization.

[d] Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which is primarily related to the latter not recording income and the net changes in cash pool balances.

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	Foundation	*Technical cooperation*	*Total as at 31 December 2014*
Cash pools (notes 25, 26)	19 063	20 162	39 225
Other cash and cash equivalents	2 864	4 649	7 513
Total	**21 927**	**24 811**	**46 738**

118. Cash and cash equivalents includes trust fund monies which are for the specific purposes of the respective trust funds.

Note 8
Investments

(Thousands of United States dollars)

	Foundation	*Technical cooperation*	*Total as at 31 December 2014*
Current			
Cash pools (notes 25, 26)	37 103	39 091	76 194
Non-current			
Cash pools (notes 25, 26)	27 863	34 508	62 371
Total	**64 966**	**73 599**	**138 565**

119. Investments include amounts in relation to trust funds.

Note 9
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2014
Voluntary contributions	185 274
Allowance for doubtful receivables	–
Total voluntary contributions receivable	**185 274**

Note 10
Receivables from exchange transactions: other accounts receivables

(Thousands of United States dollars)

	Total as at 31 December 2014
Other exchange receivables	5
Allowance for doubtful receivables	–
Total other receivables	**5**

Note 11
Receivables from loans

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2014*
Receivables from loans	109	1 509	1 618
Allowance for doubtful loans	–	–	–
Total	**109**	**1 509**	**1 618**

Note 12
Advance transfers

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2014*
Advances to implementing partners	22 016	–	22 016
United Nations Development Programme clearing accounts	14 736	–	14 736
Total advance transfers	**36 752**	**–**	**36 752**

Note 13
Other assets

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2014*
Deferred charges	25	–	25
Advances to vendors	37	–	37
Advances to staff	1 131	–	1 131
Interfund balances	22 855	–	22 855
Other	81	–	81
Total other assets	**24 129**	**–**	**24 129**

Note 14
Heritage assets

120. Certain assets are categorized as heritage assets because of their cultural, educational or historical significance. The Organization's heritage assets were acquired over many years by various means, including purchase, donation and bequest. These heritage assets do not generate any future economic benefits or service potential; accordingly, the Organization elected not to recognize heritage assets on the statement of financial position.

121. As at the reporting date, the Organization did not have significant heritage assets to report.

Note 15
Property, plant and equipment

122. In accordance with IPSAS 17, opening balances of property, plant and equipment are initially recognized at cost or fair value as at 1 January 2014 and measured at cost thereafter. The opening balance for buildings was obtained on 1 January 2014 based on depreciated replacement cost and was validated by external professionals. Machinery and equipment are valued using the cost method.

123. During the year, the Organization did not write down property, plant and equipment on account of accidents, malfunctions and other losses. As at the reporting date, the Organization did not identify any additional impairment.

Property, plant and equipment

(Thousands of United States dollars)

	Communications and information technology equipment	*Vehicles*	*Machinery and equipment*	*Furniture and fixtures*	*Buildings*	*Total*
Balances as at 1 January 2014						
Historical cost/fair value	734	6 736	576	200	82	8 329
Accumulated depreciation and impairment	(382)	(4 690)	(330)	(134)	(49)	(5 585)
Opening carrying amount	**352**	**2 046**	**246**	**66**	**33**	**2 744**
Movements for the year						
Additions	79	338	124	–	–	541
Disposals	(365)	(1 111)	(230)	(79)	–	(1 785)
Disposals depreciation	190	943	128	69	–	1 330
Impairment	–	–	–	–	–	–
Depreciation	(72)	(565)	(42)	(23)	(11)	(714)
Total movements for the year	**(168)**	**(395)**	**(20)**	**(33)**	**(11)**	**(628)**
Balances as at 31 December 2014						
Historical cost/fair value	448	5 963	470	121	82	7 084
Accumulated depreciation and impairment	(264)	(4 312)	(244)	(89)	(60)	(4 969)
Closing carrying amount	**184**	**1 651**	**226**	**32**	**22**	**2 115**

Note 16
Intangible assets

124. All intangible assets acquired before 1 January 2014, except for the capitalized costs associated with the Umoja project, are subject to IPSAS transition exemption and are therefore not recognized. As at 31 December 2014, the Organization did not have any new intangibles to report.

Note 17
Accounts payable and accrued payables

(Thousands of United States dollars)

	Total as at 31 December 2014
Vendor payable	3 224
Accruals for goods and services	16 290
Total accounts payable	**19 514**

Note 18
Employee benefits liabilities

Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2014*	*Opening balance as at 1 January 2014*
After-service health insurance	231	24 519	24 750	17 805
Repatriation benefits	578	4 236	4 814	4 581
Annual leave	465	4 924	5 389	5 135
Subtotal, defined benefit liabilities	**1 274**	**33 679**	**34 953**	**27 521**
Accrued salaries and allowances	904	–	904	397
Total employee benefits liabilities	**2 178**	**33 679**	**35 857**	**27 918**

125. The liabilities arising from post-employment benefits and appendix D relating to workers' compensation are determined by independent actuaries and are established in accordance with the Staff Rules and Staff Regulations of the United Nations. Actuarial valuation is usually undertaken every two years. The most recent actuarial valuation was conducted as at 31 December 2013 and the liabilities have been rolled forward to 31 December 2014.

Actuarial valuation: assumptions

126. The Organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2013 and for roll-forward to 31 December 2014 are shown in the table below.

Principal actuarial assumptions

(Percentage)

Actuarial assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2013	4.47	4.23	4.37
Discount rates, 31 December 2014	3.29	3.36	3.52
Inflation, 31 December 2013	5.00-7.30	2.50	–
Inflation, 31 December 2014	5.00-6.80	2.25	–

127. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro-area government yield curve) and Swiss francs (Federation bonds yield curve). Consistent with the decrease observed since 31 December 2013 of interest rates of all maturities in the three areas, lower discount rates were assumed for roll-forward.

128. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the insurance plan cost increases and economic environment. Medical cost trends assumptions that were used for the valuation as at 31 December 2013, which included escalation rates for future years, were maintained for roll-forward since no significant evolution regarding medical cost trends has been observed. As at 31 December 2014 these escalation rates were a flat health-care yearly escalation rate of 5.0 per cent for non-United States medical plans and health-care escalation rates of 6.8 per cent for all other medical plans (except 6.1 per cent for the United States Medicare plan and 5.0 per cent for the United States dental plan), grading down to 4.5 per cent for financial year 2024.

129. With regard to valuation of repatriation benefits as at 31 December 2013, inflation in travel costs was assumed at 2.50 per cent based on the projected United States inflation rate over the next 10 years. For the roll-forward valuation the assumption was decreased to 2.25 per cent to take into consideration the decrease observed on these references in the year.

130. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1 to 3 years, 10.9 days; 4 to 8 years, 1 day; and over 8 years, 0.5 days up to the maximum 60 days. This assumption was maintained for roll-forward valuation. Since the annual leave actuarial valuation method under UNSAS was not in compliance with IPSAS, the actuarial valuation method for the 1 January 2014 IPSAS opening balances and roll-forward to the year-end was changed from the straight-line to the attribution method. The opening balances impact of this change was an increase in liability of $10.0 million, which is disclosed in the statement of changes in net assets.

131. For defined benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. The following tables provide additional information and analysis on employee benefits liabilities calculated by actuaries.

Movement in employee benefits liabilities accounted for as defined benefits plans

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined benefit liability as at 1 January 2014	**17 805**	**4 582**	**5 135**	**27 522**
Current service cost	1 265	480	307	2 052
Interest cost	896	180	206	1 282
Actual benefits paid	(191)	(643)	(670)	(1 504)
Total costs recognized in the statement of financial performance in 2014	**19 775**	**4 599**	**4 978**	**29 352**
Actuarial (gains)/loss	4 975	215	411	5 601
Net defined liability as at 31 December 2014	**24 750**	**4 814**	**5 389**	**34 953**

Discount rate sensitive analysis

132. The changes in discount rates are driven by the discount curve, which is calculated based on corporate or government bonds. The bonds markets vary during the reporting year and the volatility affects the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in the table below.

Impact on obligations of changes in discount rate

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(4 871)	(441)	(498)
As percentage of end-of-year liability	(20)	(9)	(9)
Decrease of discount rate by 1 per cent	6 130	491	555
As percentage of end-of-year liability	25	10	10

Medical cost sensitivity analysis

133. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability owing to changes in the medical cost rates while holding other principal assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, it would affect the measurement of the defined benefit obligations as shown in the table below.

One per cent movement in the assumed medical cost trend rates

(Thousands of United States dollars)

	Increase	*Decrease*
Effect on defined benefit obligation	5 865/16.78 per cent	(4 494)/(12.86 per cent)
Effect on aggregate of the current service cost and interest cost	883/2.53 per cent	(740)/(2.12 per cent)

Other defined benefit plan information

134. The International Civil Service Commission issued a report to support the recommendation of the United Nations Joint Staff Pension Fund to raise the mandatory age of retirement to 65 years for new staff effective 1 January 2014. Actuaries determined that this increase in the normal age of retirement would not have a material effect on the valuation of these liabilities.

135. During the financial year, certain activities financed by trust funds have accrued charges to fund employee benefits liabilities related to their extrabudgetary activities. At the year's end, the value of these accrued balances was $5.6 million.

Estimated 2015 defined benefit payments net of participants' contributions

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2015 defined benefit payments net of participants' contributions	257	658	529	1 444

Historical information, total for after-service health insurance, repatriation benefits and annual leave as at 31 December 2014

(Thousands of United States dollars)

	2013	*2012*	*2011*	*2010*	*2009*
Present value of the defined benefit obligations	34 953	27 521	26 096	23 407	14 349

Accrued salaries and allowances

136. These include accruals for home leave of $318,000, overtime of $1,000, income tax of $156,000 and monthly salaries due but unpaid of $429,000.

United Nations Joint Staff Pension Fund

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

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

139. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared to the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

140. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.50 per cent (130.00 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

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

142. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Pension Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund’s Regulations was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Pension Fund as at 31 December 2013. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments and these can be viewed by visiting the Pension Fund at www.unjspf.org. During 2014, the Organization’s contributions paid to the Pension Fund amounted to $6.6 million.

Reserve fund for compensation payments: appendix D

143. The Organization’s financial obligation to the reserve fund, a related party, consists of its mandated contribution at the rate established by the fund. The fund compensation payments relates to the payment of compensation with respect to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under appendix D to the Staff Rules. The reserve fund allows the Organization to continue to fulfil its obligation of making compensation payments for death, injury or illness. The fund derives its revenue

from 0.5 per cent of the net base salary, including post adjustment, that is recorded as employee expenses. It covers appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payment for injury or illness as well as medical expenses.

Note 19
Provisions

144. As at the reporting date, the Organization had no legal claims that required the recognition of provisions.

Note 20
Other liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2014*
Contributions or amounts received in advance	231	–	231
Liabilities for conditional arrangements	32 442	–	32 442
Interfund balances	23 068	–	23 068
Deferred revenue	175	–	175
Other liabilities	682	–	682
Total other liabilities	**56 598**	**–**	**56 598**

Note 21
Net assets

Accumulated surpluses/deficits

145. The unrestricted accumulated surplus includes the accumulated deficit for employee benefits liabilities and the net positions of after-service health insurance, repatriation benefit and annual leave liabilities.

146. The table below shows the status of the Organization's net assets balances and movements.

Net assets balances and movements

(Thousands of United States dollars)

Net assets	*As at 1 January 2014*	*Surplus/ (deficit)*	*Transfers to/ (from) reserves*	*Other*	*Total as at 31 December 2014*
Unrestricted cumulative surplus					
Foundation non-earmarked	11 337	(524)	–	(935)	9 878
Foundation Special Purpose	129 330	(8 282)	(280)	2 153	123 481
Technical cooperation	162 288	21 812	–	250	184 350
Programme support	10 428	(299)	–	(218)	9 911
End-of-service liabilities	(22 439)	(1 288)	–	(5 601)	(29 328)
Subtotal, unrestricted fund	**290 944**	**11 419**	**280**	**(4 351)**	**298 292**

Net assets	*As at 1 January 2014*	*Surplus/ (deficit)*	*Transfers to/ (from) reserves*	*Other*	*Total as at 31 December 2014*
Reserves					
Foundation non-earmarked	6 620	–	–	–	6 620
Foundation Special Purpose	4 303	–	(280)	–	4 023
Technical cooperation	11 360	–	–	–	11 360
Programme support	2 932	–	–	–	2 932
End-of-service liabilities	–	–	–	–	–
Subtotal, reserves	**25 215**	**–**	**(280)**	**–**	**24 935**
Total net assets					
Foundation non-earmarked	17 957	(524)	–	(935)	16 498
Foundation Special Purpose	133 633	(8 282)	–	2 153	127 504
Technical cooperation	173 648	21 812	–	250	195 710
Programme support	13 360	(299)	–	(218)	12 843
End-of-service liabilities	(22 439)	(1 288)	–	(5 601)	(29 328)
Total reserves and fund balances	**316 159**	**11 419**	**–**	**(4 351)**	**323 227**

Note 22
Revenue from non-exchange transactions

Assessed contributions

147. The Organization receives an allocation from the regular budget each biennium, which is included in assessed contributions. These are reported under volume I, United Nations, and are for completeness shown in these financial statements. For the reporting period the Organization received $12.5 million.

Voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2014
Inter-organizational arrangements	23 016
Voluntary monetary contributions	161 449
Voluntary in-kind contributions	1 227
Subtotal, voluntary contributions	**185 692**
Refunds to donors	(2 538)
Net voluntary contributions	**183 154**

Services in kind

148. In-kind contributions of services received during the year are not recognized as revenue and therefore are not included in the above in-kind contributions revenue. Services in kind confirmed during the year are shown in the table below.

Services in kind

(Thousands of United States dollars)

	Total as at 31 December 2014
Technical assistance/expert services	346
Administrative support	509
Other services in-kind	8
Total	**863**

Other transfers and allocations

149. Revenue from non-exchange transactions also includes other transfers and allocations amounting to $8.1 million.

Note 23
Revenue from exchange transactions

150. Revenue from other exchange transactions is $0.6 million.

Note 24
Expenses

Employee salaries, allowances and benefits

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

Employee salaries, allowances and benefits

(Thousands of United States dollars)

	Total as at 31 December 2014
Leave benefits	513
Pension benefits	6 620
Health insurance benefits	2 161
Repatriation benefits	660
Salary and wages	41 574
Total	**51 528**

Non-employee compensation and allowances

152. Non-employee compensation and allowances of $29,559,000 consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractors fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Grants and other transfers

153. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects, as set out in the table below.

Grants and other transfers
(Thousands of United States dollars)

	Total as at 31 December 2014
Grants, end beneficiaries	34 056
Transfers to implementing partners	11 313
Total	**45 369**

Other operating expenses

154. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt, write-off expenses and expenses related to mine action, human security and the United Nations Democracy Fund, as set out in the table below.

Other operating expenses
(Thousands of United States dollars)

	Total as at 31 December 2014
Bad debt expense	(48)
Bank charges	26
Communications and utilities	29
Contracted services	34 277
Contributions in kind	1 227
Fellowship grants	1 129
Maintenance expense	4 230
Rent, office and premises	2 420
Rental, other	26
Training	6 542
Loss on disposal of tangible assets	455
Other	2 441
Total	**52 754**

Other expenses

155. Other expenses of $2,721,000 relate to hospitality and official functions, foreign exchange losses and donation/transfer of assets.

Note 25
Financial instruments and financial risk management

Financial instruments

(Thousands of United States dollars)

	Total as at 31 December 2014
Financial assets	
Fair value through the surplus or deficit	
Short-term investments, cash pools	76 194
Short-term investments, other	–
Total short-term investments	**76 194**
Long-term investments, cash pools	62 371
Long-term investments, other	–
Total long-term investments	**62 371**
Total fair value through the surplus or deficit	**138 565**
Loans and receivables	
Cash and cash equivalents, cash pools	39 225
Cash and cash equivalents, other	7 513
Voluntary contributions	185 274
Loans receivable	1 618
Other receivables	5
Other assets (excludes deferred charges)	22 855
Total loans and receivables	**256 490**
Total carrying amount of financial assets	**395 055**
Of which relates to financial assets held in cash pool	177 790
Financial liabilities	
Accounts payable and accrued payables	24 129
Other liabilities (excludes deferred revenue)	56 367
Total carrying amount of financial liabilities	**80 496**
Summary of net income from cash pools	
Investment revenue	1 127
Financial exchange gains/(losses)	(952)
Unrealized gains/(losses)	(54)
Bank fees	(4)
Net income from cash pools	**117**
Other investment revenue	973
Total net income from financial instruments	**1 090**

Financial risk management: overview

156. The organization has exposure to the following financial risks: credit risk, liquidity risk and market risk.

157. This note presents information on the Organization's exposure to these risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

158. The Organization's risk management practices are in accordance with its Financial Regulations and Rules and Investment Management Guidelines (the Guidelines). The Organization defines the capital that it manages as the aggregate of its net assets, which comprises accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The Organization manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Financial risk management: credit risk

159. Credit risk is the risk of financial loss if the counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions and credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

Credit risk management

160. The investment management function is centralized at United Nations Headquarters, and other areas are not permitted in normal circumstances to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Credit risk: contributions receivable and other receivables

161. A large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities which do not have significant credit risk. As at the reporting date, the Organization does not hold any collateral as security for receivables.

Credit risk: allowance for doubtful receivables

162. The Organization evaluates the allowance of doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the Organization will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approve write-offs under the Financial Regulations and Rules or are reversed when the previously impaired receivables are received. The movement in the allowances account during the year is shown in the table below.

Movement in allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2014	(48)
Additional allowance for doubtful receivables	48
Receivables written off during the period as uncollectable	–
Unused amounts reversed	–
As at 31 December 2014	**–**

163. The Organization does not have assessed contributions receivable, so there is no ageing of assessed contributions receivable and associated allowance.

164. The ageing of receivables other than assessed contributions including associated allowance percentages is set out in the table below.

Ageing of receivables other than assessed contributions

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither past due nor impaired	–	–
Less than one year	185 274	–
One to two years	–	–
Two to three years	–	–
Over three years	–	–
Total	**185 274**	**–**

Credit risk: cash and cash equivalents

165. The organization had cash and cash equivalents of $46.7 million as at 31 December 2014, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at "A-" and above, based on the Fitch viability rating.

Financial risk management: liquidity risk

166. Liquidity risk is the risk that the Organization might not have adequate funds to meet its obligations as they fall due. The Organization's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

167. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions which are a largely stable annual cash flow. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amounts receivable.

168. The Organization performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

Investments are made with due consideration to the cash requirements for operating purposes based on cash flow forecasting. The Organization maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

169. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations. As at the reporting date, the Organization had not pledged any collateral for any liabilities or contingent liabilities and during the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the Organization can be required to settle each financial liability are set out in the table below.

Maturities for financial liabilities as at 31 December 2014

(Thousands of United States dollars)

	< 3 months	*3 to 12 months*	*>1 year*	*Total*
Accounts payable and accrued payables	19 514	–	–	19 514
Other liabilities	–	56 598	–	56 598
Total	**19 514**	**56 598**	**–**	**76 112**

Financial risk management: market risk

170. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the Organization's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Organization's fiscal position.

Market risk: interest rate risk

171. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 26, Financial instruments: cash pools.

Market risk: currency risk

172. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Organization has transactions, assets and liabilities in currencies other than in its functional currency and is exposed to currency risk arising from fluctuations in

exchange rates. Management policies and the Guidelines require the Organization to manage its currency risk exposure.

173. The Organization’s financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollars financial assets primarily relate to investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The Organization maintains a minimum level of assets in local currencies, and whenever possible maintains bank accounts in United States dollars. The Organization mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for operational purposes.

174. The most significant exposure to currency risk relates to cash-pool cash and cash equivalents. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Swiss francs, along with over 30 other currencies, as shown in the table below.

Currency exposure of the cash pools as at 31 December 2014

(Thousands of United States dollars)

	USD	*Euro*	*CHF*	*Others*	*Total*
Main cash pool	169 467	–	–	–	169 467
Euro cash pool	–	8 322	–	–	8 322
Total	**169 467**	**8 322**	**–**	**–**	**177 789**

Currency risk: sensitivity analysis

175. A strengthening/weakening of the euro and Swiss franc United Nations operational rate of exchange as at 31 December would have affected the measurement of investments denominated in a foreign currency and increased/ decreased net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect on net assets, surplus or deficit

(Thousands of United States dollars)

	Strengthening	*Weakening*
Euro (10 per cent movement)	1	(1)
CHF (10 per cent movement)	–	–

Other market risk

176. The Organization is not exposed to significant other price risk, as it has limited exposure to price-related risk related to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

177. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits with original maturities of less than three months, receivables and payables, carrying value is a fair approximation of fair value.

Fair value hierarchy

178. The table below analyses financial instruments carried at fair value, by the fair value hierarchy levels. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

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

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

181. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy
(Thousands of United States dollars)

	31 December 2014		
	Level 1	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit			
Bonds, non-United States agencies	38 592	–	38 592
Bonds, non-United States sovereigns	12 735	–	12 735
Bonds, supranationals	7 883	–	7 883
Bonds, United States treasuries	23 234	–	23 234
Discounted instruments	17 895	–	17 895
Term deposits	–	37 953	37 953
Total financial instruments at fair value through surplus or deficit	**100 339**	**37 953**	**138 292**

Note 26
Financial instruments: cash pools

182. In addition to directly held cash and cash equivalents, the Organization participates in the United Nations cash pools. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents and short- and long-term investments) and income is based on each participating entity's principal balance.

183. The Organization participates in two United Nations Treasury-managed cash pools:

(a) The main cash pool, which comprises operational bank account balances in a number of currencies and investments in United States dollars;

(b) The euro cash pool, which comprises investments in euro currency; the pool participants are mostly Offices of the Secretariat away from Headquarters who may have a surplus of euros from their operations.

184. As at 31 December 2014, the cash pools held total assets of $9,608.8 million; of this amount $177.8 million was due to the Organization and the Organization's share of net income from cash pools was $0.12 million (see tables below).

Summary of assets and liabilities of the cash pools as at 31 December 2014
(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through surplus or deficit			
Short-term investments	3 930 497	97 011	4 027 508
Long-term investments	3 482 641	–	3 482 641
Total fair value through the surplus or deficit investments	**7 413 138**	**97 011**	**7 510 149**
Loan and receivables			
Cash and cash equivalents	2 034 824	48 819	2 083 643
Accrued investment income	14 842	119	14 961
Total loans and receivables	**2 049 666**	**48 938**	**2 098 604**
Total carrying amount of financial assets	**9 462 804**	**145 949**	**9 608 753**
Cash pool liabilities			
Payable to the Organization	169 467	8 322	177 789
Payable to other cash pool participants	9 293 337	137 627	9 430 964
Total liabilities	**9 462 804**	**145 949**	**9 608 753**
Net assets	–	–	–

Net income and expenses of the cash pools

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	62 511	132	62 643
Financial exchange gains/(losses)	(7 064)	(14 396)	(21 460)
Unrealized gains/(losses)	(3 084)	9	(3 075)
Bank fees	(214)	(2)	(216)
Net income from cash pools	**52 149**	**(14 257)**	**37 892**

Financial risk management

185. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

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

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

Financial risk management: credit risk

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

189. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. For banks and financial institutions, only independently rated parties with a Fitch minimum viability rating of “A-” are accepted.

190. The credit ratings used are those determined by major credit-rating agencies; Standard & Poor’s and Moody’s are used to rate bonds and commercial paper, and the Fitch viability rating is used to rate term deposits. Credit ratings as at 31 December 2014 are set out in the table below.

Investments of the cash pools by credit ratings as at 31 December 2014

Main pool	*Ratings*
Bonds	S&P: 31.2% AAA, 59.8% AA+/AA/AA- and 1.3% A+ not rated by S&P
	Moody's: 69.3% Aaa and 30.7% Aa1/Aa2/Aa3;
	Fitch: 52.2% AAA, 21.4% AA+/AA/AA- and 26.4% not rated
Discounted instruments	S&P: 100% A-1+; Moody's: 70.0% P1 and 30.0% not rated; Fitch: 90.0% F1+ and 10.0% not rated
Term deposits	Fitch: 64.1% aa- and 35.9% a+/a/a-

Euro pool	*Ratings*
Bonds	S&P: 100% AA+; Moody's: 100% Aaa; Fitch: 100% not rated
Term deposits	Fitch: 22.1% aa- and 77.9% a+/a/a-

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

Financial risk management: liquidity risk

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

Financial risk management: interest rate risk

193. Fixed-rate cash and cash equivalents and investments are the Organization's interest bearing financial instruments. The cash pools comprise its main exposure to interest risk. As at the reporting date, the cash pools invested primarily in securities with shorter terms to maturity, with the maximum being less than five years. The average durations of the main cash pool and euro pool were 1.10 years and 0.22 years respectively, which is considered to be an indicator of low risk.

Cash pool interest rate risk sensitivity analysis

194. The analysis shown in the table below illustrates how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase/ decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis point in the yield curve is shown (100 basis points equals 1 per cent). These basis point shifts are illustrative.

Cash pool interest rate risk sensitivity analysis as at 31 December 2014

Shift in yield curve									
Basis points	*-200*	*-150*	*-100*	*-50*	*0*	*50*	*100*	*150*	*200*
Increase/decrease in fair value (Millions of United States dollars)									
Main cash pool	205.5	154.1	102.7	51.4	–	(51.3)	(102.7)	(154.0)	(205.3)
Euro pool	0.6	0.5	0.4	0.1	–	(0.1)	(0.3)	(0.5)	(0.6)
Total	**206.1**	**154.6**	**103.1**	**51.5**	**–**	**(51.4)**	**(103.0)**	**(154.5)**	**(205.9)**

Other market price risk

195. The cash pool is not exposed to significant other price risk, as it does not sell short, or borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value, cash pool

196. The carrying value of investments carried at fair value through surplus or deficit is fair value, and for cash and cash equivalents, including cash pool term deposits, carrying value is a fair approximation of fair value.

Fair value hierarchy

197. The table below analyses financial instruments carried at fair value by the fair value hierarchy levels. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

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

199. The fair value of financial instruments that are not traded in an active market (e.g., term deposits with banks) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

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

Fair value hierarchy
(Thousands of United States dollars)

	31 December 2014		
	Level 1	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit			
Bonds, non-United States agencies	2 154 956	–	2 154 956
Bonds, non-United States sovereigns	691 489	–	691 489
Bonds, supranationals	440 169	–	440 169
Bonds, United States treasuries	1 297 290	–	1 297 290
Discounted instruments	999 234	–	999 234
Term deposits	–	1 830 000	1 830 000
Subtotal, main cash pool	**5 583 138**	**1 830 000**	**7 413 138**
Euro pool			
Bonds, non-United States sovereigns	6 157	–	6 157
Term deposits	–	90 854	90 854
Subtotal, euro cash pool	**6 157**	**90 854**	**97 011**
Total investments	**5 589 295**	**1 920 854**	**7 510 149**

Note 27
Related parties

Key management personnel

201. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the Organization. For the United Nations Human Settlements Programme, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

202. The aggregate remuneration paid to key management personnel includes net salaries, post adjustments and other entitlements such as grants, subsidies and employer pension and health insurance contributions.

203. The Organization’s key management personnel were paid $0.6 million over the financial year; such payments are in accordance with the Staff Rules and Staff Regulations of the United Nations, the published salary scales of the United Nations and other publicly available documents.

Compensation of key management personnel

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total as at 31 December 2014*
Number of positions, full-time equivalents	2	–	2
Aggregate remuneration:			
Salary and post adjustment	563	–	563
Other compensation/entitlements	54	–	54
Total remuneration for the year ended 31 December 2014	**617**	**–**	**617**
Other items:			
Outstanding loans and advances as at 31 December 2014	–	–	–

204. In addition, as at 31 December 2014, an amount of $0.07 million had been accrued as end-of-service liabilities for key management personnel.

205. Non-monetary and indirect benefits paid to key management personnel were not material. No close family member of key management personnel was employed by the Organization at the management level. Advances made to key management personnel are those made against entitlements in accordance with Staff Rules and Staff Regulations; such advances against entitlements are widely available to all staff of the Organization.

Related entity transactions

206. In the ordinary course of business, to achieve economies in executing transactions, financial transactions of the Organization are often executed by one financial reporting entity on behalf of another and then subsequently settled. In this regard, as at 31 December 2014, the Organization had inter-entity balances of $2.7 million due to other related reporting entities of the Organization. No interest is levied on such inter-entity balances.

Note 28
Leases and commitments

Finance leases

207. The Organization has no finance leases.

Operating leases

208. The Organization enters into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $3.3 million. This total includes $1.2 million towards donated-right-to-use arrangements, for which corresponding revenue is recognized in the statement of financial performance and presented within voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Future minimum operating lease obligations

(Thousands of United States dollars)

Obligations for operating leases	*Minimum lease payments as at 31 December 2014*
Due in less than 1 year	3 331
Due from 1 to 5 years	7 443
Due later than 5 years	–
Total minimum operating lease obligations	**10 774**

209. These contractual leases are typically between one to seven years, with some leases allowing extension clauses and/or permitting early termination within 30, 60 or 90 days. The amounts present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements. No agreements contain purchase options.

Leasing arrangements where the Organization is the lessor

210. The Organization has no leases as a lessor.

Contractual commitments

211. The commitments for property, plant and equipment; intangible assets; and goods and services contracted but not delivered as at the reporting date are set out in the table below.

Contractual commitments by category

(Thousands of United States dollars)

	Total as at 31 December 2014
Goods	6 396
Services	8 588
Implementing partners	42 845
Total	**57 829**

Contingent liabilities and contingent assets

Contingent liabilities

212. The Organization is subject to a variety of claims that arise from time to time in the ordinary course of its operations. These claims are segregated into two main categories: commercial and administrative law claims. As at the reporting date, corporate and commercial legal claims totalled $0.01 million. Management does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

213. Owing to the uncertainty of the outcome of these claims, no provision or expense has been recorded, as the occurrence, amount and timing of the outflows are not certain. Consistent with IPSAS, contingent liabilities are disclosed for

pending claims when the probability of outcome cannot be determined and the amount of loss cannot be reasonably estimated.

Contingent assets

214. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, contingent assets are disclosed where an event will give rise to a probable inflow of economic benefits to the Organization. As at the reporting date, the Organization did not have reportable contingent assets.

Note 30
Grants and other transfers

215. The following are the regions in which the funds given to implementing partners have been spent.

Grants and other transfers by region

(Thousands of United States dollars)

	Total as at 31 December 2014
Africa	2 078
Arab States	5 815
Asia and the Pacific	1 573
Global	100
Latin America and the Caribbean	1 720
Total	**11 286**

216. This amount is part of the $45.4 million shown on statement II as expenditure under grants and other transfers. The difference of $34.1 million was for end beneficiaries.

Note 31
Events after the reporting date

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

15-11146 (E) 260815