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United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2016

and

Report of the Board of Auditors

United Nations • New York, 2017

* Reissued for technical reasons on 30 August 2017.

Note

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

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Contents

Letters of transmittal

Letter dated 31 May 2017 from the Executive Director of the United Nations Children's Fund addressed to the Executive Secretary to the United Nations Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2016. These statements have been prepared and signed by the Comptroller.

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

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

Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2016, which were submitted by the Executive Director of UNICEF. These statements have been examined by the Board of Auditors.

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

Chapter I

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

Opinion

We have audited the financial statements of the United Nations Children's Fund (UNICEF), which comprise the statement of financial position (statement I) as at 31 December 2016 and 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 to actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNICEF in accordance with the ethical requirements relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information, which comprises the financial overview for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control 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.

In preparing the financial statements, management is responsible for assessing the ability of UNICEF to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNICEF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UNICEF.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of UNICEF.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNICEF to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNICEF to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNICEF that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UNICEF 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 UNICEF.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

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

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2016. The audit was carried out through field visits to eight UNICEF country offices and one regional office as well as through a review of the Fund's financial transactions and operations at its headquarters in New York, Geneva and Copenhagen.

Audit opinion

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

Overall conclusion

UNICEF reported a net deficit of $507.46 million for the year under review (2015: deficit of $75.54 million). This was mainly due to a decrease in voluntary contributions (decrease of $146.05 million compared with 2015) and an increase in cash assistance and transfer of programme supplies (increase of $226.43 million compared with 2015).

A decrease of 3.94 per cent was noticed in total assets compared with the previous year, while an increase of 4.53 per cent was observed in total liabilities. The ratio of total assets to total liabilities was 1.94, which is lower than the ratio of 2.11 in 2015. The current ratio was 2.68, which showed high liquidity and that UNICEF was in a comfortable position to meet its short-term commitments.

In recent years, UNICEF has taken steps to strengthen financial and managerial control over its operations. However, the Board noticed weaknesses in the functioning of the Fund in areas such as budget management, National Committees, fundraising activities, management of the harmonized approach to cash transfers, management of investments, inventory, the supply chain, procurement and contract management, travel management and internal oversight functions. These issues are detailed below. The Board has made recommendations to address the weaknesses. Overall, UNICEF needs to strengthen the internal control mechanism in these areas.

Key audit findings

Fundraising activities

The UNICEF Private Fundraising and Partnerships Plan 2014-2017 states that in accordance with the global corporate pledge-giving data, considerable untapped potential remains for corporate fundraising, and highlights an integrated approach to corporate engagement.

The Board is of the view that this potential has not been effectively tapped given that 18 country offices raised less than 25 per cent of the revised targets for corporate fundraising and 16 countries achieved only 25 to 50 per cent of the target.

Investment management

UNICEF has a cash and investment portfolio of $4.59 billion (2015: $4.53 billion). This constitutes 54.3 per cent (2015: 51.5 per cent) of the total assets. Out of the total portfolio, UNICEF internally manages a portfolio of $4.31 billion (2015: $4.53 billion).

UNICEF invested in counterparties that did not meet the standards laid down in the financial and administrative policy.

Inventory management

The UNICEF Supply Division procedure did not specify the minimum and maximum stock levels of inventory. The Supply Division did not specify the safety level for inventory for 709 of 1,302 types of inventory items. Further, UNICEF could not maintain the safety level for 122 stock items.

Procurement and contract management

There were multiple weaknesses and discrepancies in the vendor master database maintained in the Supply Division and the country offices visited by the Board. Further, there was no system of periodic review of the vendor master database. Given that the vendor master record is the primary data for procurement, the correctness and accuracy of those data are essential to identify the correct vendors.

Supply management

In accordance with the provisions of the UNICEF Supply Manual, a free detention time of 45 days is allowed for unstuffing and eventual release of containers to the carrier. Detention beyond 45 days incurs demurrage charges, which vary based on the destination and carrier. UNICEF accrued $1.60 million in demurrage charges for containers returned to the consignee and $4.48 million in demurrage charges for containers that were not returned until February 2017.

Programme outcome: Nutrition

The progress in the implementation of the Infant and Young Child Feeding programme was monitored using incomplete data or without any data for many countries. Many activities planned for 2016 in accordance with the nutrition annual workplan 2016-2017 could not be completed in 2016 and were carried over to 2017.

Millennium Development Goals

Complete data were unavailable for all but two of the Millennium Development Goal indicators that UNICEF is responsible for monitoring. The Board noted that the unavailability or incompleteness of country-level data was an impediment in performing a realistic situation analysis and monitoring progress on the indicators for which UNICEF is the lead agency. The lessons learned from the experience of implementing the Millennium Development Goals need to be used effectively in the implementation of the Sustainable Development Goals, which are already under way.

Main recommendations

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

(a) **Formulate an appropriate mechanism to enhance the level of contribution from potential income channels such as corporate donors. The strategy needs to be finalized before the implementation of the next Private Fundraising and Partnerships Plan;**

(b) **Ensure that investments are made only in those counterparties that meet the approved standards in accordance with the investment policy;**

(c) **Review the existing mechanism for stock-keeping and establish minimum and maximum stock levels for emergency and non-emergency items;**

(d) **Ensure periodic reviews of vendor master records and remove all inconsistencies;**

(e) **Identify the reasons for the detention of containers for long periods and provide guidance to the country and regional offices to reduce container detention time;**

(f) **Continue to collect data from all the country offices that are implementing the Infant and Young Child Feeding programme and ensure the completeness of the data for all the parameters;**

(g) **Use the lessons learned from the Millennium Development Goals for the effective implementation of the Sustainable Development Goals.**

Implementation of outstanding recommendations

During the year ended 31 December 2016, UNICEF continued to address the concerns expressed by the Board of Auditors in its previous reports. Progress in the implementation of the recommendations of the Board was noted. Of 36 outstanding recommendations, 24 (67 per cent) (2015: 39 per cent) were fully implemented, whereas 11 recommendations (30 per cent) remained under various stages of implementation and 1 recommendation (3 per cent) was overtaken by events.

Key facts

$4.94 billion: Revenue and other gains

$5.45 billion: Expenses

$0.51 billion: Deficit for the year

$8.45 billion: Assets

$4.35 billion: Liabilities

$4.10 billion: Accumulated surpluses and reserves

A. Mandate, scope and methodology

1. The United Nations Children’s Fund (UNICEF) was established to provide long-term humanitarian and developmental assistance to children and mothers in developing countries and is mandated by the General Assembly to advocate the protection of children’s rights, to help to meet the basic needs of children and to expand the opportunities of children to enable them to reach their full potential.

2. The Board audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2016 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article XIV of the UNICEF Financial Regulations and Rules, as well as with the International Standards on Auditing.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of UNICEF as at 31 December 2016 and its financial performance and cash flows for the financial period that ended on that date and are in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body. The audit included a general review of the financial systems and internal controls, and an 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 audit was carried out through field visits to eight UNICEF country offices along with one regional office,[1] as well as through a review of the Fund's financial transactions and operations at its headquarters in New York, Geneva and Copenhagen.

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

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

B. Audit findings and recommendations

1. Follow-up to previous recommendations

6. There were 36 outstanding recommendations up to the year ended 31 December 2015, of which 24 (67 per cent) have been implemented, 11 (30 per cent) are under implementation and 1 (3 per cent) was overtaken by events (see annex I).

2. Financial overview

7. In 2016, UNICEF reported a net deficit of $507.46 million (2015: deficit of $75.54 million). The substantial increase in the deficit is mainly due to a decrease in voluntary contributions of $146.05 million, an increase in cash assistance and transfer of programme supplies of $226.43 million and an increase in other programme-related expert services of $80.64 million over the year 2015. Actuarial losses of $39.72 million (2015: actuarial gains of $239.63 million) and the deficit were two significant reasons for the reduction in net assets to $4.10 billion (2015: $4.6 billion).

8. The ratio of total assets to total liabilities was 1.94, which indicated strong solvency. The current ratio was 2.68, which showed high liquidity, indicating that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2016. The financial ratios of UNICEF over the past three years are set out below:

[1] Turkey and Serbia country offices and the Geneva Regional Office (Central and Eastern Europe and the Commonwealth of Independent States region), Kenya, Uganda and Zimbabwe country offices (Eastern and Southern Africa region) and China, Indonesia and Myanmar country offices (East Asia and the Pacific region).

Table II.1
Financial ratios

Description of ratio	*2016*	*2015*	*2014*
Total assets: total liabilities[a]			
Assets: liabilities	1.94	2.11	2.04
Current ratio[b]			
Current assets: current liabilities	2.68	2.80	2.79
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	2.05	2.04	2.01
Cash ratio[d]			
(Cash + short-term investments): current liabilities	1.50	1.40	1.33

Source: UNICEF 2016 and 2015 financial statements.

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

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

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

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

9. Total liabilities of UNICEF stood at $4.35 billion as at 31 December 2016, with employee benefits liabilities at $1.24 billion, representing 28.5 per cent of the total liabilities. Long-term employee benefits liabilities were $1.13 billion, which was 62.8 per cent of the non-current liabilities of $1.80 billion as at 31 December 2016.

3. IPSAS-compliant financial statements

10. UNICEF adopted the IPSAS framework for the preparation of its financial statements in 2012. The current statements are the fifth financial statements prepared under the IPSAS framework.

Revenue recognition

11. The Board observed that UNICEF followed various criteria for revenue recognition for different types of voluntary contributions/donors. In the Board's opinion, it lacked consistency and clarity. Based on the Board's observation, UNICEF disclosed in detail its policy on revenue recognition — voluntary contributions under significant accounting policies (note 4 of the financial statements).

Gross carrying amount of fully depreciated assets still in use

12. In accordance with paragraph 94 (b) of IPSAS 17, an entity shall disclose the gross carrying amount of any asset that is still in use. UNICEF capitalized more than 6,142 pre-2012 assets owing to the completion of the transition period. The Board noted that 5,893 assets were fully depreciated with zero carrying value. However, the gross carrying value of the fully depreciated assets was not separately disclosed in the financial statements. On the Board's observation, UNICEF included the disclosure on the number of fully depreciated assets in the financial statements.

Disclosure of nature and type of in-kind services

13. Paragraph 108 under IPSAS 23 encourages the disclosure of the nature and type of in-kind services received during the reporting period. Paragraph 102 of IPSAS 23 states that for some public-sector entities, the services provided by volunteers are not material in amount but may be material by nature.

14. As noticed from the financial statements of UNICEF for the year 2016, no disclosure regarding the nature and type of in-kind services was made in the financial statements.

15. In response, UNICEF assured that it would consider disclosing the nature and type of in-kind services received, if considered material, in future.

16. **The Board recommends that UNICEF consider disclosing the nature and type of in-kind services received.**

4. Budget management

17. The budget is a key tool for effective financial management and control and thus is a vital component of a process that provides oversight of the financial dimensions of an organization's operations.

18. UNICEF has multiple budgets, including (a) country programme budgets; (b) emergency appeal budgets; (c) the Global and Regional Programme budget; (d) the Emergency Programme Fund; (e) the institutional budget; and (f) the Private Fundraising and Partnerships budget. The budget cycles, the level of aggregation and the sources of funds vary for each type of budget (see annex II). In its report A/71/5/Add.3, the Board of Auditors recommended that UNICEF consider consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the Executive Board and include budgeted amounts for various activities under each outcome at the appropriate business unit level. UNICEF agreed with the recommendation and stated that it would implement it by the fourth quarter of the 2017.

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

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

21. The Board found that, although management functions are typically required to be funded from the institutional budget, the costs of the following divisions at the headquarters office in New York were charged in 2016 to programme funds, which include regular resources, other resources — regular, other resources — emergency and the Emergency Programme Fund.

Table II.2
Core management functions charged to programme funds and/or the institutional budget
(United States dollars)

Division	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Emergency Programme Fund*	*Institutional budget*
	Expenditure from programme funds				
Office of the Executive Director	0	462 451	0	0	7 544 134
Division of Communication	4 504 216	1 107 799	1 196 618	238 255	16 902 284
Division of Financial and Administrative Management	(25 651)[a]	(5 500)	0	468 053	31 261 710
Division of Human Resources	59 422	1 382 445	638 115	314 376	20 946 669
Information Technology Solutions and Services	0	(8 886)	53 930	0	27 496 091
Evaluation Office	2 814 777	1 908 271	357 539	0	1 591 795
Public Partnerships Division	812 813	694 558	1 109 451	–	13 215 378
Total	**8 165 577**	**5 541 138**	**3 355 653**	**1 020 684**	**118 958 061**

Source: Files available on Division of Financial and Administrative Management SharePoint.
[a] The credit amounts are due to payroll postings and related reserves transfers adjustments.

22. UNICEF stated that costs are classified as programme or institutional depending on the results that the resources are supporting. The Public Partnerships Division, the Division of Communication and the Office of the Executive Director are part of the Global Regional Framework and have an Executive Board-approved regular resources and other resources — regular ceiling on funding needed to achieve programme-related results. The validation built in the system uses a mapping of results codes with fund types. By default, the institutional budget cannot be used for programme-coded results.

23. Without clear demarcation of indirect costs and the budget to which they can be charged, there is a risk of inconsistencies and lack of transparency to the donors and the Executive Board in respect of the funds that are available to programmes.

24. The Board made similar observations in its reports of 2014 and 2015 (A/69/5/Add.3 and A/70/5/Add.3). UNICEF has continued with the practice of charging management costs to the programme budget. The Board also observed that in respect of the Division of Communication and the Division of Human Resources, the amounts increased in 2016 compared with 2015. The Board further noted that UNICEF had issued a guideline on 3 July 2017 identifying the operational costs that should be met from the programme budget and the institutional budget.

25. **The Board recommends that UNICEF implement the guideline on identifying the operational costs that should be met from the programme budget and the institutional budget.**

5. National Committees

26. UNICEF partners with 34 National Committees for advocacy and mobilization of resources for UNICEF. The relationship between the National Committees (independent non-governmental organizations) and UNICEF are regulated by cooperation agreements signed between UNICEF and each National Committee.

Joint Strategic Plan

27. The Joint Strategic Plan is the key tool for aligning long-term objectives, strategies and the organizational resources of UNICEF and the National Committees to achieve the greatest impact and to assist the National Committees in achieving performance and results. The Joint Strategic Plan 2016-2019 was signed between UNICEF and each of the 34 National Committees, outlining the plans and targets to maximize the amount of funds being raised for programmes for children. In accordance with the UNICEF Strategic Plan 2014-2017, National Committees and the Private Fundraising and Partnerships division have a key goal to meet the private sector revenue target of raising $1.75 billion, including $960 million in regular resources, by the end of 2017.

28. The Board examined the gross revenue targets of National Committees for 2016 provided in the Joint Strategic Plans signed between Private Fundraising and Partnerships and each of the 34 National Committees and observed that with regard to 16 National Committees, the projected targets were reduced by percentages ranging from 1.35 to 57.30 compared with the original Joint Strategic Plan for 2016. Out of these, the range of reduction in the targets for five National Committees was between 19.78 per cent and 57.30 per cent.

29. UNICEF stated that the actual revenue collection by National Committees would be known only when the revenue and expenditure reports were received in 2017.

30. The Board observed that a reduction in gross revenue targets would have a negative impact on the goal of the Strategic Plan 2014-2017 to meet the private sector revenue target of raising $1.75 billion, including $960 million in regular resources, by the end of 2017.

31. **The Board recommends that UNICEF (a) continue to provide necessary technical guidance and operational support to the National Committees so that all the National Committees implement Joint Strategic Plans aligned with the UNICEF Strategic Plan; and (b) enhance its governance to achieve the targets of private sector fundraising.**

Expenses in excess of the ceiling prescribed

32. Paragraph 14 (a) (i) of the cooperation agreement stipulates that the standard minimum annual rate of contribution of National Committees to UNICEF is 75 per cent of gross proceeds raised and that the Committees may retain up to 25 per cent of gross proceeds to cover the costs of their activities. A variance of 5 per cent of gross proceeds is permitted for expenses applied to child rights advocacy. Further, in clause (iii), it is stated that retention rates may be agreed upon in writing, as part of the Joint Strategic Plan discussion, taking into account national market conditions, the level of development of the National Committee and other planning and advocacy considerations.

33. The Board noted that 25 National Committees, in agreement with UNICEF, budgeted to retain more than 25 per cent of gross revenue to meet their expenses and 22 National Committees incurred expenses of more than 25 per cent of gross revenue according to the final revenue and expenditure report. The budgeted retention ranged from 30 to 61 per cent of gross revenue.

34. UNICEF replied that the 75 per cent provision in the cooperation agreement was not obligatory but a target that Committees would try to fulfil. The Joint Strategic Plans already include a road map for reaching the 75 per cent contribution rate for those Committees that have not yet achieved that target. In accordance with

the Joint Strategic Plan, each National Committee has a contribution target ranging from 30 to 75 per cent. The overall National Committee contribution rate has exceeded the 75 per cent target for the past few years. UNICEF monitors the individual National Committees that do not meet the target. For 2016, all but four National Committees met their targets within 5 per cent of the Joint Strategic Plan. For three of those National Committees, the reasons for not meeting the target are known and considered reasonable by UNICEF.

35. The Board, while noting the response of UNICEF, observed that the road map provided by the Joint Strategic Plan did not project the desired goal of a 75 per cent contribution even by the end of 2021 for 14 of the National Committees. Hence, the Board is of the view that UNICEF needs to engage the National Committees and follow up with them to achieve the desired level of contribution.

36. **The Board recommends that UNICEF engage with the National Committees and follow up with them to achieve the desired contribution rate of 75 per cent of gross proceeds set in the cooperation agreement for the National Committees.**

Related entities of National Committees

37. Paragraph 7 of the cooperation agreement stipulates that the National Committees must obtain the agreement of UNICEF before establishing, owning a majority share in, controlling or diverting funds to a new separately owned or controlled legal entity (a related entity). The strategy for the management and monitoring of a new or existing related entity would be included in the Joint Strategic Plan.

38. The Board noted that six National Committees have related entities. The related entities are established for fundraising activities and rights advocacy purposes. The National Committee of Germany has three related entities, of which one was not disclosed in the Joint Strategic Plan signed for 2016-2019.

39. In the case of the National Committees of Hong Kong, China, Iceland, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States of America, no specific targets were fixed or key performance indicators included for fundraising/advocacy activities undertaken by related entities, in their respective Joint Strategic Plans. This would make it very difficult for National Committees to monitor the related entities and take timely corrective measures to improve their performance.

40. UNICEF accepted the audit observation and stated that the National Committee Relations Section of UNICEF was aware of this shortcoming and was taking suitable measures.

41. **The Board recommends that UNICEF enhance strategic engagement with the National Committees to ensure (a) the disclosure of all related entities by the National Committees; and (b) the inclusion of targets and key performance indicators for activities of related entities in the Joint Strategic Plan separately.**

42. UNICEF accepted the recommendation.

6. Fundraising activities

Private sector fundraising strategic plan

43. Paragraph 3.2.1 of the guidance document “Management of Private Sector Fundraising in UNICEF Country Offices” stipulates that countries with structured private sector fundraising programmes should develop a private sector fundraising strategic plan setting out the fundraising objectives as part of the country programme management plan.

44. The Board noted that private sector fundraising strategic plans were yet to be finalized in respect of Mexico (from 2014), Brazil (from 2015), Peru and the Bolivarian Republic of Venezuela (from 2016). UNICEF accepted the audit contention and cited varied reasons for the delay.

45. The timely planning and implementation of private sector fundraising strategic plans in the above countries would have enhanced their private sector fundraising activities and aligned with the Private Fundraising and Partnerships fundraising activities in a systematized manner.

46. **The Board recommends that UNICEF ensure that the private sector fundraising strategic plans of Brazil, Mexico, Peru and the Bolivarian Republic of Venezuela are finalized and aligned with the Private Fundraising and Partnerships Strategic Plan.**

47. UNICEF accepted the recommendation and updated that as at June 2017, the private sector fundraising strategic plans of Brazil, Mexico and Peru had been approved and the strategic plan of the Bolivarian Republic of Venezuela was under finalization.

Fundraising revenue

48. The Private Fundraising and Partnerships revenue forecasts and budget for 2016 were based on the medium budget scenario projection of a 15 per cent increase in Private Fundraising and Partnerships revenue to $1.44 billion in 2016 compared with the 2015 revenue of $1.25 billion. In accordance with the UNICEF Private Fundraising and Partnerships Plan 2016, the entity would generate $626 million as regular resources and $810 million as other resources — regular. The budgeted target for the National Committees for 2016 was $584.4 million in regular resources and $532.1 million in other resources — regular.

49. The Board observed that for 2016, the actual (on cash basis) total private sector revenue for National Committees for regular resources and other resources — regular was $322.3 million and $259.1 million against the targets of $584.4 million and $532.1 million, respectively. Although a gross revenue report was submitted by all countries quarterly in order to monitor progress against projected revenue goals, the report did not provide the revenue figures for regular resources and other resources — regular separately, nor did it provide expenditure data. Therefore, Private Fundraising and Partnerships was not able to monitor the actual contributions for regular resources and other resources — on a quarterly basis. The Board also noticed that Private Fundraising and Partnerships had not split the annual fundraising target into a quarterly basis to enable timely monitoring.

50. UNICEF stated that the separation of regular resources and other resources — regular revenue collection on a quarterly basis in National Committee reporting to UNICEF was not an existing reporting requirement. Annually, for the Fund’s benefit, National Committees provide an allocation of regular resources and other resources — regular revenue collection, the split of which is subject to annual approval by National Committee Boards. UNICEF already has mechanisms in place that allow for a review of the most recent estimates twice a year, but splitting revenue received into regular resources and other resources — regular would be difficult and insufficient on a quarterly basis. UNICEF uses the quarterly gross revenue report to monitor contributions, which has equipped it to meet needs along with the latest estimates. Increasing the reporting from National Committees would increase the reporting burden and transaction costs.

51. The Board noted that the Private Fundraising and Partnerships division had separate targets for regular resources and other resources — regular revenue

collection. The quarterly gross revenue report provides the gross revenue collection without the details of the actual collection under regular resources and other resources — regular. Given that UNICEF is dependent on voluntary funding for its operations, it is important for it to actively monitor the status of revenue generation and make a timely intervention wherever there are weaknesses in revenue collection. The reporting of regular resources and other resources — regular contributions against the agreed targets would therefore strengthen the monitoring of revenue targets. Through this, Private Fundraising and Partnerships would be in a better position to achieve the annual budget target for revenue generation.

52. **The Board recommends that UNICEF put in place a mechanism for quarterly reporting of regular resources and other resources — regular contributions separately for monitoring and taking timely corrective actions.**

Priority income streams

53. The Private Fundraising and Partnerships Plan 2014-2017 identified five priority income streams as offering the greatest potential for income generation for Private Sector Fundraising and Partnerships, namely, (a) pledges; (b) major donors; (c) legacies; (d) corporate fundraising; and (e) international foundations.

54. The Board observed that different targets for these priority income streams were fixed in the Strategic Plan, the budget and the revised Joint Strategic Plan. The Board further noted that there was slow progress in fundraising from major donors, corporate fundraising and pledge channels for the year 2016. A comparison of the targets and the achievement against the three sets of targets are shown below.

Table: II.3
Status of revenue collection for the year 2016
(Millions of United States dollars)

	Targets for 2016				*Achievement in 2016 against targets (percentage)*		
Income channels	*Strategic Plan*	*Budget*	*Revised Joint Strategic Plan*	*Achievement*	*Strategic Plan*	*Budget*	*Revised Joint Strategic Plan*
Pledges	795	765	629	653	82	85	104
Major donors	45	73	65	45	99	61	68
Legacies	85	79	73	87	102	110	119
Corporate fundraising	203	172	160	148	73	86	93
International foundations	257	239	257	253	99	106	99

Source: Private Fundraising and Partnerships division.

55. UNICEF replied that it acknowledged that there was a gap between the goals set in 2013 as described in the Private Fundraising and Partnerships Strategic Plan 2014-2017 owing to exchange rate fluctuations. UNICEF further stated that actual comparisons before the end of the year were not a relevant indicator of potential performance.

56. The Board noted that the budgeted targets were fixed taking into consideration the impact of adverse exchange rates. Further, the achievement in the range of 61 per cent to 110 per cent against different targets clearly indicated the requirement for regular monitoring by setting quarterly targets.

57. **The Board recommends that UNICEF reconcile the different targets fixed by the Strategic Plan, the budget and the Joint Strategic Plan and proactively monitor revenue generation through the different income channels.**

Corporate fundraising

58. The Private Fundraising and Partnerships Plan 2014-2017 states that in accordance with the global corporate pledge-giving data, considerable untapped potential remains for corporate fundraising, and highlights an integrated approach to corporate engagement. In accordance with the Private Fundraising and Partnerships workplan outcome targets, annual gross contributions from corporate donors were to exceed $203 million by 2016.

59. Table II.4 shows the status of corporate revenue received by various country offices.

Table II.4
Corporate revenue received by various country offices and National Committees

Range (corporate contribution received against the revised Joint Strategic Plan target) (until October 2016) (Percentage)	*Country offices and National Committees*	*Number of country offices/ National Committees*
0-25	Canada, Chile, China, Colombia, France, Gulf Area offices, Iceland, Indonesia, Israel, Italy, Lithuania, Luxembourg, New Zealand, Peru, Portugal, Slovenia, Switzerland and Thailand	18
26-50	Andorra, Austria, Belgium, Brazil, Czechia, Denmark, Finland, Germany, Greece, Hungary, Ireland, Japan, Netherlands, Republic of Korea, Sweden and United States	16
51-75	Argentina, Australia, Bulgaria, Hong Kong SAR, Malaysia, Norway, Poland, Romania, Spain, Turkey, United Kingdom and Uruguay	12
76-100	India, Serbia, Slovakia, Philippines and Venezuela (Bolivarian Republic of)	5
101-125	Mexico	1
Outliers	Croatia (260 per cent), Ecuador (195 per cent)	2
Incomplete data	For Estonia, Paraguay, Singapore, South Africa and Ukraine, data were either not available or were incomplete.	5
Total		**59**

Source: Private Fundraising and Partnerships division.

60. It can be seen from the table that the percentage of achievement compared with the targets fell short, with 18 country offices and National Committees having received corporate revenue in the range of 0 per cent to 25 per cent against their revised Joint Strategic Plan targets, followed by 16 country offices and National Committees having achievements in the range of 26 to 50 per cent.

61. UNICEF replied that currently, this revenue stream has not reached its full potential and that it is taking various steps to expand the corporate fundraising team, develop a new global fundraising strategy and increase support to National Committees and country offices.

62. **The Board recommends that UNICEF formulate an appropriate mechanism to enhance the level of contribution from potential income channels such as corporate donors. The strategy needs to be finalized before the implementation of the next Private Fundraising and Partnerships Plan.**

7. Management of cash transfers

Harmonized approach to cash transfers

63. The Fund's expense on direct cash transfers in 2016 was $1.97 billion, which was 36.15 per cent of its total expense of $5.45 billion. There was a 11.30 per cent rise from the expense on cash transfers of $1.77 billion out of the total expense of $5.1 billion in 2015. The cash transfers included a 49.40 per cent transfer to Governments and a 45.84 per cent transfer to civil society organizations.

64. UNICEF adopted a revised harmonized approach to cash transfers framework[2] in February 2014. The framework essentially makes the monitoring of cash assistance given to implementing partners more efficient by moving to a risk-based approach adopted by all the United Nations agencies that participated in the framework. Activities include:

(a) Macro-assessments of the public financial management environment within programme countries, which is a desk review of the existing available reports on the public financial management of the country;

(b) Micro-assessments of the implementing partner to assess the partner's financial management capacity determining the overall risk rating of the partner and the frequency of the assurance activities. Micro-assessments are required when the partner receives more than $100,000 in a calendar year and are valid for five years;

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

65. UNICEF informed the Board that globally, 16,078 programmatic visits (against the requirement of 11,998) and 4,491 spot checks (against the requirement of 4,671) were completed in 2016. In addition, 593 scheduled audits and 21 special audits were completed. UNICEF further informed the Board that it did not segregate the data by Government and civil society organization and that such details were available at the individual country office level.

Implementation and monitoring of the harmonized approach to cash transfers

66. In accordance with paragraph 21 (a) of the policy on the harmonized approach to cash transfers, targets for assurance activities implemented were 90 per cent by the end of 2016. The Board observed that the UNICEF report on the global implementation in 2016 of the harmonized approach to cash transfers stated that the targets had been largely achieved, with the exception of the following shortfalls:

(a) Spot checks in the East Asia and Pacific region (84 per cent), the Eastern and Southern Africa region (87 per cent), the Latin America and Caribbean region (84 per cent) and the Middle East and North Africa region (70 per cent);

(b) Nine country offices conducted less than 80 per cent of spot checks: Central African Republic (71 per cent), Democratic Republic of the Congo (79 per cent), Iraq (70 per cent), Mozambique (61 per cent), Sierra Leone (38 per cent),

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

Somalia (56 per cent), Syrian Arab Republic (33 per cent), Turkey (41 per cent) and Yemen (35 per cent);

(c) Five country offices conducted less than 80 per cent of programmatic visits: Central African Republic (69 per cent), Ghana (56 per cent), Iraq (76 per cent), Mozambique (61 per cent) and Pakistan (77 per cent).

67. During the field visits, the Board noted the following deficiencies in the various country offices:

(a) There was a shortfall in the conduct of programmatic visits/spot checks in the Myanmar country office and the Indonesia country office. In the Turkey country office, no scheduled audit was carried out given that the situation with respect to conducting scheduled audits has proved to be challenging. UNICEF informed the Board that on 17 April 2017, the Turkey country office finalized and signed a memorandum of understanding with the Supreme Audit Institution to carry out the scheduled audits;

(b) In the China country office and the Myanmar country office, the scheduled audit of Government implementing partners was not conducted given that an external service provider had not been engaged for that purpose;

(c) There were direct cash transfer amounts outstanding for more than three months with implementing partners after the utilization date in four country offices[3] for lack of utilization reports.

68. **The Board recommends that UNICEF strengthen implementation of the harmonized approach to cash transfers to achieve the targets.**

69. UNICEF agreed to continue to strengthen implementation of the harmonized approach to cash transfers by providing technical assistance for effective implementation of the approach across all regions and with due consideration to the significance of the organizational risks and by leading the development of systems and processes to effectively monitor and oversee the implementation of the harmonized approach to cash transfers across all UNICEF offices.

Status of work items from workplans

70. The Field Results Group at UNICEF was created in 2014 with the objective of providing simple and flexible programming tools and timely quality support for strengthening organizational accountability. It spearheads the Fund's efforts to strengthen management for results in all aspects, particularly programming in the field. In accordance with the Field Results Group's Implementation Modalities Pillar Workplan: 2016-2017, five areas of work and deliverables were identified and planned for completion in 2016. Of the activities planned for 2016, 26 per cent were deferred for various reasons. The Board noted that most of the pending activities were closely related to the enhancement of the efficiency and effectiveness of the various programme implementation modalities that needed to be addressed without further delay.

71. The Fund's policy on the harmonized approach to cash transfers provides that global costing assessment and assurance activities should be in place and analysed to support decisions on the implementation of the harmonized approach, with the target of completing the analysis by the end of 2016. However, the work on developing the harmonized approach to cash transfers costing methodology and

[3] China country office: $6.3 million; Myanmar country office: $5.96 million; Indonesia country office: $3.35 million; Uganda country office: $979,408. For the Indonesia, Myanmar and Uganda country offices, no expenditure report was received within the stipulated time of three months.

producing annual cost estimates has not yet been completed; the work has been deferred and is to be completed in 2017.

72. UNICEF informed the Board that in-depth analysis had been reprioritized, given that there were too many assumptions to be made, which would require significant efforts.

73. The analysis of the costs relating to the harmonized approach to cash transfers holds special importance considering that one of the main objectives of the harmonized approach to cash transfers framework was to reduce transaction costs through harmonized approaches. Also, considering the amount of cash transfers being made to the implementing partners every year, the exercise of a cost analysis of the harmonized approach to cash transfers needed to be expedited.

74. **The Board recommends that UNICEF expedite the cost benefit analysis of the harmonized approach to cash transfers framework.**

75. UNICEF agreed to prioritize the cost benefit analysis of the harmonized approach to cash transfers framework.

Standard staffing model

76. As part of its work with regional offices to establish recommended staffing requirements for different country offices and operating environments, the Field Results Group prepared the "Implementing partnerships management: analysis of current trends and recommendations for standard staffing model" in January 2016.

77. According to the analysis:

(a) Only 18 country offices had one or more of the identified posts related to implementing partnership management;

(b) The majority of the country offices had one staff member per post regardless of the size of the country office or the number of implementing partners;

(c) Only 12 (55 per cent) of the top 22 big-spending country offices had posts specifically related to implementing partnership management.

78. Accordingly, the Field Results Group proposed a staffing model for various country offices in accordance with their budget size, corruption and security levels and other criteria. The Board noted that UNICEF had not initiated any action to implement the proposed staffing model. UNICEF informed the Board that the recommendations of the Field Results Group did not represent a policy and hence were not mandated and that the proposed model had not been officially endorsed.

79. Given that having the right number of qualified and skilled staff is critical for optimizing the results from any operating environment, UNICEF needs to examine the recommended staffing model and make a considered decision on the way forward on partnership management.

80. The Board noted that UNICEF had made progress in the implementation of relating to the harmonized approach to cash transfers activities at the regional and country levels. However, some deficiencies continue to plague the implementation and monitoring of the framework. Owing to the nature of the harmonized approach activities, the success of an activity depends on the country's situation, and UNICEF needs to conduct risk mitigation at the country level. There is greater need for an overarching monitoring mechanism at the headquarters level to support country offices by providing policy guidance and institutional expertise and support. The Board also noted that UNICEF headquarters had been supporting the implementation of activities relating to the harmonized approach to cash transfers through initiatives such as the development of guidance and various tools. However,

a delay had been noticed in the achievement of some guidance and tools such as the analysis of the costs relating to the harmonized approach to cash transfers, which are closely related to enhancement of the efficiency and effectiveness of the various programme implementation modalities, especially those of assurance activities.

Funding Authorization and Certificate of Expenditure forms

81. In accordance with the harmonized approach to cash transfers framework, the implementing partners use the Funding Authorization and Certificate of Expenditure form to report the utilization of direct cash transfers. The Programme Officer approves the Funding Authorization and Certificate of Expenditure payment request following a review of various aspects, including that the activities are in accordance with the agreed workplan and that there was satisfactory utilization of the previous cash transfer. Where an alternate payee has been designated by the implementing partner, the review also ensures that the alternate payee has been authorized to receive cash transfers by the implementing partner.

82. During the field visit to the Serbia country office, the Board observed that in 2016, 17 implementing partners authorized UNICEF to release direct cash transfers to 44 alternate payees directly. The Board further observed that the Funding Authorization and Certificate of Expenditure form did not provide for requesting the details regarding the alternate payee. The Board was informed that Funding Authorization and Certificate of Expenditure forms sent by implementing partners included a copy of the invoice sent to UNICEF by the alternate payee, which ensured that the implementing partner was aware of the payment to be made to the alternate payee.

83. The Board noticed, however, that there was no mechanism establishing the authorization of an alternate payee by the implementing partner, which leaves scope for disputes or wrong payments. To mitigate those risks, UNICEF should develop a mechanism that reflects official authorization for alternate payees to receive cash transfers.

84. **The Board recommends that in order to mitigate the risk of disputes or improper payments to alternate payees, UNICEF develop a suitable mechanism wherein the implementing partner's authorization of an alternate payee is clearly recorded.**

85. UNICEF agreed with the recommendation and is considering formulating the applicable policy at the headquarters level. The Central and Eastern Europe/ Commonwealth of Independent States Regional Office has issued an instruction to all its country offices to ensure adherence to existing UNICEF guidelines and highlighted the need to document in advance the alternate payees for implementing partners.

8. Investment management

86. UNICEF has a cash and investment portfolio of $4.59 billion (2015: $4.53 billion). This constitutes 54.3 per cent (2015: 51.5 per cent) of the total assets. Out of the total portfolio, UNICEF managed a portfolio of $4.31 billion (2015: $4.53 billion) internally.

Investment rating norms

87. In accordance with paragraphs 11 (d) and 13 of UNICEF Finance and Administrative Policy 9, investments must be made in counterparties with a minimum Moody's credit rating of "A" for long-term deposits and "P1" for short-term deposits. In accordance with the policy, investments in the non-rated and

lower-rated counterparty relationship list were individually approved on the basis of certain parameters. The Board noted that UNICEF had an investment of $570.01 million and $134.51 million in lower-rated counterparties as at 1 January 2016 and 31 December 2016, respectively, which amounted to 12.78 per cent and 3.2 per cent of its total investment for the respective dates.

88. UNICEF informed the Board that these investments had been approved by the Financial Advisory Committee and that Baa3- or P2-rated counterparties were not speculative or risky. UNICEF also clarified that investments in lower-rated counterparties were to generate additional revenue. UNICEF further informed the Board that it would be modifying its investment policy to allow investment in AAA to Baa3 grade securities.

89. The Board is of the opinion that the security of investments is the most important parameter, in accordance with the investment policy. UNICEF has made investments in Baa-rated securities, which are one step below the A rate but carry moderate risk compared with the low risk of the A rate. Further, given that the interest rate on such investments was also very low (0.77 per cent)), the revenue was not significant. The Board noted that UNICEF had about a 62 per cent and 65 per cent unutilized limit out of its approved investments limit in counterparties with a higher credit rating as on 1 January 2016 and 31 December 2016, respectively. Hence, there was no justification for investing in the lower-rated counterparties.

90. **The Board recommends that UNICEF ensure investments only in those counterparties that meet the approved standards in accordance with the investment policy.**

9. Enterprise risk management

91. UNICEF adopted a risk management policy in May 2009, which constituted part of the UNICEF risk management framework. The purpose of the UNICEF risk management policy was to embed a systematic and consistent approach to identifying, assessing and managing risks across UNICEF using a common risk language.

Risk assessment and risk reporting instructions for the year 2016

92. In terms of the UNICEF enterprise risk management policy, while risk identification and assessment should be done on a day-to-day basis, each office should conduct a formal risk assessment at least once a year or whenever a major change in the environment occurs. The Board noticed that UNICEF did not issue any instructions for annual risk assessment and reporting in 2016. UNICEF informed the Board that new instructions had not been provided in 2016, given that the approach to enterprise risk management and risk reporting was being evaluated and reformulated. However, some offices, on their own, did report their risks in the enterprise risk management risk register based on the prior year's guidance.

93. UNICEF also informed the Board that in 2016, instructions were not sent given that the manual nature of the reporting requires substantial manpower and time. Hence, UNICEF decided that the enterprise risk management process needed significant revamping in order to make the reporting on the assessment more relevant and timely and is finalizing the new enterprise risk management policy.

94. Risk reporting and updating of risk registers for the year 2016 thus became a voluntary exercise on the part of applicable offices. In 2016, 102 out of 137 applicable country and regional offices reported risks, while 5 divisions of the headquarters business area out of 17 applicable divisions reported risks in 2016.

95. **The Board recommends that in order to meet the challenges posed by intrinsic and extrinsic factors, UNICEF ensure the risk assessment and risk reporting exercise by the applicable offices at least once every year.**

Senior Staff Risk Committee

96. In accordance with the UNICEF risk management policy, the functions of the Senior Staff Risk Committee include proposing the organizational risk tolerance in key risk areas, discussing the overall effectiveness of risk management practices and providing key findings to the Executive Director.

97. Regarding the details of the risks raised by the Senior Staff Risk Committee or its members with the Executive Director in 2016, UNICEF informed the Board that the Executive Director was already a part of the Risk Committee.

98. Given that the Committee was to raise the risks with the Executive Director, he was not supposed to be a part of the Committee. Therefore, an incongruity in respect of composition and reporting was apparent. The policy had not been amended to modify the composition of the Senior Staff Risk Committee to avoid the said incongruity.

99. **The Board recommends that UNICEF ensure that the proposed new enterprise risk management policy is appropriately crafted to incorporate the organization's functional requirements and at the same time ensure that incongruities are avoided.**

100. UNICEF accepted the recommendation and assured that it would remove such incongruities.

Risk liaisons

101. In terms of paragraph 4.6 of the enterprise risk management policy, risk liaisons were focal points for risk management in UNICEF offices. Regarding the status of the selection/appointment of risk liaisons in 2015 and 2016, UNICEF informed the Board that there was no central register for risk liaisons. UNICEF also informed the Board that there was no formal training for risk liaisons provided by headquarters.

102. In addition to being the focal points for risk management in UNICEF offices, risk liaisons were responsible for collecting and analysing risk information to be shared with the head of office and for identifying required adjustments to risk tolerance levels and presenting them to the risk management secretariat. Hence, it was important to have an up-to-date database on risk liaisons. The details of risk liaisons were not, however, updated by UNICEF. In addition, training for risk liaisons was not conducted in 2016.

103. **The Board recommends that UNICEF ensure that risk liaisons are formally selected and that the database in respect of risk liaisons is invariably updated.**

104. UNICEF accepted the recommendation.

105. **The Board recommends that in addition to continuing with the good practice of providing ad hoc support from headquarters, there should be a regular and formal training programme for risk liaison personnel on risk management.**

106. UNICEF accepted the recommendation.

Risk tolerance

107. Paragraph 4.2 of the enterprise risk management policy defines the functions of the Senior Staff Risk Committee, which include proposing the organizational risk tolerance in key risk areas and, specifically, mediating between UNICEF offices and divisions that wish to apply a different risk tolerance.

108. With regard to risk tolerance levels and risk appetite in respect of UNICEF headquarters divisions, for the year 2016, UNICEF informed the Board that it did not have preset tolerance levels and risk appetite. Risk events were managed on a case-by-case basis, given the operational context of each situation.

109. Regarding harmonizing risk tolerance, UNICEF informed the Board that risk tolerance and risk appetite were concepts common to investing/finance enterprises; the terms could not be applied classically to UNICEF and hence those concepts would not be formulated in the new policy.

110. Risk tolerance and risk response are an integral part of the management's set of actions to align risks with the entity's risk tolerances and risk appetite. When an organization decides on its objectives and its approach to achieving strategic goals, it should consider the risks involved and its appetite for such risks as a basis for making such decisions.

111. **The Board recommends that UNICEF ensure the formulation of risk tolerance and risk appetite at appropriate operational levels.**

10. Inventory management

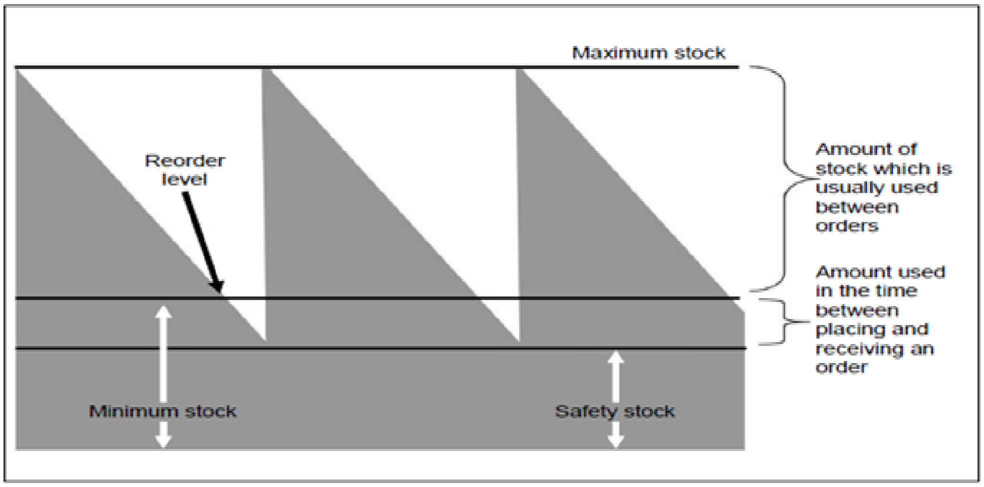
Safety level of stock

112. Supply Division Procedure — 010 outlines the management of emergency orders. The Logistics Centre, in collaboration with the Emergency Coordination Unit and the Procurement Centres, maintains the stock level of items in the emergency supply list, which is reviewed and updated periodically. In addition to emergency supply list items, the Logistics Centre, in collaboration with the Procurement Centres, also maintains the safety stock of warehouse stock items. The safety stock is reviewed at least once a year and stock levels are adjusted accordingly.

113. The Board observed that the Supply Division did not have a specific minimum and maximum stock level of inventory. The Supply Division specified only the safety/emergency level for inventory.

114. For example, in accordance with the World Health Organization (WHO) report on vaccine store management, the stock movements and relation among minimum, maximum and safety stock levels are provided in chart II-1.

Chart II.1
Stock levels



Source: World Health Organization report on vaccine store management.

115. The Board reviewed the closing stock of 1,302 types of inventory items and observed that out of these, the Supply Division has not defined the safety/ emergency level for 709 types. The Board further noted that in 122 cases of emergency (32 cases)/non-emergency (90 cases) items, the Supply Division could not maintain its safety/emergency level as fixed in compliance with the Supply Division procedure.

116. Further, in 81 non-emergency cases, the Supply Division had closing stock ranging between 5 and 76 times the safety level. In accordance with best practice, the stock should be maintained between the safety stock level and the maximum stock level. However, the Supply Division has not established a maximum stock level for inventories; hence, the appropriate stock level of these items could not be ascertained.

117. The Supply Division should ensure maintenance of the safety/emergency level of stock, especially in respect of the emergency items. Similarly, the Supply Division should specify the minimum and maximum levels of stock for all items to ensure that they are reordered at the appropriate time and there is no overstocking of any item.

118. UNICEF agreed to establish the minimum stock level in the case of emergency items. However, UNICEF disagreed with maintaining a maximum level because of demand fluctuation and the nature of humanitarian response. The Board noted that the maximum level was the top level of stock that should not be exceeded. If it was, it would involve the blocking of funds in inventory as well as storage space.

119. **The Board recommends that UNICEF review the existing mechanism of stock-keeping and establish minimum and maximum stock levels for emergency and non-emergency items.**

11. Procurement and contract management

Vendor master

120. Paragraph 2.1 of the general standard operating procedure for maintaining vendor master (version 1.0) provides guidance and instructions for the processing of vendor master records. The goal of the standard operating procedure is to ensure that the vendor management process is efficient and effective in preventing the

duplication of master records. Paragraph 2.2 of the standard operating procedure states that the office has the responsibility for all processes relating to the screening of the vendor, namely, ensuring that the vendor is in compliance with the UNICEF regulatory procurement framework, observing minimum formalities in the process and appropriate record-keeping of support documentation for verification and audit, in addition to the responsibility for follow-up actions relating to the vendor, which include changes in name, email address, point of contact entries and bank information. Section 3.11 of chapter 5 of the Supply Manual explains that a vendor would be called a duplicate vendor if a single legal national entity was entered in the Virtual Integrated System of Information (VISION)[4] two or more times under a different vendor number. Examples are entities with the same address/street number/ telephone numbers.

121. The Board reviewed the vendor master records of the Supply Division and noted that they contained a total of 15,904 records, 4,585 of which were recognized as valid by the Supply Division. The remaining records were marked for deletion. The anomalies noticed in the Board's analysis of the 4,585 valid records are detailed in table II.5.

Table: II.5
Analysis of vendor data

Serial number	*Particulars*	*Number of cases*
1	Total number of valid vendors	4 585
2	Duplicate vendors as accepted by the Supply Division	33
3	Vendors not having bank account details	1 963
4	Vendors not having email identification	3 171
5	Vendors having same bank account and email identification	6
6	Vendors having same email identification	39

Source: Vendor master data provided by the UNICEF Supply Division.

122. The Board noted similar deficiencies in the vendor data during the field visit to the Kenya country office.

123. Given that the vendor master records are the primary data for procurement, their correctness and accuracy are essential to identify the correct vendors for any purchase. The Board did not notice a system of periodic review of the vendor database. The absence of a robust system of periodic review and maintenance of the vendor master records increases the risk of duplications and incomplete records as well as misuse. The Board also noted that in 2015, a fraud case had been reported in which vendor master records were compromised and changes were made in the vendor master data without proper scrutiny. The case was reviewed by the Office of Internal Audit and Investigations, which observed that there were no official documents or policy explaining what documentation/verification was needed before proceeding with any changes in the vendor master data.

124. UNICEF informed the Board that from September 2016, vendor master has been managed and administered by the Global Shared Service Centre. The Centre is responsible for monitoring compliance with global policy, in addition to conducting periodic quality assurance checks.

125. **The Board recommends that UNICEF ensure periodic review of vendor master records and remove all inconsistencies.**

[4] VISION is the Fund's enterprise resource planning system.

Use of the long-term agreement

126. Paragraph 6.1.1 of chapter 6, section 8 of the Supply Manual encourages the utilization of the long-term agreement/long-term agreement for services. However, for large orders unforeseen at the time of forecasting for the long-term agreements/long-term agreements for services, or other situations where there is reason to believe that better prices or conditions could be obtained through a new competitive exercise, the Supply Manual suggests that a new tender be considered.

127. The Supply Division issued a total of 7,482 purchase orders in 2016 for 13,780 materials worth $2.26 billion, which included 11,174 standard materials worth $2.2 billion (97 per cent). Of the standard materials, 1,243 (11 per cent of standard material purchased) standard materials worth $131.7 million were not purchased under the long-term agreement.

128. The Board noted that the price of materials purchased without the long-term agreement was higher in 200 cases (with a total purchase value of $64.4 million) compared with the same materials purchased through long-term agreements during the year. The Board worked out that UNICEF could have saved $21.7 million had those purchases been ordered at the long-term agreement prices. The Board further noted that while giving the reasons for not utilizing the long-term agreement, in 84 cases UNICEF stated that purchase orders had been issued outside the long-term agreement because the agreement had expired or could not be entered into in time before the issuance of the purchase order or due to oversight or the purchase order being issued in order to utilize the grant before it expired. The Board is concerned about the financial implication of not purchasing material using the long-term agreement, given that materials were purchased at prices that were higher than the long-term agreement price for the same materials.

129. The Board further observed that there were 350 standard materials ordered in 279 purchase orders, for a total value of $42 million, which were not under any long-term agreement. Of those, nine materials worth $17.7 million were ordered regularly. The number of purchase orders issued for each of these materials during the year ranged from 6 to 29.

130. UNICEF stated that the long-term agreement was a non-exclusive arrangement, which allowed UNICEF to buy outside the long-term agreement. Hence, it provided UNICEF with the flexibility to seek other options as needed. UNICEF also stated that there were instances in which the use of a long-term agreement might not be optimal or even possible.

131. Further, although UNICEF was aware of the reasons for deviation in each case, they were not recorded in VISION. Recording reasons for deviation in VISION would ensure visibility and enable analysis by UNICEF management with a view to taking necessary corrective measures.

132. **The Board recommends that UNICEF record the reasons for deviation from the Supply Manual guidelines on availment of the long-term agreement in VISION.**

133. **The Board further recommends that UNICEF develop the long-term agreement management system, including constant monitoring of its expiry, timely renewal and entering the agreement with better prices for regularly purchased items.**

134. UNICEF agreed to strengthen the monitoring system for timely renewal of long-term agreements and to consider the establishment of long-term agreements for frequently procured items.

Non-availment of exemption on value-Added tax

135. Under the basic cooperation agreement with the host government, UNICEF is exempted from direct taxes, levies, tolls and duties on supplies, equipment and services furnished by UNICEF under the country programme action plan. UNICEF is also exempt from value-added tax in respect of local procurement of supplies or services procured in support of UNICEF-assisted activities.

136. The Board observed that the Uganda country office had paid $5.80 million towards value-added tax, of which a claim of $671,193 was outstanding for recovery for the years 2014 to 2016. Similarly, the China country office had issued purchase orders worth $333,017 with value-added tax included. Of that amount, the China country office has cleared (paid) purchase orders worth $220,468 and paid $37,480 in value-added tax on the purchases, for which exemption could have been availed.

137. UNICEF stated that in the case of Uganda, the Government required all United Nations agencies to process applicable taxes to suppliers and service providers in payment invoices and subsequently claim the refund from the Uganda Revenue Authority. The Uganda country office is fully compliant in terms of processing value-added tax in the vendor invoices. However, in accordance with the requirements of the Uganda Revenue Authority, recovery of the value-added tax is possible only after the suppliers have remitted the value-added tax collected from UNICEF to the Uganda Revenue Authority. Many suppliers are non-compliant in respect of value-added tax.

138. **The Board recommends that UNICEF country offices ensure that the exemption on taxes, levies, tolls or duties are availed of on supplies and equipment as provided under the cooperation agreement with the host country.**

139. UNICEF accepted the recommendations and will continue to follow up with relevant authorities to recover outstanding value-added tax. In addition, the Uganda country office has started to include a clause in purchase orders obliging vendors to remit collected value-added tax on time to the Uganda Revenue Authority or UNICEF will make deductions for any outstanding value-added tax in subsequent payments to vendors.

Deficiencies in the bidding process

140. Paragraph 5.4 of chapter 6 of the Supply Manual states that valid and acceptable quotes, bids or proposals should preferably be received from at least three reliable suppliers before purchases are undertaken. Further, rule 112.32 (a) of the UNICEF Financial Regulations and Rules states that when invitations to bid or requests for proposals have been issued, the award of a contract shall be made to the lowest evaluated bid but in the interests of UNICEF, any or all bids may be rejected. Reasons for rejection shall be recorded and a determination made whether to invite new competitive tenders.

141. The Board noted that in April 2016, the Kenya country office floated an invitation to bid for the procurement of 8,250 hygiene kits. In the clause on bid modifications and withdrawal, the Kenya country office clearly indicated that all changes to a bid must be received prior to the closing time and date. Five suppliers responded to the invitation to bid. The Board observed that the evaluation committee unanimously noted reasons to reject the bids of four suppliers, including the lowest bidder. Further, it gave the third highest bidder the opportunity to modify the product specifications. There was nothing on record to show that the other rejected bidders had been given the same opportunity. The bidding process thus turned out to be single-source procurement. In fact, the Joint Contract Review

Committee of the Kenya country office noted these aspects in its comments, stating that specifications were not elaborate enough in the bidding document and that the process could be considered as a proxy single source system.

142. The Kenya country office intimated that the recommended supplier was only asked to make minor adjustments. However, the Board observed that the recommended supplier was asked to change the brand of item, which cannot be considered a minor change.

143. Rule 112.30 of the UNICEF Financial Regulations and Rules states the exceptions to the tendering process.

144. The Board noticed that the China country office had launched an "inspired gift shop" on an online shopping platform in December 2013 and that the contract raised previously was based on single-source selection since its annual value was relatively small ($16,000). The China country office planned to promote and draw traffic to its inspired gift shop through display advertisements and search engine marketing and other advertising opportunities. For that purpose, a long-term agreement was established with the subsidiary of the same online shopping platform with a total not-to-exceed amount of 4 million yuan ($579,710) for a period of 24 months on a single-source basis.

145. The Board observed that the said service did not fulfil the condition of awarding a contract without going through the tendering process. Further, in Contract Review Committee proceedings, it was stated that equally potential advertisement platforms other than the selected vendor were available in the market. Potential vendors under the referred category, namely, web search engine providers, Internet advertising, press releases etc., were available in the China country office's list of potential vendors. Hence, the scope for competitive solicitation was available to the office. UNICEF replied to the Contract Review Committee, stating that each service provided had different market segments, hence the country office decided to enter into an individual contract with each of the providers.

146. UNICEF stated that the Supply Manual allowed for single sourcing when justified, which it was in this case. UNICEF further informed the Board that the same vendor hosted the UNICEF account free of charge and that value of money was achieved through analysis of the return on investment. UNICEF further stated that the selected vendor for online advertisement was the only vendor that could provide the advertisement function for the UNICEF shop in the selected online shopping platform.

147. The reply from UNICEF is to be viewed in the light of the fact that the selected vendor charges for the set price for visitors' click and display advertisements. Further, in the solicitation document, the China country office itself recorded that there were service providers available and that potential vendors under the said category of services were available in the China country office's list of potential vendors.

12. Supply management

Delay in delivery

148. The timely arrival of supplies is a critical programme requirement. Procurement and shipping activities should therefore be closely coordinated to ensure that target arrival dates for shipments are met. The Supply Division monitors the timely delivery of supplies through the following two key performance indicators:

- Efficiency and effectiveness of processes: key performance indicator 4: 95 per cent of all international supplier deliveries are delivered on time
- Partner satisfaction: key performance indicator 3: 95 per cent of international procurement orders delivered at port of entry at or within agreed-upon target arrival date.

149. The procurement and delivery undertaken by the Supply Division include both emergency and non-emergency items. The Supply Manual establishes emergency levels (levels 1, 2 or 3) in relation to the need for additional, external support for the country office.

(a) Delay in case of non-Emergency items

150. An analysis of data related to deliveries from suppliers for the year 2016 revealed that there were delays ranging from 6 to 604 days in 6,411 cases of deliveries of non-emergency items worth $665.14 million. Of these, there were 1,443 deliveries worth $117.08 million where the delay was more than 30 days.

(b) Delay in case of emergency supplies

151. Emergency calls require prompt and efficient response from the Supply Division. However, an analysis of data related to deliveries for the year 2016 revealed that in 171 deliveries (worth $10.95 million) related to emergency cases, there were delays ranging from 6 to 81 days.

Levy of liquidated damages

152. In accordance with UNICEF departmental procedure 114, the liquidated damages clause shall be included in all tenders, long-term agreements and purchase orders so that the instruction can be contractually utilized in case of non-performance by various vendors.

153. A review of the data showed that against 6,411 cases of delays in non-emergency supplies and 171 cases of delays in emergency supplies, the liquidated damage was levied or proposed to be levied by the Supply Division in only 42 cases, which works out to less than 1 per cent of the cases.

154. The Board considers it important to levy the liquidated damages in the delayed delivery cases to ensure that the supplier is careful and prompt in future deliveries.

Achievement in terms of key performance indicators

155. The Board reviewed the achievement of various procurement centres of the UNICEF Supply Division against key performance indicators 3 and 4 for the years 2015 and 2016, as set out in table II-6.

Table: II-6
Status of key performance indicators

Centres	Percentage of all international supplier deliveries delivered on time (key performance indicator 4 — 95%)		Percentage of international procurement orders delivered at port of entry at or within agreed-upon target arrival date (key performance indicator 3 — 95%)	
	2015	*2016*	*2015*	*2016*
Contracting Centre	79	70	64	63
Health Technology Centre	83	81	87	88
Medicine and Nutrition Centre	63	66	67	71
Vaccine Centre	62	69	87	90
Water Sanitation Education Centre	84	71	79	74
Supply Division (overall)	**76**	**72**	**76**	**77**

Source: Key performance indicator balance performance scorecard for the years 2015 and 2016 provided by the UNICEF Supply Division.

156. The Board noted that achievement against key performance indicator 4 had dropped from 76 per cent to 72 per cent in the year 2016. Further, all five centres were below the target level. Regarding key performance indicator 3, the achievement of various centres of the Supply Division ranged from 63 to 90 per cent and the overall achievement of the Supply Division was 77 per cent (previous year: 76 per cent). Thus, for both key performance indicators, the Supply Division could not meet the target level.

157. UNICEF stated that the Supply Division regularly monitored suppliers' performance in the timely delivery of goods through the expediting process, weekly workload, expediting reviews and critical deliveries management meetings.

158. However, UNICEF did not meet the targets in respect of key performance indicators 3 and 4 and needs to improve its monitoring mechanism to achieve them.

159. **The Board recommends that UNICEF review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to improve timely delivery.**

Goods in transit

160. In accordance with chapter 9 of the Supply Manual, the supply chain is a set of interlinked processes that ensure that the right quantities of the right supplies are delivered in the most efficient manner to the right locations at the right time. It includes assessment, planning, procurement, shipping, goods clearance, warehousing and inventory management, in-country distribution, supply tracking, and monitoring and evaluation. In-country logistics are supply chain activities relating to the handling of goods after they have reached a country's port of entry and involves goods clearance, warehousing and inventory management, in-country distribution of supplies/inland transportation and supply tracking.

161. An inventory control system documents the movement and storage of supplies. An effective system of documentation facilitates the tracing of each consignment from the moment an order is placed until the required item reaches its final destination. Timely recording of issues relating to supplies to end users facilitates replenishment and the continuation of the distribution cycle. In the closure

instructions, the Division of Financial and Administrative Management requested offices to document the reasons for having items still in transit after 200 days.

(a) Prolonged goods in transit

162. The Board observed that inventories worth $100.33 million ordered through 6,097 supply deliveries were reflected as goods in transit at the year-end 2016, of which items covered by 629 supply deliveries worth $ 5.3 million were delayed beyond the period of 200 days. It further noticed that of 629 supply deliveries, 83 supply deliveries worth $0.13 million were emergency items.

163. The Board further observed that 76 supply deliveries worth $73,695 were reflected as goods in transit for more than two years, of which 7 supply deliveries worth $3,962 were goods in transit pertaining to the year 2012 and 11 supply deliveries worth $23,538 pertained to the year 2013.

(b) Emergency goods in transit

164. The Board observed that of the total goods marked as goods in transit, supply deliveries valuing $16.3 million were emergency items. Of these, $8.6 million (53 per cent) were under the control of freight forwarders. Against the remaining $7.7 million worth of supplies, the goods had arrived at the port of entry of the destination (signed bill of lading or airway bill), yet the supplies were either under customs clearance or awaiting country office action to either receive them in inventory or input the proof of handover in VISION.

(c) Shelf life of goods in transit

165. On being asked about the shelf life of goods in transit, the Supply Division replied that the information on shelf life was available as part of the packing list and batch documentation provided by the supplier at the time of delivery; it therefore was not readily available in VISION.

166. The Board is concerned about supplies being in transit for a long period, goods pending owing to inaction by the country offices, missing goods and weaknesses in supply chain management relating to documentation by country offices. To ensure the proper management of goods in transit, the Supply Division may consider taking the following steps:

(a) Details of goods under the control of freight forwarders should be updated in VISION (particularly the expiry date and condition of storage);

(b) Country offices should ensure that all open waybills are returned duly acknowledged and updated in VISION;

(c) Country offices should immediately take action to take possession of the items that have been delivered at the end destination and continue to be reflected as goods in transit.

167. The Supply Division agreed to the audit contention and stated that a goods in transit working group had been created to coordinate activities related to improving the oversight arrangements.

Delay in the receipt of vaccine arrival reports

168. In accordance with chapter 7 of the Supply Manual, all vaccines should be inspected within 24 hours of their arrival at the designated place and the results of the inspection should be communicated to UNICEF through a vaccine arrival report. One of the crucial functions of the vaccine centre at the Supply Division is to monitor cold chain conditions during transportation and the state of vaccine arrival

as reported through the vaccine arrival report. In order to monitor the cold chain and safe delivery of vaccines to central stores at the country level and ensure that vaccines arrive as ordered and in good condition, a vaccine arrival report must be completed and returned for every vaccine shipment procured through UNICEF within 72 hours. The consignee is responsible for managing the vaccine arrival and inspection process and completing and submitting the vaccine arrival report to the country office. The country office then forwards the vaccine arrival report to the Supply Division.

169. The Board reviewed the 2016 vaccine arrival reports and noted that for the 2,618 shipments made in 2016, 2,507 vaccine arrival reports were received (96 per cent) and the remaining 111 reports (4 per cent) were to be received. Of the 2,507 cases, the vaccine arrival reports were received within the designated 72-hour period in 936 cases only (36 per cent). The Board also noted that on average, it took 19 days for a vaccine arrival report to be submitted. The delays in submission of the reports could result in difficulty in monitoring the supply and delivery of vaccines, maintenance of the cold chain during transportation and the security of the vaccine. The Supply Division agreed to strengthen the monitoring of the timely receipt of vaccine arrival reports.

170. **The Board recommends that UNICEF ensure the timely receipt of vaccine arrival reports.**

171. UNICEF accepted the recommendation.

Cost of demurrage

172. In accordance with the provision of the Supply Manual, a free detention time of 45 days is allowed for unstuffing and eventual release of containers to the carrier. Detention beyond 45 days incurs demurrage charges, which vary based on the destination and carrier. Further, paragraph 5.8 of chapter 7, section 4 of the Supply Manual impresses upon the country offices that accrual of demurrage charges is to be avoided and prevails upon them to bestow careful attention to container location and, more specifically, where overland transport is involved.

173. Further, in the case of supply by truck, normally, the truck detention free period is 48 hours and truck detention charges are applicable in cases in which the free truck detention time lapses.

(a) Demurrage costs owing to detention of containers beyond the free time

174. The Supply Division has negotiated with major shipping lines, through its global contracts with freight forwarders, for a free demurrage period of:

- 30 days for all shipments to countries with ports
- 45 days for all shipments to landlocked countries

175. In addition to the above, the Supply Division has negotiated for an extension of demurrage free time from 30 days to 45 days and, for some countries, from 45 days to 60 days.

176. Data (updated until February 2017) on containers shipped and containers picked up by the consignee and returned empty to the port in the year 2016 for all the regions where demurrage cost was accrued is provided in table II.7.

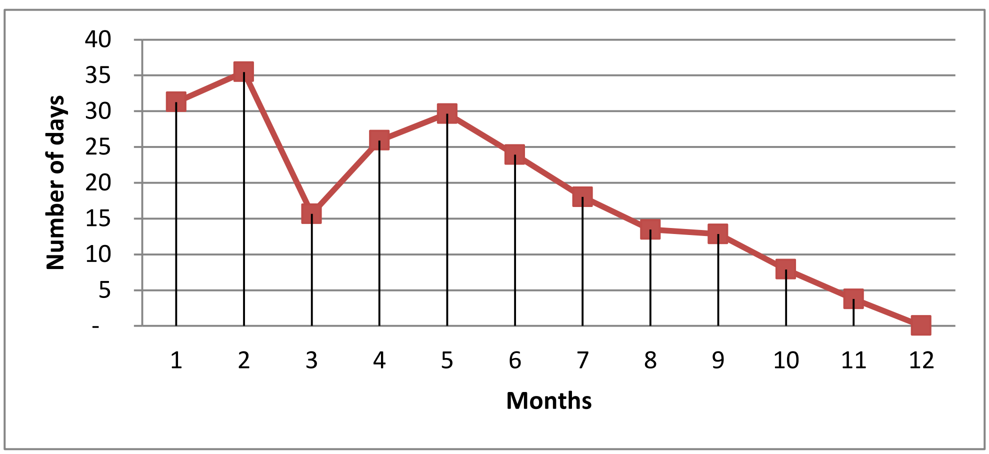
Table: II.7
Demurrage charges for containers returned

Region	*Number of containers shipped*	*Number of demurrage days*	*Total demurrage cost accrued (United States dollars)*	*Number of demurrage days per container*
CEE-CIS	142	121	3 025	1
EAPRO	241	1 010	21 783	4
ESARO	2 080	10 393	172 325	5
MENA	1 011	10 694	238 118	11
ROSA	424	2 323	51 450	5
TACRO	112	289	4 750	3
WCARO	2 074	47 511	1 109 650	23
Total	**6 084**	**72 341**	**1 601 101**	**12**

Source: Long-standing container monitoring report year to date provided by the UNICEF Supply Division.
Abbreviations: CEE-CIS, Central and Eastern Europe and the Commonwealth of Independent States; EAPRO, East Asia and Pacific Regional Office; ESARO, Eastern and Southern Africa Regional Office; MENA, Middle East and North Africa; ROSA, Regional Office for South Asia; TACRO, The Americas and the Caribbean Regional Office; WCARO, West and Central Africa Regional Office.

177. The Board noted that a total amount of $1.60 million was accrued as demurrage. In the Middle East and North Africa region and the West and Central Africa region, the number of demurrage days per container was 11 days and 23 days per container, respectively, which was higher than the other regions.

Chart II-2
Average number of demurrage days in the West and Central Africa region, 2016



Source: Long-standing container monitoring report year to date provided by the UNICEF Supply Division.

178. The Board noted from the above graph that in the West and Central Africa region, the number of demurrage days per month was higher during the start of the year and dropped during the months of November and December. A similar pattern was noticed in the other regions.

(b) Accruing demurrage cost owing to the detention of containers at ports of destination beyond the free time

179. Data relating to containers shipped and delivered to the final port of entry during the year 2016 but not returned empty to the port (as at February 2017) for all the regions where demurrage cost accrued is set out in table II.8.

Table: II-8
Status of demurrage charges for containers still in possession of UNICEF

Region	*Number of containers shipped*	*Number of demurrage days*	*Total demurrage cost accrued (United States dollars)*	*Number of demurrage days per container*
CEE-CIS	20	716	12 388	36
EAPRO	179	16 650	340 525	93
ESARO	334	11 346	219 038	34
MENA	871	132 246	2 858 175	152
ROSA	191	15 603	354 900	82
TACRO	17	30	375	2
WCARO	696	28 222	691 275	41
Total	**2 308**	**204 813**	**4 476 676**	**89**

Source: Longstanding container monitoring report YTD provided by the UNICEF Supply Division.

Abbreviations: CEE-CIS, Central and Eastern Europe and the Commonwealth of Independent States; EAPRO, East Asia and Pacific Regional Office; ESARO, Eastern and Southern Africa Regional Office; MENA, Middle East and North Africa; ROSA, Regional Office for South Asia; TACRO, The Americas and the Caribbean Regional Office; WCAR, West and Central Africa Regional Office.

180. The Board noted from the above table that with respect to the Middle East and North Africa region, the East Asia and Pacific Regional Office and the Regional Office for South Asia, the number of demurrage days per container was high, at 152 days, 93 days and 82 days, respectively. It was further observed that the total cost accrued was $4.48 million, of which $2.86 million (63.84 per cent) was from the Middle East and North Africa region. It is pertinent to mention that the demurrage cost was calculated on these containers until the end of February 2017 given that they were not returned to the port by the consignee.

181. UNICEF attributed the reasons for incurring demurrage to, among other things, delays in obtaining tax exemption, lack of storage capacity of consignees, administrative processes and increasing requirements and checks by local customs, blocks at cross-country borders as well as other security limitations, and changes in regulatory requirements.

182. The Board noted that the reasons quoted were avoidable and within the control of UNICEF. The Board considers that these reasons can be sorted out through better coordination among the Supply Division, country offices and the agencies concerned.

183. UNICEF agreed to continue to support country offices in their efforts to monitor container status and, where necessary, to support them in the identification of mitigation measures. Further, whenever demurrage costs accrue, country offices negotiate a reduction or waiver with the shipping lines.

184. **The Board recommends that UNICEF identify the reasons for the detention of containers for long periods and provide guidance to the country and regional offices to reduce the container detention time.**

185. UNICEF accepted the recommendation.

13. Travel management

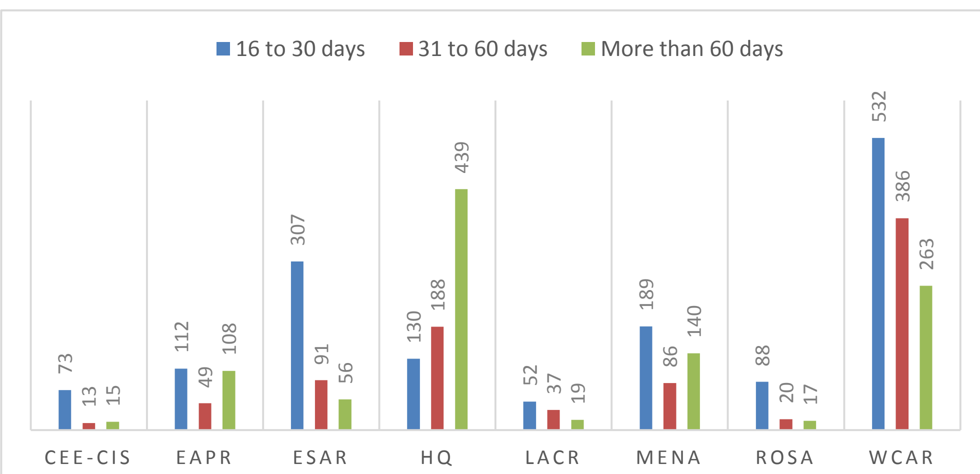
186. UNICEF spent $140 million in 2016 on travel, which was 2.57 per cent of the Fund's total expenditure. Travel as a percentage of total expenditure has shown a slight declining trend over the past four years (from 3.29 per cent in 2013 to 2.57 per cent in 2016).

Open travel authorizations

187. In accordance with paragraph 1.1 of UNICEF Administrative Instruction CF/AI/2014-001Amend.1 dated 13 August 2015, all official travel must be authorized in writing by the approving authority before being undertaken. In accordance with paragraph 11.14 of the same instruction, it is the responsibility of each staff member to submit a travel certification in the applicable system within 15 calendar days of the date of resumption of duties at his/her regular duty station, to indicate whether travel was completed as originally authorized or with changes to the itinerary or in respect of other entitlements or miscellaneous expenditures.

188. In its review of open travel authorizations, the Board noted that as at 31 December 2016, a total of 3,410 travel authorizations remained open for more than 15 calendar days. Of these, 1,483 cases remained open for 16 days to 30 days, 870 cases for more than a month and 1,057 cases for more than two months. The West and Central Africa region accounted for the maximum number of cases, with 1,181 travel authorizations open for more than 15 days. The headquarters region accounted for 757 cases of travel authorizations open for more than 15 days, of which 539 cases pertained to the New York headquarters office.

Chart II-3
Number of open travel authorizations, by region



Source: Data from UNICEF.

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

189. Open trips deprive the organization of an assurance that the person conducted the travel as planned (duration/schedule) and that the purpose of the travel was met.

190. Regarding the mitigating steps taken, UNICEF stated that trip reports and certification had been decentralized to the reporting managers of divisions and sections. Travellers were expected to act in accordance with the established policy. Nevertheless, over the previous 12 months, travel services had developed and incorporated the following functionalities into VISION globally to curb open travel authorizations:

(a) A formal warning mechanism for staff who had more than two trips open;

(b) A hard stop on new travel authorizations when more than three were already open;

(c) Automated reminders for open travel authorizations in VISION.

191. In addition to the above functionalities being added to VISION, one-on-one discussion/follow-ups, emails to key department coordinators in New York and five global training sessions with approximately 150 travel assistants/administrators in attendance were delivered in 2016.

192. The Board noted the measures taken by UNICEF with regard to open travel authorizations. However, the issue of travel authorizations remaining open for more than 15 days, at any point in time, continues to persist.

193. **The Board recommends that UNICEF generate and circulate division-wise month-end reports on open travel authorizations to create a monitoring mechanism so as to minimize the delays in trip closure.**

Advance purchase of air tickets

194. UNICEF policy states that typically, the traveller and the supervisor must aim to book travel at least 21 days before the travel date. The Board analysed the available data for the New York headquarters region and found that purchases of tickets 21 days in advance were made with respect to only 74.58 per cent of travel bookings. UNICEF stated that changes in North American airline inventory management had rendered the conventional wisdom of booking in advance for low fares false. At the UNICEF headquarters in New York, last-minute seat sales form an important part of its per unit cost reduction strategy.

195. The Board requested UNICEF to provide similar data in respect of all regions. However, UNICEF stated that such data were not available from the Travel Section at the UNICEF New York headquarters.

196. **The Board reiterates its recommendation made in paragraph 172 of its report A/71/5/Add.3 that UNICEF review the applicability of its policy on advance booking globally in view of the changes in the travel business and revise the strategies accordingly.**

Alternatives to travel

197. In response to a query on the use of alternatives to travel such as videoconferencing, telephone conferences, etc., the Travel Section at the UNICEF New York headquarters stated that it was not in a position to monitor the use of such alternative options given that budgets were managed individually by field offices. Any travel-related savings realized through the use of technology were not reported to the Travel Office. The Travel Office was engaged at the travel request stage

onwards only. Thus, the Board noted that UNICEF did not have any mechanism to explore more cost-efficient and greener options before authorizing travel.

198. UNICEF agreed with the audit contention and stated that the present VISION platform did not support this functionality.

199. **The Board recommends that UNICEF put in place a system check for exploring alternatives to travel by way of using technology before authorizing travel.**

14. Programme outcome: Nutrition

200. The UNICEF Strategic Plan 2014-2017 allocated 85 per cent of its total resources to programmes, placing the programmes at the core of its work. The Strategic Plan 2014-2017 incorporates the findings of the 2012 end-of-cycle review of the UNICEF medium-term strategic plan 2006-2013 (summarized in E/ICEF/2013/4). The review validated continued UNICEF engagement in the key areas of health (including water, sanitation and hygiene), education, HIV and AIDS, and child protection. The review further recommended that UNICEF create a specific outcome for nutrition, to reflect the global priority given to reducing undernutrition, and give more attention to social inclusion, including generation of data and policies that promote human rights and advance social protection. Of the seven outcome areas,[5] nutrition accounts for 10 per cent of the total outlay for the period. Each outcome area is supported by measurable targets at the output, outcome and impact levels.

Infant and young child feeding

201. Paragraph 2.2.1 of the Programming Guide: Infant and Young Child Feeding of June 2012 prescribed an assessment matrix to identify gaps in information, policies and programmes in order to inform the development of the infant and young child feeding strategy and national plan. The objective of the assessment matrix was to comprehensively capture all the recommended aspects of a wide-ranging infant and young child feeding programme across countries and to report on the scale at which the different programme interventions were implemented.

202. The Nutrition Section of UNICEF requested its 86 country offices to complete the infant and young child feeding assessment matrix in collaboration with Government counterparts and other partners. UNICEF received data from 65 countries, giving it baseline data (for the year 2012 and earlier) for 65 out of 105 countries implementing nutrition programmes. The Board noted that in 2013, the assessment matrix in the Programming Guide was replaced by the infant and young child feeding module in NutriDash.[6] The number of countries reporting infant and young child feeding data in NutriDash has increased steadily, from 80 in 2013 to 98 in 2015.

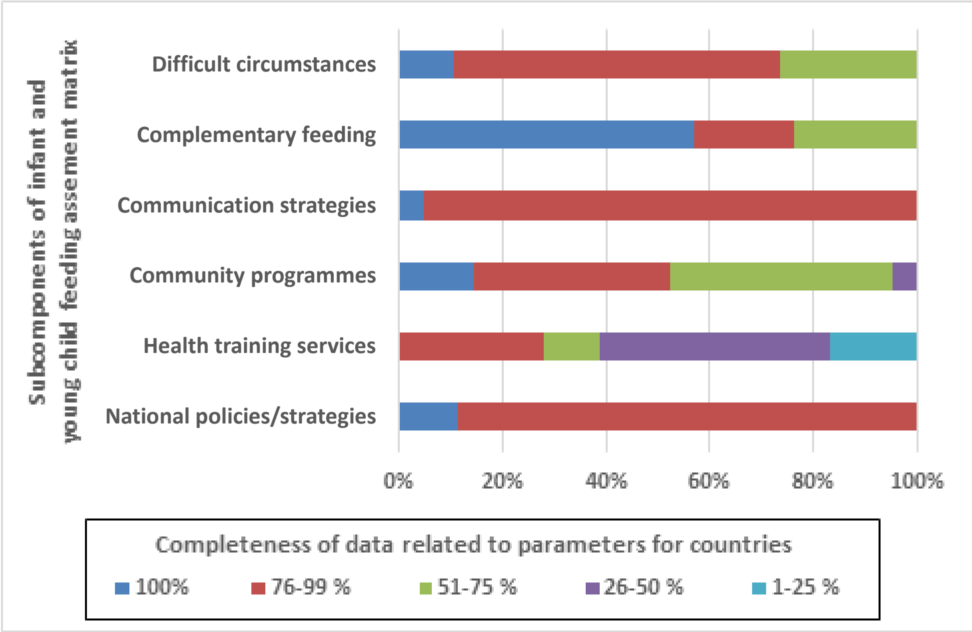
203. The Board observed that the baseline data and the 2015 data furnished by the Nutrition Section were not complete in all aspects. Nevertheless, the overall scoring of countries was conducted using the incomplete data and comprehensive action scores were arrived at to plan for intervention strategies. The published "Infant and Young Child Feeding Programming Status: Results of assessment of key actions on comprehensive implementation of infant and young child feeding" was also based on incomplete data. Chart II-4 represents the extent of the data available for

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

[6] NutriDash is a web-based platform that collates country-level programme output data, providing global information about key aspects of nutrition programme coverage.

different parameters under each of the subcomponents of the assessment matrix data.

Chart II-4
Status of infant and young child feeding data availability in countries



Source: Data provided by UNICEF.

204. The Board noted that except for the subcomponent "Complementary feeding", data for even 50 per cent of the parameters for the other subcomponents of the infant and young child feeding assessment matrix were not available in countries implementing this programme. For "Complementary feeding", data for 12 out of 21 parameters (57 per cent) were available for all the countries. In contrast, complete data were not available for even 1 out of 18 parameters for the "Health training services" subcomponent.

205. UNICEF informed the Board that the main purpose of the infant and young child feeding programming guide was to track action at the country level and use it to obtain global information about key aspects of programme coverage. Further, UNICEF informed the Board that in several countries, the Government monitoring system did not capture all relevant data.

206. The Board noted that in accordance with the Economic and Social Council document on the organization of UNICEF (1998), the Programme Division was responsible for monitoring the global implementation of the programme. The accountability of the Director of the Programme Division included monitoring, assessing and reporting on UNICEF programme implementation and performance. In view of this, the Board noted that UNICEF needs to meet its global oversight responsibility relating to the infant and young child feeding programme.

207. UNICEF stated that global tracking systems were important and that it had created a suitable monitoring system for that purpose.

208. **The Board recommends that UNICEF continue to collect data from all the country offices that are implementing the infant and young child feeding programme and ensure the completeness of the data for all the parameters.**

Nutrition capacity-building activities

209. Nutrition programmes implemented by UNICEF had a number of inbuilt programmes for the capacity-building of personnel associated with the implementation of programmes. For example, the infant and young child feeding guideline provided for the organization of different kinds of capacity-building training. Five-day integrated infant and young child feeding counselling courses and a 40-hour breastfeeding counselling training course were to be organized as part of the infant and young child feeding intervention strategy. Upon a specific request to furnish the capacity-building interventions taken up by UNICEF under infant and young child feeding in 2016, the Nutrition Section reported that UNICEF headquarters did not have information about the capacity-building interventions carried out at the country level. UNICEF informed the Board that the 30-minute orientation on nutrition was available on the Agora website.[7] UNICEF further reported that since its release in 2014, 877 people had enrolled in the orientation, 560 of whom had completed the training. In addition, in September 2016, an updated and expanded version of the UNICEF-Cornell infant and young child feeding e-course was launched; 10,396 people from 176 countries (from government, non-governmental organizations, UNICEF and other agencies) registered for the course and 3,280 people completed it.

210. The Board noted that it was important to have central information on capacity-building in the outcome areas. This would help UNICEF in evaluating its achievement against the targets set out in the Strategic Plan 2014-2017.

Nutrition workplan

211. UNICEF developed a workplan for 2016-2017 for nutrition-related activities at headquarters. On examination of the status of the activities, the Board observed the following deviations and delays:

(a) In accordance with activity 10.2.2 of the annual workplan for 2016-2017, UNICEF was to develop a training package on the implementation of the nutrition strategy. This activity was planned for the year 2016. However, the work could not be completed in 2016. UNICEF accepted that the activity had been delayed;

(b) In accordance with activity 10.2.5 of the annual workplan for 2016-2017, UNICEF was to update the infant and young child feeding guide to reflect recent developments and updates. The work could not be completed in 2016. UNICEF stated that owing to the large number of changes required in the content and to make the document user-friendly, the work was taking longer than expected. UNICEF accepted that the activity had been delayed;

(c) In accordance with activity 10.2.6 of the annual workplan for 2016-2017, UNICEF was to field test and finalize revised WHO/UNICEF health worker training materials on infant and young child feeding and disseminate them. Field testing of health worker training materials was conducted by WHO in three countries in February 2016. The Nutrition Section informed the Board that it was involved in field testing and had provided inputs for the training material. The training material was expected to be completed by WHO around mid-2017. A delay in developing the training material would lead to a delay in organizing the training programmes. The Board noted that the training material was under development;

(d) In accordance with item 12.3.8 of the annual workplan for 2016-2017, UNICEF was to publish highlights from the "Universal Salt Iodization Partnership:

[7] Agora is a free portal offering tailored learning solutions to UNICEF staff, partners and supporters.

Country and Regional Case Studies” and document the historical support of the United States Agency for International Development to UNICEF for universal salt iodization programmes. The activity was planned to be carried out in 2016. The Nutrition Section informed the Board that a draft had been prepared and the final publication was pending. UNICEF accepted that the activity had been delayed;

(e) In accordance with activity 12.3.9 of the annual workplan for 2016-2017, UNICEF was to update the 2008 report on the sustainable elimination of iodine deficiency. The activity was planned to be carried out in 2016. However, the work had not been completed. UNICEF stated that the report was still in the 2016-2017 workplan and that drafting would commence later in 2017.

212. The Board observed that situation analysis, intervention strategies and monitoring of the progress of the implementation of the infant and young child feeding programme had been carried out using incomplete data. UNICEF headquarters had not adequately monitored programme interventions at the country level.

213. **The Board recommends that UNICEF regularly monitor the progress of programme implementation by countries and extend support to country offices based on the progress made.**

15. Millennium Development Goals

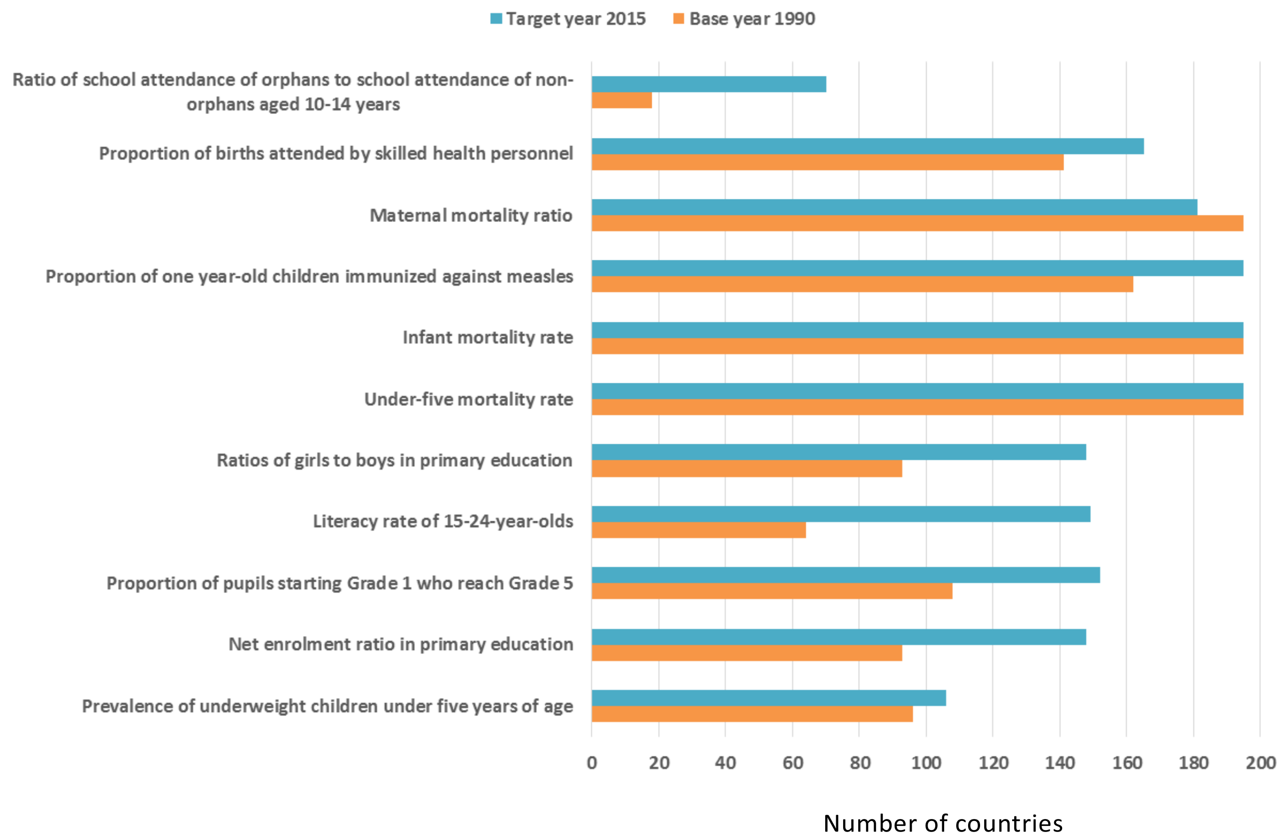
Introduction

214. The Millennium Development Goals and targets were set in the Millennium Declaration, signed by 189 countries, in September 2000, which was followed by further agreements adopted by Member States at the 2005 World Summit through General Assembly resolution 60/1. The Declaration set 21 target areas under eight Goals. Member States pledged that by 2015 the world would achieve measurable improvements in the most critical areas of human development. UNICEF was responsible for monitoring performance in respect of 14 out of 60 indicators for specific targets. Given that the Millennium Development Goal period ended in 2015 and the General Assembly adopted the Sustainable Development Goals in the 2030 Agenda for Sustainable Development, it is highly relevant to review the outcome of the Millennium Development Goals.

Availability of data

215. The Millennium targets were fixed with reference to baseline data for the year 1990. The performance data had to be compared with the base year data to assess the extent of achievement. Given that UNICEF was responsible for 14 indicators, it was a prerequisite to collect the 1990 base year data, periodically assess the progress made and extend the necessary strategic and technical support to the 195 UNICEF member countries. However, data for the base year and for the final year (2015) were not available for all countries for some of the performance indicators. The availability of data for 11 indicators is shown in chart II-5.

Chart II-5
Availability of data for Millennium Development Goal indicators



Source: Data from UNICEF.

216. From the chart, the Board noted that data for all but two indicators were not available for all the countries. The Board also noted that even for the countries for which the data were available, the data were not available for both the base year and the target year for many indicators. Hence, a meaningful comparison of performance against the target could not be assessed.

217. Given that the relevant data were not furnished, the Board could not assess the progress relating to such Millennium Development Goal indicators as: (a) proportion of population using an improved drinking water source; (b) proportion of population using an improved sanitation facility; (c) incidence and death rates associated with malaria; (d) proportion of children under five sleeping under insecticide-treated bednets; and (e) proportion of children under five with fever who were treated with appropriate anti-malarial drugs.

218. UNICEF stated that the base data were not available for all the countries. The Board noted that the required data were not available for the year 2015 either, which was the final year for the Millennium Development Goals. A more complete data set would also boost and aid in the efforts to perform a realistic situation analysis and monitoring of the progress on the indicators for which UNICEF was the lead agency.

Performance against the Millennium Development Goal targets

(a) Goal: Eradicate extreme poverty and hunger

219. UNICEF was the lead agency for the indicator "Prevalence of underweight children under five years of age" under this Goal. In accordance with the Millennium Declaration, the target for this indicator was to reduce the percentage of underweight children by half in respect of member countries. The estimated global prevalence of underweight children decreased form 25 per cent to 13.9 per cent. This amounts to a reduction of 44.4 per cent of underweight children against the target of 50 per cent. Among the 73 countries for which the data for both the years were available, the target was achieved by 47 countries only. UNICEF stated that overall progress was good and that the performance of the countries on this indicator was monitored using the annual average rate of reduction.

(b) Goal: Reduce child mortality

220. UNICEF was the lead agency for monitoring all three indicators under this Goal: (a) under-five mortality rate; (b) infant mortality rate; and (c) proportion of one-year-old children immunized against measles. The target for the indicator "under-five child mortality" was to reduce the rate by two thirds of the rate for 1990. Overall, 62 countries achieved the target of reducing their under-five mortality rate and 133 countries did not meet the target. Overall achievement of the indicator "Proportion of one-year-old children immunized against measles" improved from 73 to 85 per cent. UNICEF informed the Board that remarkable progress had been made in reducing the under-five mortality rate in many countries and regions and that since the start of the Millennium Development Goal period, progress had accelerated.

(c) Goal: Improve maternal health

221. There were seven indicators to monitor the achievement of this Goal, of which UNICEF was the lead agency for four.[8] In accordance with the Millennium Declaration, the target set for the indicator "Maternal mortality ratio" was to reduce the maternal mortality rate by three quarters between 1990 and 2015. Comparison of the data furnished by UNICEF indicated that there was a reduction of 44 per cent. UNICEF reported that while 85 per cent of pregnant women received antenatal care from a skilled health-care provider at least once, only 58 per cent received antenatal care from a skilled health-care provider four times. Progress on the coverage of four antenatal care visits was slow for the Millennium Development Goal period.

(d) Goal: Combat HIV/AIDS, malaria and other diseases

222. UNICEF was the lead agency for 6 out of a total of 10 indicators.[9] However, UNICEF furnished data with reference to only one indicator, namely, "Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years". A comparison of the data for 16 countries for which data were available for both years indicated that there was very marginal improvement in this ratio. While

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[8] (a) Maternal mortality ratio (jointly with the World Health Organization and others); (b) proportion of births attended by skilled health personnel; (c) antenatal care (at least one visit with skilled provider); and (d) antenatal care (four or more visits with any skilled provider).

[9] (a) Condom use at last high-risk sex; (b) Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS; (c) ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years; (d) incidence and death rate associated with malaria; (e) proportion of children under five sleeping under insecticide-treated bednets; and (f) proportion of children under five with fever who were treated with appropriate anti-malarial drugs.

UNICEF agreed with the observation, it stated that in the case of this indicator, the trend was difficult to interpret, given that it was a volatile measure. Because data were not made available for all the indicators, progress in respect of other indicators could not be assessed.

Conclusion

223. The target set in the Millennium Declaration could not be achieved in almost all the parameters for which data were available. The Board observed that effective analysis of the situation by UNICEF using a dataset with complete baseline data would help in deciding better programme interventions and in monitoring progress. The Board noted the position highlighted by UNICEF that there had been significant progress in many target areas, that it largely depended on national Governments to collect data and that there were a number of reasons for non-achievement of the Millennium Development Goal targets. However, the Board noted that lack of country-level data and incomplete data were an impediment in performing a realistic situation analysis and monitoring progress on the indicators for which UNICEF was the lead agency in supporting countries. The lesson learned from the experience of implementing the Goals needs to be used effectively in the implementation of the Sustainable Development Goals, which are already under way.

224. **The Board recommends that UNICEF use the lessons learned from the Millennium Development Goals for effective implementation of the Sustainable Development Goals.**

225. UNICEF accepted the recommendation.

16. Sustainable Development Goals

Strategic road map for supporting the implementation of the Sustainable Development Goals

226. In September 2015, the States Members of the United Nations jointly committed themselves to the Sustainable Development Goals through the outcome document of the United Nations summit for the adoption of the post-2015 development agenda “Transforming Our World: The 2030 Agenda for Sustainable Development”. UNICEF addressed the issue of supporting the implementation of the Sustainable Development Goals in the midterm review of the UNICEF Strategic Plan 2014-2017, aligning the integrated budget with the new priorities of the Goals. As required by the quadrennial comprehensive policy review of operational activities for development of the United Nations system, the operational timelines for activities to achieve the Sustainable Development Goals by 2030 are to be aligned with the UNICEF Strategic Plans. Thus, the new strategic plan 2018-2021 will be the first leg of the Fund’s long-term effort to support the implementation of the Sustainable Development Goals.

227. UNICEF informed the Board that as part of the midterm review process, regional offices modified their office management plans. UNICEF also informed the Board that 58 country plan documents sent to the Executive Board in 2015 and 2016 were in support of the national priorities, including the Sustainable Development Goals, and 127 country offices reported that policies, legislation, plans and programmes had been developed and budgetary changes had occurred as a result of the support provided by the UNICEF regional and country offices in 2015 and 2016. UNICEF would need to continue its efforts and advocacy in order to further increase the number of countries benefiting from its support.

228. The Board examined 7 sample country plan documents[10] out of the 58 provided by UNICEF and found that all of the countries had included the relevant articles of the Convention on the Rights of the Child, the Sustainable Development Goal targets and the UNICEF Strategic Plan in the results and resource framework of their respective country plan documents.

229. Further, the UNICEF country office online reporting format for the *Annual Report 2016* provides for optional inputs to the draft strategic plan 2018-2021 in terms of application/implementation in the country context. A sample check of seven country office annual reports[11] for the year 2016 highlighted diverse comments on the structure and content of the draft strategic plan, in particular with reference to the Sustainable Development Goals. These comments, if processed in the right spirit and factored into the upcoming strategic plan, would make the plan a more inclusive strategic document for the implementation of the Goals.

230. UNICEF informed the Board that the country office annual report was just one of the channels for receiving inputs to the strategic plan. The Board noted that UNICEF would need to ensure that the inputs arising out of these different channels were suitably and effectively factored in while finalizing the new strategic plan 2018-2021.

Capacity-building and country-level implementation support

231. One of the core features of the implementation of the Sustainable Development Goals is the support provided to countries in the form of capacity-building and transfer of environmentally sound technologies. Accordingly, among other things, UNICEF developed various guidelines to support country-level implementation. These guidelines were compiled as the Sustainable Development Goal field support package and launched in September 2016. UNICEF informed the Board that the package had been shared with all country, regional and National Committee offices.

232. **The Board recommends that UNICEF streamline and integrate the various mechanisms for harnessing inputs and insights from regions and countries and ensure that these inputs are suitably factored in while finalizing the new strategic plan 2018-2021 for supporting the implementation of the Sustainable Development Goals.**

17. Internal audit and investigations

233. The Office of Internal Audit and Investigations performs an important function in providing independent and objective assurance on the effectiveness of the governance, risk management and control process of UNICEF. The Office also investigates allegations of corrupt or fraudulent practices in UNICEF operations and allegations of misconduct involving UNICEF staff and related parties. The mission of the Office is outlined in the Charter of the Office of Internal Audit and Investigations (2012) approved by the Executive Director. The Office performs its work in accordance with the annual workplan prepared in accordance with the Internal Audit Manual, 2014. It also follows the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and the Uniform Principles and Guidelines for Investigations endorsed by the Tenth Conference of International Investigations (2009).

[10] Armenia, Bangladesh, Belize, the Gambia, Morocco, Mozambique and Viet Nam.
[11] Angola, Bhutan, Cambodia, the Democratic Republic of the Congo, Lebanon, Panama and Turkey.

234. The Board examined the functioning of the Office of Internal Audit and Investigations with reference to the Charter, the Internal Audit Manual, the workplan and the applicable standards. Issues noted in the examination are set out in paragraph 235.

Charter of the Office of Internal Audit and Investigations

235. UNICEF followed the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. In accordance with standard 1110 of the International Standards for the Professional Practice of Internal Auditing, the Chief Audit Executive had to report to the Executive Board on functional matters, including approval of the Charter and the risk-based audit plan. In the case of UNICEF, the Charter of the Office of Internal Audit and Investigations and the annual workplan were approved by the Executive Director, not the Executive Board.

236. **The Board recommends that UNICEF review the Charter of Office of Internal Audit and Investigations to ensure adherence to the International Standards for the Professional Practice of Internal Auditing.**

Audit resources

237. Paragraph 9 (b) of the Charter of the Office of Internal Audit and Investigations requires the Executive Director to ensure that the Office is provided with the necessary staffing. Against the sanctioned strength of 23 and 7 International Professionals for internal audit and investigations, respectively, the Office had four vacancies: two each for internal audit and investigations for more than six months. The post of Deputy Director, an important position for the oversight of internal audit and investigations, was vacant for six months.

238. UNICEF explained that vacancies were usual for the Office of Internal Audit and Investigations and that it did not materially affect its ability to deliver the necessary assurance. Furthermore, UNICEF emphasized that the post of Deputy Director was vacant owing to ongoing review and restructuring. The Board noted that leaving the posts vacant for a long time caused delays in issuing internal audit reports and completing investigations and audit engagements as planned. The Board also noted that filling the vacancies of the Office took longer in 2016 compared with the average time taken by other sections and the time taken by the Office to fill vacancies in previous years.

Preparation and implementation of the audit plan

239. Paragraph 9 of the Charter of the Office of Internal Audit and Investigations requires the Director of the Office to prepare a risk-based annual workplan in which country offices are required to be audited within a five-year cycle and the “top ten” offices with the highest value of annual programme expenditure every other year.

240. In its annual workplan for the year 2016, the Office for Internal Audit and Investigations noted that eight country offices[12] were left unaudited for more than five years. Against 42 audit engagements,[13] the Office completed only 24 engagements for the revised 2016 plan and deferred 18 engagements.[14] Further, the

[12] Bosnia and Herzegovina, Bulgaria, Burundi, Croatia, the Dominican Republic, Iran (Islamic Republic of), Kosovo and Saudi Arabia.

[13] 29 country offices, 2 regional offices, 8t headquarters offices, thematic and information technology audits and 3 joint audits.

[14] 11 country offices, 2 regional offices and 4 headquarters offices, thematic and information technology audits and 1 joint/coordinated office.

Office had a target of issuing a total of 41 final reports, including 18 final reports carried from 2015, and 8 draft reports by the end 2016. However, against that target, it issued only 22 final reports, including 8 final reports carried from 2015, and 13 reports were at various stages of completion.

241. UNICEF explained that 29 per cent of the expenditure was covered in 2016 and 95 per cent of the field offices were covered in the five-year audit cycle by the Office, with the highest-risk offices being audited multiple times in that period, and that implementing the Charter in practice required a balance between risk-based and geographical coverage. The Board noted that the headquarters office, thematic and information technology audits, which were categorized as "high-risk and very high-risk" areas in the original annual workplan could not be carried out.

242. UNICEF also stated that the Audit Advisory Committee and the Executive Director were satisfied with the coverage obtained and that it was adequate to generate the required assurance.

243. **The Board recommends that the Office of Internal Audit and Investigations prepare and implement its annual workplan to adhere to the five-year audit cycle in accordance with the Charter of the Office of Internal Audit and Investigations.**

Internal audit reports

244. In accordance with paragraph 2.3.3 of the Internal Audit Manual, the audit report should be released within an established standard number of weeks from the completion of the execution phase of the field audit. In accordance with the Audit Manual, the key performance indicator from the exit meeting to the issuance of the draft report was 60 days, and 120 days for the final issuance. However, the average time taken for the issue of internal audit reports after the completion of the audit engagement in 2016 was 257 days. Of 22 reports issued in 2016, only 1 report was issued within 120 days, 1 report was issued with a delay of one year and 14 reports were issued after six months. UNICEF explained that the delay was due to the increasing complexity of the audits undertaken, a number of back-to-back audits delivered, an overly heavy review process and the vacancy of the Deputy Director post. The Board noted that the Office of Internal Audit and Investigations did not comply with the timelines set out in the Internal Audit Manual.

Investigations

245. In accordance with paragraph 18 of the Uniform Principles and Guidelines for Investigations, which was followed by the Office of Internal Audit and Investigations, the investigative office must conduct investigations expeditiously within the constraints of available resources. In its annual workplan, the Office stated that it aimed to close all investigations within nine months. Nevertheless, the average time taken for the completion of investigations in 2016 was 207 days, and 10 complaints received in 2015 and 4 complaints received in 2016 were pending for more than a year and nine months, respectively. The investigation of six complaints was completed in 2016, 15 months after the receipt of the complaints.

246. UNICEF stated that the delay was due to the complexity of the cases, the number of parties involved and the consultation required with other agency or Government authorities and clarified that it had emphasized the criticality of due process and the quality of investigation. UNICEF clarified that the nine-month indicator was not regarded as a fixed deadline. Individual cases varied in complexity and therefore the time taken to close them would differ. While the Board appreciates the varying complexity of different cases, it is of the opinion that the nine-month period planned in the annual workplan was reasonable. Further, the

Board noted that the delay in finalizing the investigation had led to a delay in disciplinary actions and adversely affected the confidence of the complainant with respect to the efficacy of the investigation mechanism of UNICEF.

247. **The Board recommends that the Office of Internal Audit and Investigations adhere to the timelines fixed for issuing internal audit reports and completing investigations.**

248. UNICEF accepted the recommendation.

C. Disclosures by management

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

249. UNICEF reported to the Board that losses in assets of $3.68 million ($11.26 million in 2015) had been written off in 2016, including programme inventory of $2.44 million, contributions receivable of $0.33 million, other receivables of $0.73 million, property and equipment of $.03 million and inventory transferred at country offices for free of $0.15 million.

2. Ex gratia payments

250. UNICEF did not report any ex gratia payments in 2016.

3. Cases of fraud and presumptive fraud

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

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

253. UNICEF reported 35 cases (2015: 16 cases) of fraud or presumptive fraud to the Board during the period under review. The financial implications of the allegations amounted to $0.54 million (2015: $0.79 million) and the cases had resulted in estimated financial losses amounting to $1.22 million (2015: $0.79 million), of which UNICEF had recovered $114,124. This indicated a significant increase in the number of cases of fraud and presumptive fraud.

D. Acknowledgement

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

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

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

Annex I

Status of implementation of recommendations up to the year ended 31 December 2015

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
1.	A/68/5/Add.2 of 2012	Chapter II, paragraph 86	(a) Analyse the parameters for determining the appropriate level of operational posts at country offices; and (b) monitor and control the use of the programme budget by country offices to cover operational expenditures not associated with specific programmes or projects.	Regarding part (a), criteria have been established to guide the definition of minimum core office structure/posts, which should be funded from the institutional budget, with focus on posts performing operations functions. Regarding part (b), management has been overtaken by events. Offices have clear criteria for which types of operational costs may be charged to the programme budget. It is no longer relevant to monitor operational costs charged to the programme but to implement the new guidance.	UNICEF has made adequate progress and issued a guideline on 3 July 2017 with criteria on funding from the institutional and programme budgets. The Board will monitor the implementation of the guideline in coming audits. Hence, the recommendation is considered implemented.	X			
2.	A/69/5/Add.3 of 2013	Chapter II, paragraph 24	(a) Collect donor agreements from all National Committees and ensure that all retentions of "other resources" by National Committees are made known to and approved by donors; and (b) ascertain reasons for high retention rates and take measures to maximize the regular resources from National Committees.	Part (a) is confirmed as closed. UNICEF has requested closure of part (b) of this recommendation based on demonstrated continued engagement with National Committees on their retention as evidenced by the 78% retention rate for 2015 (against a goal of 75%), which is not excessively high. While retention rates are expected to fluctuate continuously, UNICEF will continue strong oversight by monitoring the rates and analysing deviations from 75% to determine whether they are justifiable.	UNICEF has demonstrated that it engages continuously with the National Committees, hence part (b) is also considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
3.	A/69/5/Add.3 of 2013	Chapter II, paragraph 28	Request relevant National Committees to develop or revise their reserves policies in accordance with the reserves guidance and the cooperation agreement, and strengthen its monitoring of the reserves of National Committees to continue to bring reserves down to reasonable levels.	All reserves policies have been received. With regard to reserve rates, there has been significant improvement in the past three years, concluding with only two National Committees (Hong Kong, China and China) whose retention of the reserve is considered above requirements, requiring further dialogue. The dialogue with National Committees is a continuous process, which management will continue to actively monitor. The reserve levels will constantly move up and down. For the retentions in excess of the minimum requirements, the majority had justified reasons, as mentioned in the report, such as fixed asset requirements.	Given that all National Committees with reserves have reserves policies, the recommendation is considered implemented.	X			
4.	A/69/5/Add.3 of 2013	Chapter II, paragraph 37	Establish a global monitoring system to track the extent to which country offices plan and manage capacity assessment and assurance activities related to cash transfers.	UNICEF has recently designed an electronic system named e-Tools to provide offices with support to plan and monitor capacity assessments and assurance activities related to cash transfers. The system will also provide functionality for regional and global monitoring through a harmonized approach to cash transfers dashboard. The functionalities for offices to report and for regional offices and headquarters to monitor performance of harmonized approach to cash transfers implementation have already been put in place using inSight. Key performance indicator data of country-level harmonized approach to cash transfers implementation is provided in dashboards.	By the end of 2017, e-Tools, currently in use in 20 offices, is targeted to be in use in all large countries, which account for approximately 80% of cash transfers to partners globally. UNICEF has provided a macroplan, which shows that by the end of 2017, e-Tools will be functional in 46 other countries. The recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
5.	A/69/5/Add.3 of 2013	Chapter II, paragraph 48	Enhance the capacities of implementing partners in programmatic areas and coordinate with other agencies with financial expertise in strengthening the capacities of implementing partners in the area of financial management.	Development of the Fund's approach to financial management capacity development with accompanying guidance and tools was one of the planned activities and outputs of the global harmonized approach to cash transfers strategy workplan, which has now been implemented. In addition, there is ongoing work with non-governmental organizations and the inter-agency community relating to the roll-out of new procedures and agreements for working with civil service organizations. The global quality assurance review projects have been completed and the results are being discussed by the Global Results Network. Outcomes of the discussion will be used as part of the work planned for 2017.	Considering the progress made by UNICEF, the recommendation is considered implemented.	X			
6.	A/69/5/Add.3 of 2013	Chapter II, paragraph 63	(a) Consider presenting and reporting the budget for the private sector fundraising activities of its country offices in an integrated manner; and (b) continue analysing the costs of the private sector fundraising activities of its country offices to enhance efficiency and effectiveness.	UNICEF noted that part (a) was noted as to be verified in the next audit and (b) was noted as implemented.	Considering the progress made by UNICEF, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
7.	A/69/5/Add.3 of 2013	Chapter II, paragraph 69	Require its country offices to apply fully justified budget assumptions in preparation for resource estimation with respect to activities set out in the multi-year/rolling workplans.	Guidance on the preparation of multi-year/rolling workplans exists for country offices and has been strengthened to include the development of assumptions for budget preparation. UNICEF will also continue strengthening the capacity of its country offices' implementation of results-based management through training and guidance. A new workplan module in e-Tools is scheduled for release in the second quarter of 2017. The expected date of completion of the workplan guidance is the third quarter of 2017. UNICEF provided a macroplan for the implementation of e-Tools, which shows that by the end of 2017, the tool will be functional in 46 other countries.	A new workplan module in e-Tools is scheduled for release in the second quarter of 2017. The expected date of completion of the workplan guidance is the third quarter of 2017. The recommendation is still under implementation.		X		
8.	A/70/5/Add.3 of 2014	Chapter II, paragraph 18	Appropriate internal controls be exercised to ensure that expenditure is limited to the agreement amounts and not exceeded.	While stating that the current internal controls are appropriate, UNICEF has informed the Board that it has consistently improved the VISION systems to enhance controls; however, there are four exceptions, which sometimes result in overexpenditure: (a) Foreign exchange; (b) Receipt of holdback payment in a currency other than United States dollars; (c) Freight in: The posting of freight invoices is not subject to VISION budget control given that UNICEF has a contractual obligation to pay the freight forwarders and any delays in making payment could harm the Fund's reputation as a reputable buyer of freight services; (d) Salary costs.	Considering the progress achieved by UNICEF and the nature of the issue, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
9.	A/70/5/Add.3 of 2014	Chapter II, paragraph 27	The Board reiterates its recommendation made in its report for the year 2012 (see item 1) and adds that management establish clear guidelines and define direct costs that could be attributable to programmes and projects so as to enhance adherence to the distinction between the programme budget and the institutional budget as envisaged in the Financial Regulations and Rules.	Criteria have been established to guide the definition of minimum core office structure/posts, which should be funded from the institutional budget, with focus on posts performing operations functions.	UNICEF has made adequate progress and issued a guideline on 3 July 2017 for criteria for funding from the institutional and programme budgets. The Board will monitor the implementation of the guideline in coming audits. Hence, the recommendation is considered implemented.	X			
10.	A/70/5/Add.3 of 2014	Chapter II, paragraph 57	(a) Continue to persuade the National Committees of early establishment of reserves policies that are in accordance with the Reserves Guidance for National Committees; and (b) continue to engage with the National Committees to ensure that the level of reserves are relevant for the environment they operate in taking into account the benchmarks in the reserve policy.	All reserves policies have been received. With regard to reserve rates, there has been significant improvement in the past three years, concluding with only two National Committees (Hong Kong, China and China) whose retention of the reserve is considered above requirements, requiring further dialogue. The report makes reference to UNICEF concluding that the level of reserves of six National Committees was reasonable. Lithuania, Poland, Portugal and Slovakia were within reasonable limits and/or immaterial. In the case of Australia and the Republic of Korea, excess reserves were set aside for fixed asset improvements. Hungary and Greece were also high, but UNICEF already had agreements that they would reduce levels within the year. The dialogue with National Committees is a continuous process, which UNICEF will continue to actively monitor. The	Given that all National Committees with reserves have reserves policies, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				reserve levels will constantly move up and down. For the retentions in excess of the minimum requirements, the majority had justified reasons, as mentioned in the report, such as fixed asset requirements.					
11.	A/70/5/Add.3 of 2014	Chapter II, paragraph 69	(a) Steps be taken to improve the completion rate of activities under the integrated monitoring and evaluation plan; (b) the country offices continue their efforts to ensure timely finalization of annual workplans and follow up release of funds to implementing partners; and (c) the system and procedure for timely preparation and submission of annual management plans to the regional offices be strengthened to improve the governance of country offices.	(a) UNICEF is currently implementing a software platform (PRIME), which will replace the hard copy/word-based integrated monitoring and evaluation plan. PRIME is being implemented progressively in UNICEF regions and will require multiple aspects of quality assurance throughout the year, which will ensure that integrated monitoring and evaluation activities are realistic and thus improve the completion rate of activities. (b) and (c) UNICEF revised guidance on annual workplans and annual management plans, which was included in the Programme Policy and Procedure Manual issued in the fourth quarter of 2015. This guidance includes the responsibilities of UNICEF offices, timelines and procedures for the preparation and submission of workplans. A workplan procedure has been drafted and final consultation with the field is under way. Timely implementation of workplans will be further supported by the e-Tools workplan module for release in the fourth quarter of 2017. A further iteration of PRIME is now in progress to integrate it with other evaluation information platforms in order to provide a comprehensive, integrated information system for planning, managing and reporting on evaluations, which will further	Given that the implementation of PRIME is still under progress, the recommendation remains open.		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				strengthen the capacity of UNICEF offices to plan, manage and report on evaluation activities and improve performance in these areas. The new integrated system will be ready for roll-out in July 2017. The roll-out is expected to be completed in December 2017, in time to support planning activities in 2018. Annual workplans and annual management plans are also a continuous process. However, UNICEF will continue to monitor and provide guidance to offices past this period.					
12.	A/70/5/Add.3 of 2014	Chapter II, paragraph 75	(a) Monitor its stock levels more closely to adhere to the extant stipulations relating to stock held for over two years; (b) closely follow up items that are in transit for prolonged periods; and (c) ensure accuracy in reporting of items that have been processed in the system as received.	Evidence provided during the audit demonstrates that UNICEF does monitor stock levels and goods in transit. Monitoring stock levels and goods in transit does not translate to the organization never having stocks over two years or goods in transit over 100 days. It means that UNICEF is and was able to answer all questions relating to what may be perceived as exceptions, for example, tents and bednets have no expiration and sit for prolonged periods of time as contingency stock; goods in transit to landlocked countries take longer than the expected thresholds or particular countries have excessively long customs processes. Monitoring by UNICEF has also led to low write-off levels. Considering that the findings noted in the report are minor compared with the throughput of inventory and that the progress made on stock management in the past four years has led to significant decreases in aged inventory and write-offs, stock issues are no longer material and merit closure of this recommendation.	Considering the progress achieved by UNICEF in this area, the recommendation is considered implemented.	X			

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendations of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
13.	A/70/5/Add.3 of 2014	Chapter II, paragraph 85	(a) Streamline its processes of placing of purchase orders after the requirements are projected by the programme sections; (b) monitor execution of purchase orders to ensure timely delivery of supplies; (c) identify cases where the delay in receipt of goods was due to the vendors and take appropriate action under the contract agreement, including invoking liquidated damages, in a consistent manner; and (d) consider including a provision for performance security and for levy of liquidated damages in all long-term agreements to safeguard the interest of the organization.	(a) To streamline its processes, UNICEF has updated its policy and VISION supply chain training modules in AGORA to include step-by-step information on the VISION process for issuance of purchase orders, including guidelines on the type of purchase orders to be issued depending on the goods/services procured (assets, consumables, etc.). In addition, the Supply Manual section on purchase orders was revised in 2015, including clarity on the type of purchase orders to be issued and additional process clarifications. (b) The Supply Division has implemented the following management practices to monitor purchase order execution: (i) on a weekly and exception basis, designated staff monitor each order via VISION reports; (ii) on a weekly basis, procurement centres and deputy directors meet to review the execution of purchase orders and sales orders at the critical deliveries meeting, actions are agreed upon and progress is reviewed; (iii) on a quarterly basis, the Supply Division Quality Assurance Centre shares a supplier performance overview with management; (iv) biannually or annually, the Supply Division management reviews the Division's overall results, including the timeliness of the execution of international purchase orders. (c) The Supply Division has identified cases in which the delay in receipt of goods was due to the vendors and applied liquidated damages in 42 cases, resulting in $114,030 in returns.	UNICEF has started incorporating liquidated damages/ performance security clauses in all future long-term agreements. It has also started applying liquidated damages on a case-by-case basis. The recommendation is considered implemented.	X			

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendations of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
				(d) UNICEF developed a guidance document providing advice to country offices on considerations to be made and different options for including performance securities in construction contracts. Further, the Supply Division has considered in depth whether to include a performance security provision. UNICEF requires a performance security provision for construction and other material work contracts, based on risk. UNICEF has not identified any other procurements where a performance security would further safeguard the interests of the organization. Further considerations are under way.					
14.	A/70/5/Add.3 of 2014	Chapter II, paragraph 98	(a) Ensure that remedies available under the terms of contracts are enforced, where required, to ensure vendor responsibility and performance; and (b) review all the cases where the contracts are kept open after the expiry of the validity period and ensure timely closure of the contracts.	(a) To ensure that remedies available contractual remedies are applied, UNICEF has revised its procedure on expediting purchase orders and related shipments to include guidance on the consistent enforcement of liquidated damages on the applicable contracts to emphasize vendor responsibility and performance. The Supply Division is monitoring the application of liquidated damages. (b) A report has been developed to monitor the timely closure of contracts, which is being shared regularly and which offices are actively using. The Supply Manual has been updated, including the requirement to timely close contracts and guidance on how to monitor closure of contracts. UNICEF will supplement this by adding the indicator to internal dashboards. In addition, a workshop on monitoring supplies via the UNICEF supply chain was held, which included a specific	UNICEF has started incorporating clauses on liquidated damages into all future long-term agreements. It has have also started applying liquidated damages on a case-by-case basis. The recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				session on monitoring the status and implementation of institutional contracts, as well as the closure of commitments related to such contracts. In 2015, UNICEF trained 160 staff. It will emphasize to the audit team that purchase orders are not expected to be closed until after they are fully invoiced and paid.					
15.	A/71/5/Add.3 of 2015	Chapter II, paragraph 14	Consider (a) consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the Executive Board; and (b) include budgeted amounts for various activities under each outcome at the appropriate business unit level.	(a) UNICEF has prepared a clear framework in line with IPSAS that articulates the annualization of amounts from the various budget sources and supported by framework. (b) UNICEF is developing a new budget management process and formulation tool that will link resource utilization with outcome results. The tool will be ready for testing in the second quarter of 2017 and is planned to be rolled out to all offices in a phased manner in 2017. This new process will take into account requirements to address this recommendation.	The timeline given for implementation of the recommendation is the fourth quarter of 2017. Given that implementation is still under progress, the recommendation is considered as under implementation.		X		
16.	A/71/5/Add.3 of 2015	Chapter II, paragraph 23	Identify the operational costs that should be met from the programme budget and the institutional budget for maintaining their distinction in accordance with UNICEF Financial Regulations and Rules.	This recommendation is duplicative of 86/2012 and 27/2014. See 86/2012 for the status of implementation.	UNICEF has made adequate progress and issued a guideline on criteria for funding from the institutional and programme budgets on 3 July 2017. The Board will monitor the implementation of the guideline in coming audits. Hence, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
17.	A/71/5/Add.3 of 2015	Chapter II, paragraph 40	With the objective of ensuring an effective harmonized approach to cash transfers management, institute a process to comprehensively capture the data and monitor the outcomes of assurance activities and action taken thereon by the country offices; and ensure that all country offices comply with the extant direct cash transfers policy, in letter and spirit, while making direct cash transfers, and include significant deviations in the performance review of the country office**.**	UNICEF has implemented systems to capture assurance activities, as follows: (a) Global harmonized approach to cash transfers performance monitoring that was in place in 2015 was incorporated into country office scorecards in 2016. The Field Results Group and the regional offices are monitoring progress via the harmonized approach to cash transfers status report and quality assurance reviews and will use this information to influence follow-up and programme design. (b) e-Tools, currently being used in more than 20 countries, will drive efficiency in performance monitoring and use of harmonized approach to cash transfers assurance and assessment data to improve programming. It allows for country offices to assign follow-up and track whether action has been taken related to programmatic visits and spot checks. By the end of 2017, e-Tools is targeted for use in all large countries, which account for approximately 80% of cash transfers to partners globally. (c) Further, enhancements to VISION (ezHACT project) in 2017 will enable increased compliance with a reissued policy on processing of cash transfers.	By the end of 2017, e-Tools, currently in use in more than 20 offices, is targeted to be in use in all large countries, which account for approximately 80% of cash transfers to partners globally. UNICEF has provided a macroplan, which shows that by the end of 2017, e-Tools will be functional in 46 other countries. The recommendation is considered implemented.	X			
18.	A/71/5/Add.3 of 2015	Chapter II, paragraph 46	Continue to engage with National Committees to align their reserves policies, including the retention of reserves, with the reserves guidance of UNICEF.	All reserves policies have been received. With regard to reserve rates, there has been significant improvement in the past three years, concluding with only two National Committees (Hong Kong, China and China) whose retention of the reserve is considered above requirements, requiring further dialogue. The report makes reference to UNICEF concluding that the level of reserves of six National Committees was	Given that all National Committees with reserves have reserves policies, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				reasonable. Lithuania, Poland, Portugal and Slovakia were within reasonable limits and/or immaterial. In the case of Australia and the Republic of Korea, excess reserves were set aside for fixed asset improvements. Hungary and Greece were also high, but UNICEF already had agreements that they would reduce levels within the year. The dialogue with National Committees is a continuous process, which UNICEF will continue to actively monitor. The reserve levels will constantly move up and down. For the retentions in excess of minimum requirements, the majority had justified reasons, as mentioned in the report, such as fixed asset requirements.					
19.	A/71/5/Add.3 of 2015	Chapter II, paragraph 51	Ensure the timely validation of revenue and expenditure reports of National Committees to mitigate the risk of not recognizing revenue in the period it relates to.	All validations of revenue and expenditure reports were carried out by the established deadline. The understatement referred to in the report was due to a calculation error rather than a delay in validation. UNICEF has improved the validation process to mitigate the risk of a similar error in the future.	Based on the action taken by UNICEF, the recommendation is considered implemented.	X			
20.	A/71/5/Add.3 of 2015	Chapter II, paragraph 57	Fix targets for revenue collection on the basis of achievements in previous years and fund requirements, and endeavour to achieve them using proper strategy and effective monitoring.	UNICEF has had fixed quarterly targets by channel for private sector revenue since the beginning of 2015 and monitors targets through reports on gross revenue by quarter. UNICEF shares detailed channel information with all fundraisers to inform them for purposes of strategy. Revenue generation performance is monitored against these targets. Variances from targets occur but as a result of reviewing them, UNICEF is better able to understand the actual results and what is happening in the market and, if feasible, make adjustments and take corrective action.	UNICEF has fixed the targets for revenue collection, hence the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
21.	A/71/5/Add.3 of 2015	Chapter II, paragraph 65	The regional offices strengthen their internal control mechanism on the monitoring of donor reports and ensure that all the donor reports are sent on time. The West and Central Africa Regional Office also needs to ensure quality donor reporting by country offices by conducting sample quality assurance reviews as part of their oversight function.	The UNICEF Field Results Group created an electronic scorecard for offices in 2016, which includes an indicator on the timeliness of donor reporting. This tool will enable regional offices to improve their oversight of country offices. In addition, regional offices are being encouraged to factor the results of the scorecard into the performance reviews of the heads of country offices. Furthermore, UNICEF has published donor reporting guidelines and held webinars with country offices. These tools will benefit all country offices, including those in West and Central Africa. The West and Central Africa Regional Office will also strengthen its quality assurance review function. The Field Results Group is collaborating internally with Private Fundraising and Partnerships and the Public Partnership Division to ensure that the monitoring mechanism is functioning effectively and to review scorecard results at the country office, regional office, divisional and headquarters levels.	UNICEF has included an indicator on donor reporting timeliness on inSight. UNICEF has assured that the West and Central Africa Regional Office will also strengthen its quality assurance review function. In view of the above, the recommendation is considered implemented.	X			
22.	A/71/5/Add.3 of 2015	Chapter II, paragraph 73	Ensure the preparation of risk registers annually by all country offices and divisions, prepare an enterprise-wide annual risk mitigation plan and institutionalize a mechanism for the quarterly review of risk registers.	In 2016, UNICEF analysed the 2015 risk self-assessment exercise and determined that it needed simplification in order to be effective. Based on the analysis completed, the enterprise risk management policy is currently being redrafted as part of the development of the strategic plan 2018-2021. The new policy will take both a top-down and bottom-up approach for improved effectiveness and will be rolled out with the new strategic plan. The new policy will take effect for the year 2017, meaning that there will be no 2016 risk assessment.	In view of the new policy, this recommendation considered as overtaken by events.			X	

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
23.	A/71/5/Add.3 of 2015	Chapter II, paragraph 90	(a) Regional and country offices take necessary steps to prepare realistic integrated monitoring and evaluation plans and improve their completion rate of activities; and (b) follow the procedure prescribed in the UNICEF Programme Policy and Procedure Manual with respect to the preparation and implementation of annual workplans and annual management plans in order to enable their timely execution.	(a) UNICEF is currently implementing a software platform (PRIME), which will replace the hard copy/word-based integrated monitoring and evaluation plan. PRIME is being implemented progressively in UNICEF regions and will require multiple aspects of quality assurance throughout the year, which will ensure that integrated monitoring and evaluation plan activities are realistic and thus improve the completion rate of activities. (b) UNICEF revised its guidance on annual workplans and annual management plans, which was included in the Programme Policy and Procedure Manual) issued in the fourth quarter of 2015. This guidance includes the responsibilities of UNICEF offices, timelines and procedures for the preparation and submission of workplans. A workplan procedure has been drafted and final consultation with the field is under way. Timely implementation of workplans will be further supported by the e-Tools workplan module to be released in the fourth quarter of 2017. A further iteration of PRIME is now in progress to integrate it with other evaluation information platforms to provide a comprehensive, integrated information system for planning, managing and reporting on evaluations, which will further strengthen the capacity of UNICEF offices to plan, manage and report on evaluation activities and improve performance in these areas. The new integrated system will be ready for roll-out in July 2017. The roll-out is expected to be completed in December 2017, in time to support planning activities in 2018.	The Board has noted weaknesses in these areas, hence the recommendation is still under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				Annual workplans and annual management plans, are also a continuous process. However, UNICEF will continue to monitor and provide guidance to offices past this period.					
24.	A/71/5/Add.3 of 2015	Chapter II, paragraph 104	Lay down quantitative thresholds for projecting staff requirements and reduce the time lag in the recruitment process.	In the ongoing human resources reforms, strengthening and improving recruitment was identified as a pillar. A new policy (CF/EXD/2016-07) came into effect on 1 February 2017. The policy is intended to, among other things, simplify recruitment processes, strengthen key performance indicators, streamline procedures and requirements and decentralize some of the approving authorities. The aforementioned enhancements are expected to support offices better in managing their recruitment and securing the right persons for their posts in a timely manner.	In the new policy issued by UNICEF, the Board could not find evidence of the specific steps envisaged to lay down quantitative thresholds for projecting staff requirements and reducing the time lag in the new policy. Hence, the recommendation is under implementation and remains open.		X		
25.	A/71/5/Add.3 of 2015	Chapter II, paragraph 105	Consider (a) putting in place a fund tracking system to establish links between planned and actual expenditure against the appropriate planning level (outcome, output, activity); (b) review the existing guidance and other resource material for their improvement and better utilization; and (c) align output indicators with focus areas and activities towards achievement of outputs under the outcome entitled "Education".	This recommendation is linked to 14/2015. UNICEF is developing a new budget management tool to ensure effective budget management and expenditure monitoring. The tool, which will link resource utilization with outcome results, is planned to be rolled out to all offices in a phased manner in 2017.	A new budget management tool is being brought into effect in 2017. As part of that process, guidance and other materials will be updated as appropriate. Time frame: fourth quarter of 2017. The recommendation is under implementation and therefore remains open.		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
26.	A/71/5/Add.3 of 2015	Chapter II, paragraph 109	The Argentina country office identify cases where the delay in receipt of goods was attributable to the vendors and take appropriate action under the contract agreement.	The Argentina country office reviewed the cases of delay in the receipt of goods, noting that delays were attributable mostly to inaccurate practice on the part of the Argentina country office, where a goods receipt was issued and recorded in Systems Applications Products upon vendor invoice receipt, rather than actual goods receipt. Invoice receipt was typically subsequent to goods receipt, hence resulting in Systems Applications Products showing significant delays between the delivery date and the goods receipt date. Given that the delays were not attributable to vendors, no further action under the contract agreement is deemed necessary. In 2016, the Argentina country office took the following actions to rectify and streamline the supply management and goods receipt processes: (a) requested receiving officers to generate a goods receipt upon delivery of goods; (b) established a new position, Supply/Administrative Assistant, filled in September 2016, to support and monitor procurement activities; and (c) beginning in the fourth quarter of 2016, the Argentina country office operations sends quarterly detailed reports to all sections to check the status of purchase orders to pre-emptively address delays in the receipt of goods.	In view of the action taken by UNICEF, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
27.	A/71/5/Add.3 of 2015	Chapter II, paragraph 114	The Supply Division follow up with country offices and third parties to review the causes of delay and make sincere efforts to ensure the timely receipt of vaccine arrival reports.	UNICEF is following up with country offices to ensure the timely receipt of vaccine arrival reports. The Supply Division has established a vaccine arrival report monitoring and follow-up process, which includes (a) sending monthly emails to country offices to identify completed shipments with no vaccine arrival report received; and (b) preparing monthly summaries of missing vaccine arrival reports to share with country offices for comment. Quarterly reporting on the missing vaccine arrival reports is shared with regional office health and supply focal points. This analysis allows the Supply Division to target problem countries and to better understand challenges with customs delays. Shipments marked as critical deliveries are followed up immediately upon receipt to ensure timely vaccine arrival report submission. Countries have reduced the average number of days for receipt of vaccine arrival reports from 20 to 11. Out of 2,064 shipments, vaccine arrival reports for only 1.5% of shipments reported incidents and of those, 72% were received within three days. UNICEF will continue to work with countries on timely receipt of vaccine arrival reports, in particular in cases of an incident. As a result of the previous measures, UNICEF has already seen improvements in timely submission in 2016.	The Board continues to notice weakness in this area, as stated in the present report. Hence, the recommendation is considered under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
28.	A/71/5/Add.3 of 2015	Chapter II, paragraph 122	Include the freight costs in the programme supplies transferred to implementing partners in order to reflect their correct carrying cost.	UNICEF is of the view that the current presentation of freight costs is in line with IPSAS and presentation by function. However, UNICEF agreed to and has changed its presentation of the financial statements, given the preference of the Board of Auditors. UNICEF notes that no changes in the underlying operations are required.	In 2016, freight costs of $64.84 million (2015: $85.02 million) are now included in note 25 under transfers of programme supplies in line with policy and for comparison purposes, the 2015 numbers for both note 25 and note 27 were restated in order to reflect the revised presentation. Hence, the recommendation is considered implemented.	X			
29.	A/71/5/Add.3 of 2015	Chapter II, paragraph 132	(a) Monitor its stock levels more closely to adhere to the extant stipulations relating to stock held for more than two years; and (b) closely follow up on items that are in transit for prolonged periods.	Evidence provided during the audit demonstrates that UNICEF does monitor stock levels and goods in transit. Monitoring stock levels and goods in transit does not translate to the organization never having stocks over two years or goods in transit over 100 days. It means that UNICEF is and was able to answer all questions relating to what may be perceived as exceptions, e.g., tents and bednets have no expiration and sit for prolonged periods of time as contingency stock; goods in transit to landlocked countries take longer than the expected thresholds or particular countries have excessively long customs processes. Monitoring by UNICEF has also led to low write-off levels.	Considering the progress achieved by UNICEF in this area, the recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				Considering that the findings noted in the report are minor compared with the throughput of inventory and that the progress made on stock management in the past four years has led to significant decreases in aged inventory and write-offs, stock issues are no longer material and merit closure of this recommendation.					
30.	A/71/5/Add.3 of 2015	Chapter II, paragraph 133	(a) Ensure coordination among freight forwarding agents, country offices and implementing partners for capturing real-time data in VISION to strengthen supply chain management with updated information; and (b) update the information in VISION regarding the status of delivery of supplies without further delays.	UNICEF is working to improve its guidance for country offices and freight forwarding agents on the processes relating to inventory in transit, highlighting the actions they need to take and the monitoring tools available. UNICEF encourages country offices to address the requirement for accurate handover forms with implementing partners. (a) The Supply Division is preparing a policy to ensure coordination among freight forwarding agents, country offices and implementing partners for capturing real-time data in VISION in relation to inventory in transit to strengthen supply chain management. UNICEF is working on an electronic data interchange upgrade project aimed at improving data exchange and approaching real-time data. The project is under construction and expected to be operational by 1 July 2017. In the meantime, the Supply Division has introduced regular review of shipments that are ready to be shipped from the warehouse but do not show as shipped in due course, and information is updated in VISION with no delay. In addition, the Supply Division is conducting formal quarterly performance reviews that consider electronic data interchange performance.	The Board observed that a policy has not been developed and that the problem persists. Hence, the recommendation is considered as under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				(b) The Supply Division has updated the VISION report regarding the status of the deliveries of supplies, which is now correctly captured.					
31.	A/71/5/Add.3 of 2015	Chapter II, paragraph 140	Fix a timeline for the Comptroller to approve the disposal of impaired supplies and ensure compliance.	UNICEF has reviewed its disposal and write-off processes and implemented new procedures with effect as from the third quarter of 2016. Inventory items are now disposed of once the Director of the Supply Division has endorsed the recommendation of the Property Survey Board. The revised procedures provide for timely and efficient inventory and warehouse management, preventing storage space from being occupied for extended periods by impaired inventory. The revised process for disposal of impaired supplies in the Copenhagen warehouse was approved by the Division of Financial and Administrative Management in October 2016. This, in conjunction with the Supply Division's divisional procedure for the Property Survey Board, facilitates timely approval for the disposal of impaired supplies by the Director of the Supply Division and post facto approval to write off impaired supplies by the Comptroller.	UNICEF has revised the procedure wherein the prior approval of the Comptroller is not required. The Property Survey Board is empowered to take the final decision. The recommendation is considered implemented.	X			
32.	A/71/5/Add.3 of 2015	Chapter II, paragraph 149	Ensure that the purchase orders contain realistic delivery dates, binding both on the suppliers and UNICEF, and consider any unjustified deviation seriously in the interest of programme implementation.	The Supply Division has followed up with staff on the reasons for delayed deliveries and provided additional monitoring tools, including an additional alarm to identify orders with upcoming delivery dates, which allows proactive follow-up with suppliers and freight forwarders and supports the timely execution of the purchase order. The progress made by UNICEF in the timeliness of deliveries has increased, from 53% of orders delivered on time in 2012 to 76% by year-end 2015.	The timeliness of deliveries decreased from 76% of orders delivered on time in 2015 to 72% by year-end 2016, and there is still a delay in deliveries. The measure taken by the Supply Division office needs to be observed over the future period. During		X		

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				It is noted that the indicator is meant to capture supplier performance. However, often, the supplier performs its part but the shipment then gets stalled at customs or there are cross-border issues. Thus, the context of the apparent late deliveries must also be assessed when reviewing the indicator.	its audit, the Board observed similar cases. The recommendation is under implementation.				
33.	A/71/5/Add.3 of 2015	Chapter II, paragraph 156	Review cases of delay and follow up with contracting staff, suppliers and freight forwarding agents to ensure timely delivery of supplies; and follow up with the country offices, in case of backlog, to ensure that delivery dates are confirmed and supplies are made without further delay.	UNICEF has facilitated the review of cases of delay and the follow-up by contracting staff and country offices by updating key reports used to monitor purchase orders, including an additional alarm to identify orders with upcoming delivery dates, which allows proactive follow-up with suppliers and freight forwarders and supports the timely execution of the purchase order. The progress made by UNICEF in the timeliness of deliveries has increased, from 53% of orders delivered on time in 2012 to 76% by year-end 2015.	The Board has observed that the same problem persists. Hence, the recommendation remains under implementation.		X		
34.	A/71/5/Add.3 of 2015	Chapter II, paragraph 161	Regional and country offices assign the work of the contract only after executing the contract agreement.	UNICEF policies include clear instructions regarding the need to have a signed contract in place before the required services can commence. In addition, guidance on the requirement that a valid agreement be in place before the corresponding service can commence is part of the training material used in the workshop on contracting for services, which is conducted regularly and targeted to the UNICEF supply community. UNICEF will reinforce these policies by sending out periodic reminders to offices.	The recommendation is considered implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendations of the Board	UNICEF response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
35.	A/71/5/Add.3 of 2015	Chapter II, paragraph 166	Country office ensure adherence to the provisions of the Supply Manual relating to single-source procurements.	In order to minimize the use of single sources in selecting contractors, UNICEF has implemented a change in the VISION system to make it mandatory to record whether a contract has been issued following a single-source or competitive process. This allows offices to monitor the occurrence of single sourcing and compliance with the requirement of appropriate justification for single sourcing. The 2015 audit found two cases in which low-value contracts had been issued following a single-source process, in one country office. Notwithstanding, UNICEF is reinforcing these policies through periodic reminders to offices and monitoring compliance by reviewing disclosures of exceptions.	In view of the fact that only two incidents were noted during the year, the progress by UNICEF is considered satisfactory. Hence, the recommendation is considered implemented.	X			
36.	A/71/5/Add.3 of 2015	Chapter II, paragraph 172	Review the applicability of its policy on advance booking globally in view of the changes in the travel business and revise the strategies accordingly.	UNICEF completed initial data reviews of the North American market, which indicate that UNICEF does indeed realize significant unit cost reductions by purchasing flight tickets closer to the date of departure rather than adhering to its current 14-day advance purchase policy requirement. A deeper analysis of North American market data is currently under way in order to obtain a more comprehensive and detailed analysis of ticket price trends. Following the completion of the ongoing detailed analysis, UNICEF will discuss with the Comptroller whether to revise the Fund's global travel programme strategy and policy.	The study of North American market data is currently under way, following which further decisions regarding revision or otherwise of the policy will be taken. The recommendation is under implementation and therefore remains open.		X		
	Total	**36**				**24**	**11**	**1**	
	Percentage	**100**				**67**	**30**	**3**	

Annex II

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

Budget	*Duration*	*Source of funds*	*Level of aggregation*	*Size of original budget (millions of United States dollars)*	*Size of final budget (millions of United States dollars)*
1. Country programme budgets	Varying: multi-year	Regular resources and other resources — regular	Outcomes: no yearly breakdown	2 528	2 834
2. Emergency appeal budgets	Annual	Other resources — emergency		1 315	1 809
3. Global and regional programme budgets	Multi-year: 2014-2017	Regular resources and other resources — regular	Outcomes: no yearly breakdown	181	212
4. Emergency Programme Fund	Annual	Regular resources		35	14
5. Institutional budget	Annual			572	594
(a) Development effectiveness		Regular resources and other resources — regular (based on donor agreements)	Sources of funds for components (a) to (d), by year	147	162
(b) Management		Regular resources and cost recovery from other resources — regular and other resources — emergency		391	391
(c) United Nations development coordination		Regular resources and other resources — regular (based on donor agreements)		9	7
(d) Special purpose		Regular resources and cost recovery from other resources — regular and other resources — emergency		25	33
6. Private Fundraising and Partnerships budget	Annual	Regular resources		149	134
Total				**4 779**	**5 597**

Source: Financial statements of 2016 and information furnished by UNICEF.

Chapter III
Certification of the financial statements

Letter dated 31 March 2017 from the Comptroller of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

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

I acknowledge that:

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

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

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

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

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

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

Statement by management on internal control over financial reporting

31 March 2017

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

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

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

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

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

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

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

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

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

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

Chapter IV
Financial overview

Financial statement discussion and analysis

Introduction

1. The United Nations Children's Fund (UNICEF) was established by the General Assembly of the United Nations in 1946. UNICEF is headquartered in New York and maintains a presence in 190 countries, territories and areas, including at other headquarters offices in Belgium, Denmark, Italy, Japan, Hungary and Switzerland and at regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand. UNICEF helps governments and other partners overcome the obstacles that poverty, violence, disease and discrimination place in the path to realizing children's rights. UNICEF mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build the capacity of countries to form appropriate policies and deliver services for children and their families.

2. This financial statement discussion and analysis has been provided by the Comptroller of UNICEF on behalf of management and should be read in conjunction with the UNICEF financial statements for 2016. The present financial statements are prepared for the calendar year 2016 in accordance with UNICEF Financial Regulations and Rules and the International Public Sector Accounting Standards (IPSAS). The financial statement discussion and analysis is provided to give readers of the financial results of UNICEF with a better understanding of the meaning behind the numbers. In particular, the financial statement discussion and analysis informs stakeholders as to how financial resources are being managed.

Overview of operations and operating environment

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

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

5. UNICEF continues to support countries, communities and families in realizing the rights of all children, paying particular attention to the most disadvantaged. In 2016, UNICEF continued to offer incremental support to five countries which had been designated by the Executive Director as requiring a level-3 emergency response, as well as five countries that experienced level-2 emergencies. The Emergency Programme Fund, set up to frontload critical funding requirements ahead of donor commitments to ensure a rapid response, aided 14 country offices and 3 regional offices, resulting in a total of $26 million disbursed as at the end of December 2016. The Emergency Programme Fund was increased to an annual ceiling of $35 million in 2015. The Executive Board extended and expanded the Vaccine Independence Initiative and its revolving fund to a ceiling of $100 million

for the period 2016-2020 to facilitate the procurement of critical programme supplies.

6. The scale of humanitarian crises in 2016 continued at high levels. UNICEF contributed towards support to large-scale crises such as the continuing conflicts in Iraq, South Sudan and Yemen; the protracted crisis in the Syrian Arab Republic and neighbouring refugee-hosting countries (Egypt, Iraq, Jordan, Lebanon and Turkey); and the humanitarian situation in Nigeria (which also affected Cameroon, Chad and the Niger). UNICEF also responded to multiple health emergencies in 2016, such as the outbreaks of zika in Latin America and yellow fever in Africa, co-operating with the World Health Organization (WHO), the Pan American Health Organization and other United Nations organizations. With regard to the response to zika, the Fund's response was assigned in accordance with the global inter-agency strategic response plan for zika, launched by WHO. UNICEF prioritized areas of intervention related to non-critical care and support for families affected by zika and zika-related congenital syndrome, including microcephaly. New-onset humanitarian crises that UNICEF contributed aid towards included the earthquakes in Ecuador and Peru, Hurricane Matthew in Haiti, catastrophic flooding in Bangladesh and the deteriorating food and nutrition situation in many countries.

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

Objectives and strategies

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

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

10. UNICEF is subject to a Board-imposed liquidity requirement. The UNICEF Financial Regulations and Rules indicate that, in order to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. In 1987, the Executive Board established the minimum year-end cash balance of regular resources as 10 per cent of projected regular resources income for the following year (decision 1987/14).There have been no changes in the way UNICEF manages its capital in 2016.

11. On 25 September 2015, the General Assembly adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of the post-2015 development agenda, and set out 17 Sustainable Development Goals with specific

targets for each goal. In its midterm review, UNICEF confirmed that the strategic plan was in broad alignment with the Goals, and at the same time took measures to make the necessary adjustments for the remaining period of the strategic plan. The preparation of the Fund's next strategic plan, for 2018-2021, will be shaped by the Sustainable Development Goals, together with other global commitments, with sustainability as a key issue. A framework for the strategic plan for 2018-2021 has been presented to the Executive Board at its first regular session of 2017. Some elements of the contents of the framework presented to the Executive Board are discussed in the "Outlook for 2018 and beyond" section of the financial discussion and analysis.

12. The Global Shared Service Centre launched in October 2015 is now fully operational and is expected to improve the integrity of financial information as well as remove the burden from country offices of transactional processing so that more focus can be directed to programme implementation and the monitoring of implementing partners.

Analysis of financial statements

Overview of financial results for 2016

13. UNICEF revenue includes regular resources (core funds), other resources (non-core funds), other revenue and investment revenue. Total revenue in 2016 was $4.88 billion (2015: $5.01 billion), reflecting a decrease of $126 million over the 2015 revenue period. Total expenses increased by $352 million to a total of $5.45 billion (2015: $5.10 billion) in 2016. In 2016, UNICEF had a deficit of revenue over expenses of $507 million, compared with a deficit of $76 million in 2015.

14. At the end of 2016, UNICEF held total assets of $8.45 billion (2015: $8.79 billion) along with total liabilities of $4.35 billion (2015: $4.16 billion). The accumulated surpluses were $3.36 billion (2015: $3.89 billion) in addition to total reserves of $740 million (2015: $739 million).

Financial performance

Revenue

15. As noted above, total revenue decreased by 3 per cent ($126 million) in 2016 compared with the previous year, owing to reductions in revenue recognized from inter-organizational arrangements. It should be noted, however, that deferred revenue rose by $272 million (17 per cent) to $1.83 billion. The reduction therefore represents the timing of recognition of revenue rather than a reduction in overall funding available to UNICEF.

Statement of financial performance: revenue

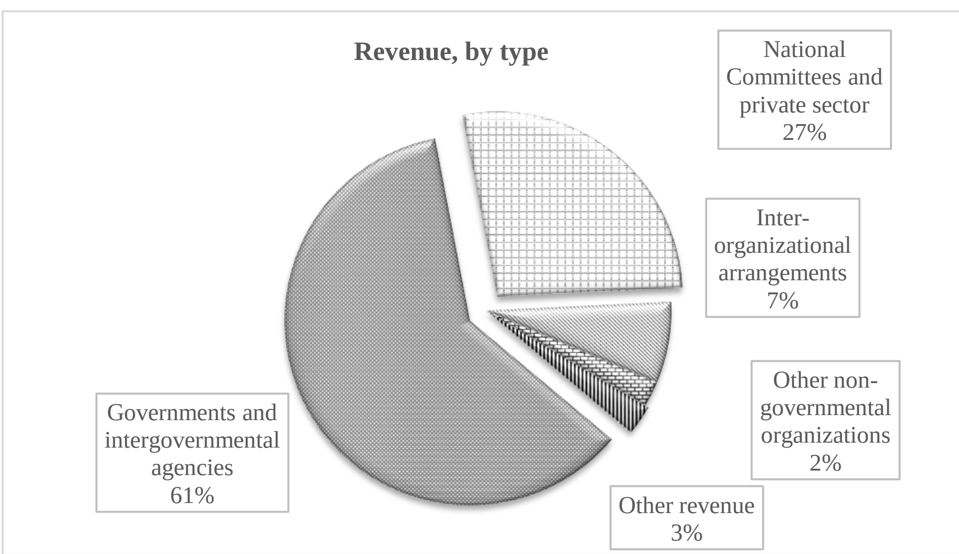
(Thousands of United States dollars)

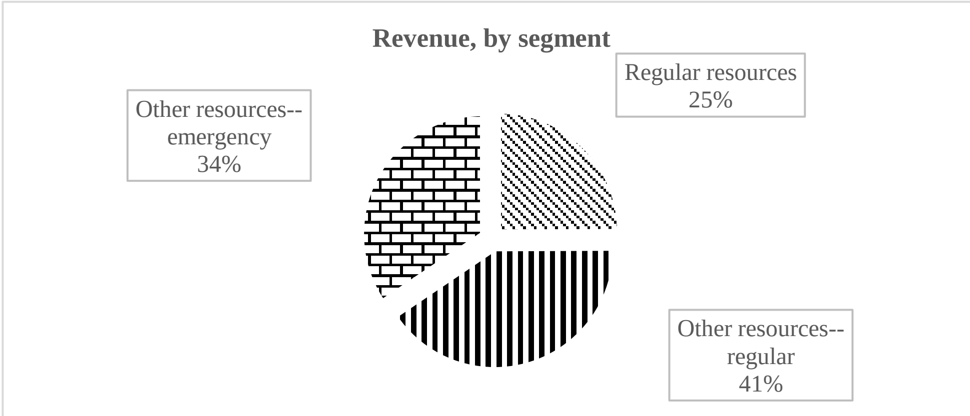
	2016	2015	Variance: United States dollars	Variance: Percentage
Revenue				
Voluntary contributions	4 757 301	4 903 352	(146 051)	-3
Other revenue	74 486	71 174	3 312	5
Investment revenue	51 911	35 031	16 880	48
Total revenue	**4 883 698**	**5 009 557**	**(125 859)**	**-3**

16. The main source of revenue continues to be voluntary contributions from governments, private organizations and individuals, accounting for 97 per cent (2015: 98 per cent) of total revenue. There was a 48 per cent (2015: 18 per cent) increase in investment revenue in 2016 compared with 2015, mostly attributable to interest on short-term investments, equities and bonds. The remaining 2 per cent (2015: 2 per cent) of the revenue was generated by procurement services for partners and transfer of warehouse goods of $56 million (2015: $48 million); miscellaneous activities of $13 million (2015: $14 million) and licensing income for cards and products of $5 million (2015: $9 million).

17. UNICEF revenue was mostly sourced from government and inter-governmental agencies, which contributed 61 per cent of the revenue, followed by the private sector (National Committees and others), which contributed 27 per cent.

18. Revenue from the National Committees for UNICEF, which are non-governmental organizations that promote child rights in 34 industrialized countries and raise funds for UNICEF programmes worldwide, increased to $1.15 billion (2015: $1.12 billion) combined for regular and other resources. The charts below indicate revenue by type and revenue by segment, respectively, for 2016.

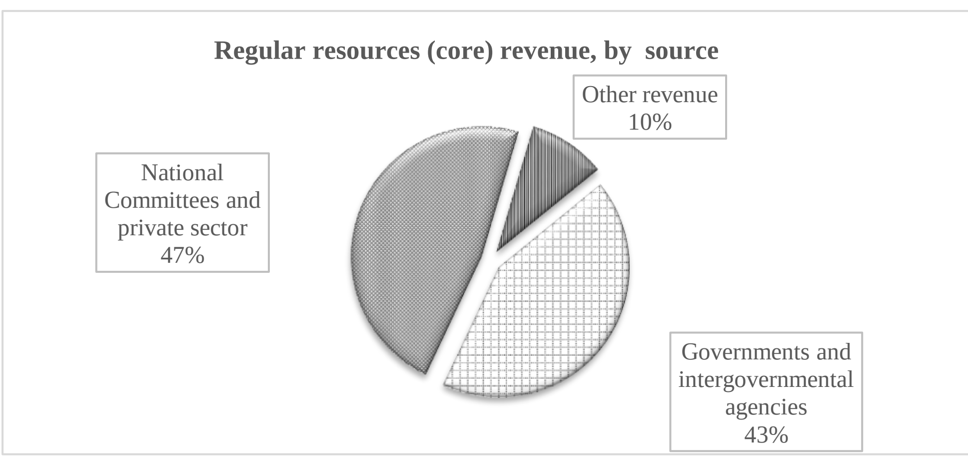




19. Voluntary contributions to regular resources (unearmarked or “core” funds) were $1.19 billion (2015: $1.07 billion) which was an increase of $119 million (11 per cent) compared with 2015. Voluntary contributions to other resources (earmarked funds) were $3.57 billion (2015: $3.84 billion), a decrease of $265 million, or 7 per cent.

20. In 2016, regular resources revenue, including voluntary contributions and other revenue of $1.31 billion (2015: $1.16 billion) accounted for 27 per cent (2015: 23 per cent) of total revenue. Private sector donations and other revenue constituted 57 per cent (2015: 54 per cent) of revenue for regular resources (including trust funds) of $750 million (2015: $621 million), while contributions from governments constituted 43 per cent (2015: 46 per cent) of revenue for regular resources of $563 million (2015: $537 million).

21. Despite a welcome marginal increase in regular resources revenue for 2016, the overall trend in recent years has been a gradual decline. If this downward trend continues, it poses a risk to the ability of UNICEF to achieve its mission of being there for every child and being able to respond where the need for children is the greatest. The chart below indicates regular resources (core) revenue for 2016, by source.



22. "Other resources" is split into two parts: other resources--regular (development) and other resources--emergency. Other resources--regular voluntary contributions revenue during the year was $1.93 billion (2015: $2.06 billion), a decrease of $124 million, and other resources--emergency voluntary contributions revenue was $1.64 billion (2015: $1.78 billion), a decrease of $142 million. UNICEF receives funding from its donors for multi-year programmes to secure sustainable longer-term programmatic activities, particularly in the area of development. As noted above, the total funds committed to UNICEF are presented through revenue and deferred revenue in the financial statements, and this has continued to grow, increasing by 2 per cent in 2016. The decrease in other resources—regular and other resources--emergency revenue, therefore, represents timing of revenue recognition under IPSAS policies rather than reduced funding for programmatic activities.

23. In 2016, approximately 64 per cent of the Fund's voluntary contributions were in currencies other than the United States dollar. As a result of the appreciation of the dollar against other currencies, the Fund's contributions were negatively affected, leading to foreign exchange loss, realized and unrealized, of $68 million (2015: $94 million). In accordance with the UNICEF Financial Rules and Regulations, these losses are reflected against revenue.

24. Depreciation of the pound sterling against the United States dollar was the largest contributor to the foreign exchange loss with $51 million, accounting for 74 per cent of the total. Other currencies contributing to the losses were the euro and Swedish krona. These losses were partly offset by gains from contributions received in the Norwegian krone and the Japanese yen. UNICEF actively manages foreign currency risk through forward contracts and natural hedges resulting in foreign exchange gains of $52 million (2015: $9 million). These are included under net gains of $57 million in the financial statements, as they are not directly attributable to specific contributions agreements.

25. Foreign exchange loss on other resources--regular revenue decreased to $47 million (2015: $86 million). For other resources--emergency revenue the foreign exchange loss was $24 million for 2016 (2015: $8 million).

Expenses

26. The major categories of expenses included cash assistance of $1.97 billion (2015: $1.77 billion), transfer of programme supplies of $1.14 billion (2015 restated: $1.12 billion), and employee benefits of $1.21 billion (2015: $1.19 billion).

Statement of financial performance: expenses

(Thousands of United States dollars)

			Variance	
	2016	*2015*	*United States dollars*	*Percentage*
Expenses				
Cash assistance	1 971 636	1 766 374	205 262	12
Transfer of programme supplies	1 139 096	1 117 930	21 166	2
Employee benefits	1 207 855	1 185 784	22 071	2
Depreciation and amortization	26 623	22 587	4 036	18
Other expenses	677 270	658 029	19 241	3

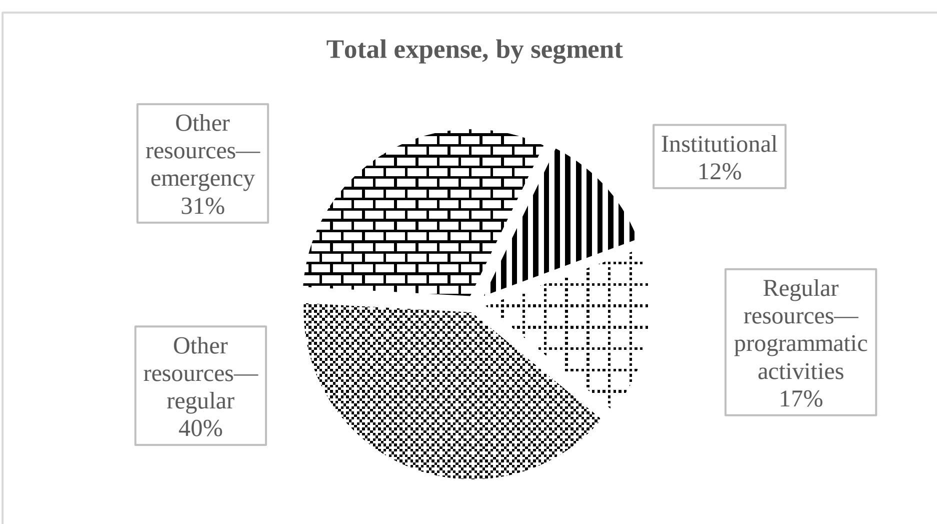
	2016	2015	Variance	
			United States dollars	Percentage
Other programme-related expert services	422 247	341 603	80 644	24
Finance costs	3 124	3 342	(218)	-7
Total expenses	**5 447 851**	**5 095 649**	**352 202**	**7**

27. Total expenses increased by 7 per cent compared with 2015, largely driven by programme implementation activities through the provision of programme supplies and transfers of cash assistance mainly in the Syrian Arab Republic and countries surrounding the Syrian Arab Republic that have been affected by the crisis, and in West Africa. This is in line with programmatic plans in response to emergencies in these areas along with other development activities funded from earmarked resources.

28. Approximately 36 per cent, or $1.97 billion (2015: 35 per cent, $1.77 billion), of UNICEF expenses in 2016 was in the form of cash assistance to implementing partners, both governments and non-governmental organizations. In addition, UNICEF provided essential supplies of $1.14 billion (2015 restated: $1.12 billion) targeting vulnerable communities, including those affected by the ongoing crises in Iraq and the Syrian Arab Republic as well as those affected by the ongoing conflict in Nigeria that led to the second largest displacement crisis in Africa, among others.

29. Other expenses were concentrated in programme-related professional and expert services of $422 million (2015: $341 million), and travel-related expenses for both programme activities and administrative activities of $140 million (2015: $150 million).

30. The total expenses related to the institutional business segment were $705 million (2015: $668 million). Expenses related to regular resources-funded programmatic activities were $961 million (2015: $932 million). Expenses related to programmatic activities funded by other resources--regular were $2.31 billion (2015: $2.15 billion), whereas expenses related to programmatic activities funded by other resources--emergency were $1.82 billion (2015: $1.69 billion). The main reasons for the increases were increased programme activities as discussed in paragraphs 27 to 29. The chart below indicates the percentage of expenses by segment.



Financial position

Assets

31. At the end of 2016, UNICEF total assets were $8.45 billion (2015: $8.79 billion). The following table summarizes the assets financial position for UNICEF.

Statement of financial position: assets

(Thousands of United States dollars)

			Variance	
	2016	*2015*	*United States dollars*	*Percentage*
Assets				
Cash and cash equivalents	1 133 528	867 768	265 760	31
Receivables (current and non-current)	2 029 360	2 122 113	(92 753)	-4
Advances of cash assistance	751 257	759 873	(8 616)	-1
Inventories	368 402	432 711	(64 309)	-15
Investments (current and non-current)	3 457 610	3 665 679	(208 069)	-6
Other (current and non-current)	481 844	725 672	(243 828)	-34
Property and equipment	219 685	212 492	7 193	3
Intangibles	5 803	7 677	(1 874)	-24
Total assets	**8 447 489**	**8 793 985**	**(346 496)**	**-4**

Cash advances

32. Cash advances to implementing partners where implementation reports had not been received at year-end were $751 million (2015: $760 million).

Receivables

33. As at the end of 2016, UNICEF held contributions receivable of $1.99 billion (2015: $2.08 billion) mainly relating to multi-year contributions for programmatic activities in 2017 and subsequent years. Deferred revenue of $1.83 billion (2015: $1.56 billion) was recognized as a liability representing both funding available to UNICEF and the obligation UNICEF has to undertake programmatic activities in future years relating to earmarked multi-year contributions received or receivable.

34. Other assets of $482 million (2015: $726 million) mainly related to procurement services activities as discussed in note 11 of the financial statements.

Property and equipment

35. Property controlled by the organization at year-end had a carrying value of $174 million (2015: $172 million) and equipment a further $45 million (2015: $40 million) for total fixed assets of $220 million (2015: $212 million). UNICEF capitalized all assets that were previously under the transitional provision allowed under IPSAS as at 1 January 2016. This resulted in the addition of approximately 6,000 individual assets with a total net carrying value of $2 million, of which approximately 5,000 assets are fully depreciated but are still in use.

Cash and investments

36. Cash and investments of $4.59 billion (2015: $4.53 billion) constituted a significant portion of the assets. The majority of the cash and investment assets were related to investments in term deposits of $2.61 billion (2015: $2.88 billion).

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

38. UNICEF manages its investment portfolio risk through the use of various financial instruments. The short-term investment strategy is designed to focus on safety and liquidity while capturing reasonable rates of return. This is done by investment in highly rated financial assets in cash and cash equivalents, short-term investments and emerging markets. The longer term strategy is based on investing in long-term investments with the main instrument being traded bonds. In 2016, UNICEF engaged an external investment manager to manage the after-service health insurance funds set aside in the insurance reserve, with the objective of earning returns that will contribute to the long-term funding of the after-service health insurance liability. At the end of the year, the value of the investments managed by the external investment manager was $216 million.

39. As at 31 December 2016, UNICEF held $65 million (2015: $0) of assets related to forward contracts derivatives as part of the after-service health insurance investments that are managed by the external investment manager. For the internal investment portfolio, all positions in forward contracts are closed before the reporting date.

Available cash

40. Cash reserves for long-term employee liabilities such as after-service health insurance and other Board-approved reserves totalled $622 million (2015: $591 million).

41. The regular resources cash balance as at 31 December 2016 was $893 million (2015: $700 million). Of this amount, $229 million (2015: $233 million) were either committed or due for payment at year-end, leaving a balance of approximately $664 million (2015: $467 million). A large, unplanned regular resource contribution of $54 million was received on 7 December 2016, contributing to the larger-than-expected regular resource cash balance at year-end.

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

43. Total cash balance for other resources as at 31 December 2016 was $2.50 billion (2015: $2.66 billion). Of this amount, $808 million was either committed or due for payment at year-end, leaving a balance of approximately $1.69 billion (2015: $1.29 billion).

Inventory

44. The total value of UNICEF inventory worldwide was $368 million (2015: $427 million) at the end of 2016. Inventory was held in 193 locations in 65 countries and in the supply hub in Copenhagen. The majority of UNICEF inventory, which includes items such as therapeutic food, medical supplies, children's clothing and school supplies, is held for short periods, as it is intended to be used for programme activities.

45. Inventory consists of goods in transit of $100 million, inventory on loan and programme construction in progress of $32 million, inventory in country office warehouses of $189 million, inventory held in Supply Division hubs and warehouses of $40 million and inventory impairments and adjustments of $7 million.

46. Country office inventory can be further broken down into non-emergency supplies and pre-positioned supplies. Pre-positioned supplies are supplies held on standby in case of an emergency, and because of this they are typically kept on hand longer than programme supplies. Pre-positioned supplies held throughout the world were valued at $44 million as at 31 December 2016, compared with $52 million in 2015.

Liabilities

47. Total current and non-current liabilities stood at $4.35 billion (2015: $4.16 billion) at year-end, resulting in net assets of $4.10 billion (2015: $4.63 billion) and reflecting further strengthening of the financial position of UNICEF.

Statement of financial position: liabilities

(Thousands of United States dollars)

			Variance	
	2016	*2015*	*United States dollars*	*Percentage*
Liabilities				
Accounts payable	264 887	329 806	(64 919)	-20
Deferred revenue (current and non-current)	1 833 800	1 561 717	272 083	17
Funds held on behalf of others	817 900	948 140	(130 240)	-14
ASHI After-service health insurance and other employee benefits (current and non-current)	1 236 273	1 136 241	100 032	9
Other liabilities and provisions (current and non-current)	198 645	187 055	11 590	6
Total liabilities	**4 351 505**	**4 162 959**	**188 546**	**5**

48. Deferred revenue of $1.83 billion (2015: $1.56 billion), employee benefits of $1.24 billion (2015: $1.14 billion) and funds held on behalf of third parties of $818 million to procure supplies (2015: $948 million) represent the majority of UNICEF liabilities.

49. An actuarial study of rollover valuations carried out by an external firm in January 2017 estimated the Fund's after-service health insurance liability at $1.03 billion (2015: $928 million) and other end-of-service entitlements at $106 million (2015: $105 million) as at the end of 2016. To date, UNICEF has accumulated $615 million (2015: $577 million) in its after-service health insurance and separation reserves and continues to set aside additional funds, primarily through payroll surcharges.

Budgetary performance

50. The statement of comparison of budget to actual amounts for the year ended 31 December (statement V), compares UNICEF budgets, which are approved by the Executive Board, to the actual amounts incurred against them. Unlike the other financial statements, which are prepared under the IPSAS full-accrual basis, statement V is prepared and presented on a modified cash basis. Note 4 of the financial statements contains the definitions of the various budget classifications.

Budget utilization

51. The total budget utilized in 2016 was $5.27 billion, 94 per cent of final budget.

52. The utilized budget funded from regular resources was $815 million for country programmes and $49 million for global and regional programmes, with a final budget utilization of 99 per cent and 88 per cent respectively.

53. The utilized budget funded from other regular resources was $1.93 billion for country programmes and $131 million for global and regional programmes, with a final budget utilization of 96 per cent and 85 per cent respectively. The utilized budget funded from other emergency resources was $1.71 billion, with a final budget utilization of 95 per cent. Variances between the final budget and the actual budget for other resources (regular and emergency) are attributable to the fact that these contributions are largely intended for use over multi-year periods and that budgets associated with the related grants are issued throughout the year, as and when contributions are received from donors. In addition, actual expenditures vary in comparison to the final budget as a result of changes in planned activities, which are affected by the programming environment in which UNICEF operates. These factors contribute to variances between the final budget and the actual budget.

54. The actual budget utilization of the Emergency Programme Fund is equal to the final budget allotments advanced from the Emergency Programme Fund to support humanitarian actions for which contributions have not yet been made by donors. The utilized budget of $14 million for 2016 is expected to be fully reimbursable in 2017 when contributions become available. Once reimbursed, the funds can be reissued up to the Board-approved ceiling of $35 million. In the course of 2016, funds from the Emergency Programme Fund were issued for the amount of $26 million, in addition to $11 million carried over from the prior year in the form of residual budgets and commitments. Overall reimbursements from offices in 2016 were $21 million, and $2 million were re-phased to 2017. Residual budget carried forward to 2017 was $1 million.

55. The utilized institutional budget was $484 million, with a final budget utilization of 82 per cent. Some $60 million of the unutilized budget resulted from

the deferred implementation of investment projects and long-term management initiatives. The remaining variance of $50 million resulted from the recorded actual staff costs being lower than planned, owing to vacancy factors.

56. Of the approved budget available for private sector fundraising and partnerships, 98 per cent was utilized. The unutilized portion reflects carry-over of budget allocations following the fundraising activities for 2016.

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

57. One of the benefits of introducing IPSAS is the ability to compare information and review long-term trends within that information. The table below presents the five-year financial performance results since the implementation of IPSAS financial statements (from 2012 to 2016).

Statement of financial performance

(Thousands of United States dollars)

	2016	*2015[a]*	*2014[a]*	*2013[a]*	*2012[a]*
Revenue					
Voluntary contributions	4 757 301	4 903 352	5 032 420	4 694 809	3 790 880
Investment revenue	51 911	35 031	29 755	29 244	29 461
Other revenue	74 486	71 174	107 113	129 115	124 946
Total revenue	**4 883 698**	**5 009 557**	**5 169 288**	**4 853 168**	**3 945 287**
Expenses					
Cash assistance	1 971 636	1 766 374	1 512 034	1 330 550	1 105 939
Transfer of programme supplies	1 139 096	1 117 930	851 497	695 104	628 817
Employee benefits	1 207 855	1 185 784	1 129 549	1 082 795	1 022 818
Depreciation and amortization	26 623	22 587	18 597	13 491	8 440
Other expenses	677 270	658 029	737 316	695 765	646 554
Other programme-related expert services	422 247	341 603	305 676	267 618	206 163
Finance costs	3 124	3 342	3 547	3 740	3 590
Total expenses	**5 447 851**	**5 095 649**	**4 558 216**	**4 089 063**	**3 622 321**
Gains/(losses), net	56 692	10 553	(38 514)	(4 535)	(3 497)
Net (deficit)/surplus[b]	**(507 461)**	**(75 539)**	**572 558**	**759 570**	**319 469**

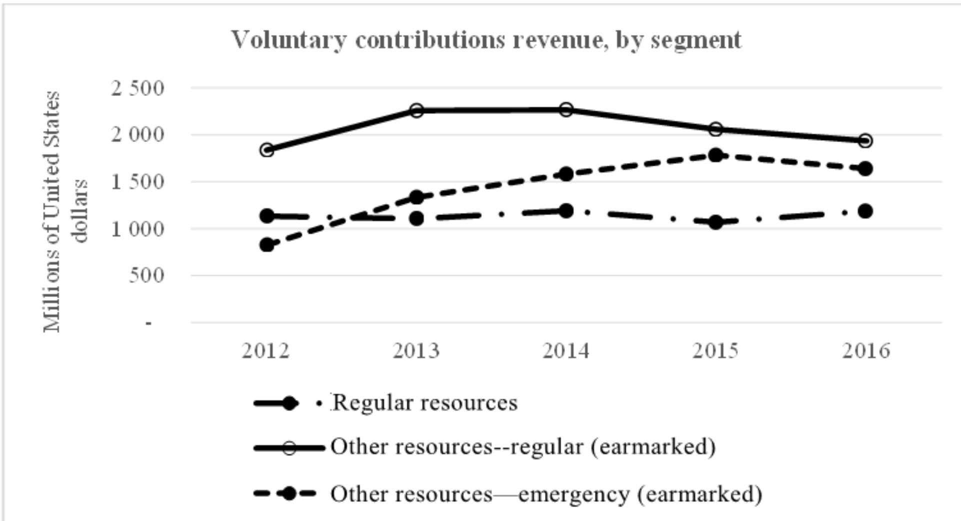
[a] Certain amounts have been reclassified to conform to the current presentation.

[b] The net deficit drawdown for programmatic activity is mainly due to other resource surpluses accumulated over previous years.

Five-year trend for revenue

58. The revenue trend over the past five years indicates that there was a modest increase in 2014, with revenue decreasing slightly in 2015 and a sharper decrease occurring in 2016.

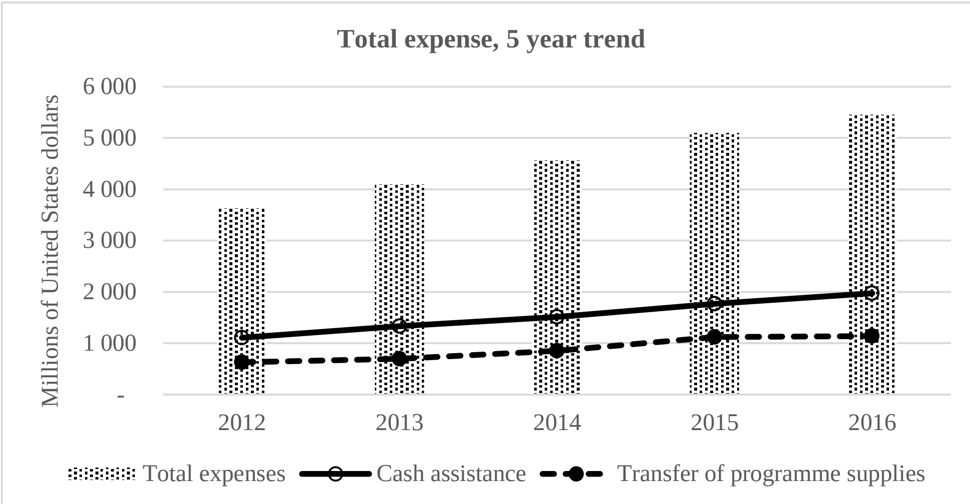
59. Investment revenue has been increasing modestly since 2013 with a more significant increase noted in 2016, attributable to the continued firming of the interest rate market during 2015 and 2016. Other revenue also remained stable, mostly driven by revenue for handling fees from procurement services. The chart below shows the change over time in voluntary contributions revenue, by segment.



60. Regular resources revenue has been relatively flat over the past five years, with a significant reduction in the percentage of regular resources over the years. However, a slight increase was welcomed in 2016. On the other hand, decreases were noted in both other resources—regular and other resources--emergency, with the former decreasing since 2015. The first decrease in other resources—emergency resources during the five-year period was recorded during 2016.

Five-year trend for expenses

61. The trend on expenses over the past five years indicates that expenses have been increasing steadily, following the trend of revenues. The smallest increase of the five-year period under review was recorded in 2016, with an increase of just 7 per cent, compared with an average of 12 per cent over the past three years. However, expense recognition is a lagging indicator of the implementation level of programmes. Owing to accrual accounting, expenses can only be recorded once they have occurred. The five-year trend in total expenses is set out in the chart below.



62. Cash assistance to implementing partners continued to increase over the period. UNICEF has focused on implementing the harmonized approach to cash transfers and has increased its use of implementing partners for programmes. These implementing partners include governments, local civil society and non-governmental organizations (local and international).

63. Countries with the highest increases in cash assistance distributed to implementing partners for programme activities include the Democratic Republic of the Congo, Lebanon, Nepal, Somalia, Turkey and Yemen.

64. The other notable increase was in the trend for programme supplies. The increasing expenses related to programme supplies over the five-year period indicates that UNICEF has ramped up activities to support vulnerable communities through the provision of supplies, and has acted on the emergencies and humanitarian events that have taken place over the past five years.

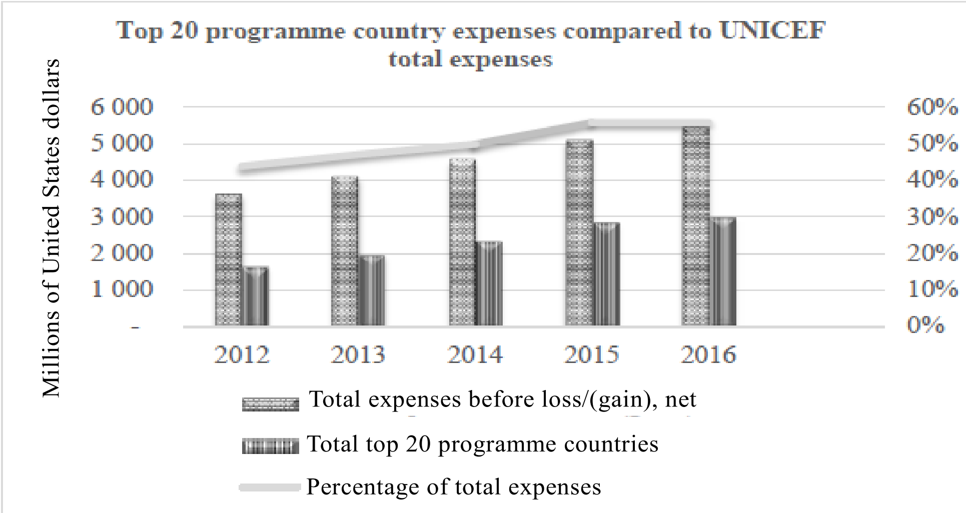
65. Most of the increase in programme supplies was attributable to the distribution of those supplies to the Democratic Republic of the Congo, Jordan, Lebanon, Nigeria and the Syrian Arab Republic. These are countries that either had emergencies or were bordering countries or regions that had emergencies. Significant decreases were noted in Sierra Leone as a result of the end of the Ebola emergency.

66. There has also been a continued increase in other programme-related expert services, including technical support provided by external consultants to implement programmes consisting of programme evaluation services, studies and research survey services, other programme services activities and other professional and expert services related to programme activities.

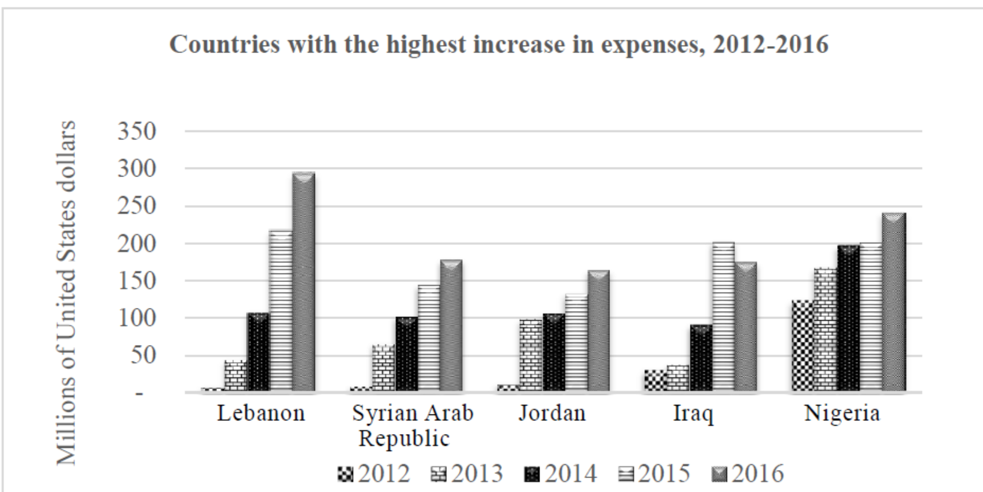
67. Other expenses increased steadily until 2014, but has since decreased sharply year-on-year.

68. Employee benefits increased at a lower rate from 2012 to 2015. An increase of 6 per cent was noted from 2012 to 2013, while a 2 per cent increase was noted from 2015 to 2016. This reflects the organization’s continued commitment to financial management with a focus on efficiencies and effectiveness over other expenses and employee benefits.

69. The chart below shows the five-year trend for expenses for the top 20 programme countries.



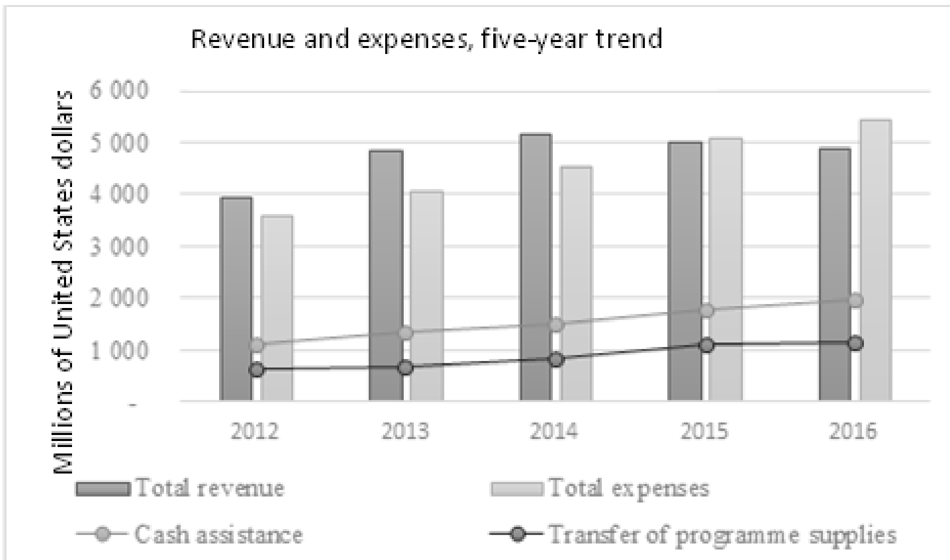
70. Consistent with 2015, the top 20 programme countries based on expenses constituted 56 per cent of total expenses in 2016, as compared to 44 per cent of expenses in 2012. This trend for total expenses in the top 20 programme countries indicates the continued focus on support for emergencies, especially in the Middle East.



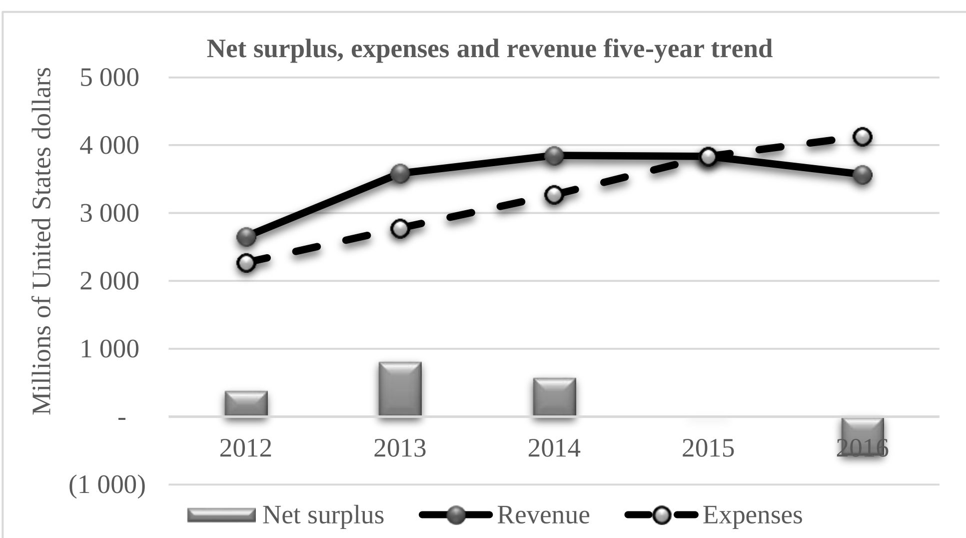
71. The chart above shows a marked increase in support provided to Iraq, Jordan, Lebanon, Nigeria and the Syrian Arab Republic, some of which is related to the emergency and humanitarian situations in Iraq, Jordan, Lebanon and the Syrian Arab Republic. In addition, the trend for Nigeria shows increased support owing to the conflict situation in that country.

Overview of the net position of the United Nations Children's Fund as at 31 December 2016

72. From 2012 to 2014, UNICEF recorded significant annual surpluses, largely as a result of revenue from other resources exceeding expenses from other resources. This trend reversed in 2015 and 2016, with a deficit of $507 million in 2016 representing drawdowns of surpluses from other resources for programmatic activities. As noted earlier, programmatic expenses have grown throughout the five-year period owing to continuing humanitarian crisis and fulfilment of the UNICEF development agenda.



73. The chart below reflects the utilization of other resources in meeting humanitarian and development needs of the organization over the past five years.



Forward-looking statements disclosure

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

Outlook for 2018 and beyond

75. The strategic plan for 2018-2021 will represent a stepping stone to the achievement of the Sustainable Development Goals. It will be aimed at delivering concrete results for children, especially the most disadvantaged, in an effort to break the vicious cycle of inequity early on and propel us towards the fulfilment of the 2030 Agenda for Sustainable Development. At its heart, the Plan will respond to the call to "leave no child behind", so that the rights of every child, everywhere, will be fulfilled, giving each one a fair chance in life. Several lessons learned from the implementation of the strategic plan for 2014-2017 have been addressed in the formulation of the strategic plan for 2018-2021.

76. Some of the design considerations of the strategic plan for 2018-2021 include the following:

(a) The strategic plan will describe the ways in which UNICEF will continue to effectively respond to the growing scale, frequency and severity of humanitarian crises. Specific issues that will be the focus of programming in humanitarian contexts will be addressed under each goal area. The plan will also deepen the integration of humanitarian and development work and make sure that humanitarian investments contribute to longer-term development outcomes and vice versa. Results will be achieved through better collaboration with other United Nations agencies, international financial institutions, including the World Bank, and stronger partnerships with the private sector and civil society. The participation of and accountability towards populations that UNICEF seeks to serve will be enhanced;

(b) Building upon the strategic plan for 2014-2017, the results on gender equality will reflect targeted priorities as well as specific mainstreaming results. Indicators will also strongly emphasize disaggregation by sex;

(c) Reflecting the changing world, including demographic shifts, the plan will build upon ongoing efforts to address issues affecting adolescents.

77. Five goal areas are under consideration: (1) every child survives and thrives; (2) every child learns; (3) every child is protected from violence and exploitation; (4) every child lives in a safe and clean environment; and (5) every child has an equitable chance in life. The goal areas are closely linked to selected Sustainable Development Goal targets.

Key risks, uncertainties and risk-management strategy

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

Key financial risks

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

80. Through its policies and procedures, UNICEF ensures that market risks are identified, measured, managed and regularly reported to management and the Financial Advisory Committee. UNICEF enters into forward contracts on currencies of major donors to hedge for fluctuation in foreign exchange rates for donations. In externally managed portfolios, UNICEF uses derivative financial instruments to hedge some of its risk exposures or minimize deviations from benchmark allocations as set out in the agreement with the external investment manager. UNICEF also applies "natural hedges" by holding foreign currencies in order to cover forecasted foreign currency cash outflows in revenue-side currencies. Management maintains liquidity by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities and by holding cash and liquid investments, some of which have secondary financial markets. More detailed discussion on the risk management related to investments and cash and cash equivalents are available in note 30: Financial risk management.

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

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

Key organization risks

83. The way UNICEF approaches enterprise risk management is an integral part of its internal control framework and is a systematic process of continually identifying, mitigating, monitoring and communicating top risk events to the organization. The key risk exposures include those resulting from inadequate or failed internal processes, people and systems, and from external events that could negatively affect the organization.

84. Risks relevant to the Fund's internal control framework are the ineffective and/or inefficient performance of programmes and operations; inaccurate and/or unreliable reporting and issues or events of noncompliance relative to its regulatory framework. Each of these risks could severely damage the reputation of UNICEF as an organization of choice for the world's most vulnerable children by failing to

assure stakeholders that our mission objectives would be achieved as expected. Through results-based management, programmes are reviewed for effectiveness and must provide evidence of the results achieved. The Comptroller is accountable for the effectiveness of the internal control framework, which includes the accuracy and reliability of financial reporting as well as the detection and prevention of fraudulent activities. UNICEF management at all levels are responsible for ensuring compliance with all applicable regulatory requirements.

85. Going forward, UNICEF is placing the highest focus on and internal controls around risks that threaten the achievement of our mission: strategic risks. UNICEF is currently drafting its strategic plan for 2018-2021 and has identified risks to its implementation. These risks will be considered the top enterprise risks to the organization.

86. UNICEF is exposed to the risk of fraud and misuse of resources. Instances of fraud and misuse of resources not only divert funds from programme beneficiaries, but also could potentially undermine public trust in the ability of UNICEF to operate by decreasing the opportunity to obtain already scarce resources available to support children. The above exposure is managed through compliance with the code of ethics, the existence of a whistle-blower protection policy and investigations. The Office of Internal Audit and Investigations has investigating capabilities in order to deal with cases of suspected theft, fraud or the improper use of resources. Action is taken where fraud is suspected or detected through investigations by the Office.

87. The Fund’s risk in information communications technology systems and information security can threaten the confidentiality, integrity and availability of UNICEF financial and programmatic information. The Information and Communications Technology Division provides overall security policy and guidance to UNICEF and focuses on threats and vulnerabilities to a business unit’s information assets as well as on disaster recovery.

88. There is increased pressure on official development assistance budgets from traditional donors that affects the UNICEF fundraising landscape. While the overall resource envelope is increasing, there currently exists significant risk associated with the declining regular resources (core funding) that funds its institutional costs and allows the organization the flexibility in programme implementation and innovation. The private sector is playing an increasingly active role in development. Social media is helping people exercise their voice, and increases the potential for leveraging wider change through campaigning and advocacy. New modalities of organization and engagement, including within and among civil society, the public sector, the private sector and international financial institutions, are creating opportunities for greater resources. UNICEF also prioritizes resources to key deliverable areas when necessary, without compromising the overall programme deliverables, by employing organizational efficiencies.

89. In cases where UNICEF is unable to demonstrate visible programmatic results, it may be exposed to the risk of loss of donor confidence and consequent loss of revenue. UNICEF has developed a strategy that includes a clear vision of how it intends to achieve the results presented in the country programme documents with detailed attention given to results statements and indicators. It has also established a performance measurement system and mechanisms for capturing and reporting on results with support from the Field Results Group and under the leadership of the Deputy Executive Director for Field Results.

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

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

Chapter V
Financial statements for the year ended 31 December 2016

United Nations Children's Fund

I. Statement of financial position as at 31 December

(Thousands of United States dollars)

	Note	*2016*	*2015*
Current assets			
Cash and cash equivalents	6	1 133 528	867 768
Contributions receivable	7A	1 373 304	1 531 694
Other receivables	7B	40 131	40 084
Advances of cash assistance	8	751 257	759 873
Inventories	9	368 402	432 711
Investments	10	2 681 362	2 575 900
Other assets	11	479 977	691 065
Total current assets		**6 827 961**	**6 899 095**
Non-current assets			
Contributions receivable	7A	614 519	548 990
Other receivables	7B	1 406	1 345
Investments	10	776 248	1 089 779
Property and equipment	12	219 685	212 492
Intangible assets	13	5 803	7 677
Other assets	11	1 867	34 607
Total non-current assets		**1 619 528**	**1 894 890**
Total assets		**8 447 489**	**8 793 985**
Current liabilities			
Accounts payable and accrued liabilities	14	264 887	329 806
Deferred revenue	15	1 218 950	1 013 407
Funds held on behalf of third parties	16	817 900	948 140
Other liabilities	17	122 933	37 585
Employee benefits liabilities	18	102 021	101 894
Provisions	19	22 823	30 602
Total current liabilities		**2 549 514**	**2 461 434**
Non-current liabilities			
Deferred revenue	15	614 850	548 310
Employee benefits liabilities	18	1 134 252	1 034 347
Other liabilities	17	52 889	118 868
Total non-current liabilities		**1 801 991**	**1 701 525**
Total liabilities		**4 351 505**	**4 162 959**
Accumulated surpluses	20	3 355 722	3 891 773
Reserves	20	740 262	739 253
Net assets		**4 095 984**	**4 631 026**

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

United Nations Children's Fund

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

(Thousands of United States dollars)

	Note	*2016*	*2015*
Revenue			
Voluntary contributions	21	4 757 301	4 903 352
Other revenue	22	74 486	71 174
Investment revenue	23	51 911	35 031
Total revenue		**4 883 698**	**5 009 557**
Expenses			
Cash assistance	25	1 971 636	1 766 374
Transfer of programme supplies	25	1 139 096	1 117 930
			1 185 784
Employee benefits	26	1 207 855	
Depreciation and amortization	12, 13	26 623	22 587
Other expenses	27	677 270	658 029
Other programme-related expert services	28	422 247	341 603
Finance costs	23	3 124	3 342
Total expenses		**5 447 851**	**5 095 649**
Gains net	**24**	**56 692**	**10 553**
Net (deficit)		**(507 461)**	**(75 539)**

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

United Nations Children's Fund

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

(Thousands of United States dollars)

	2016	*2015*
Net assets as at 1 January	**4 631 026**	**4 468 435**
Actuarial (losses)/gains recognized directly in net assets	(39 717)	239 629
Changes in fair value of available-for-sale financial assets	9 924	(1 261)
End of transitional provision for property, plant and equipment	2 212	–
Prior-period adjustment		(238)
(Deficit) for the period	(507 461)	(75 539)
Net assets as at 31 December	**4 095 984**	**4 631 026**

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

United Nations Children's Fund

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

(Thousands of United States dollars)

	2016	*2015*
Cash flows from (used in) operating activities		
Net (deficit)	(507 461)	(75 539)
Adjustments to reconcile (deficit)/surplus to net cash flows		
Depreciation and amortization	26 623	22 587
Gain on sale or disposal of property and equipment	(2 166)	(2 267)
Unrealized loss/(gain) on foreign exchange	19 451	(12 920)
Impairments, write-offs	12 546	10 924
Investment revenue	(51 911)	(35 032)
Revenue adjustments	118 413	90 417
Contributions in kind — net	(26 296)	(14 620)
Actuarial (loss)/gain	(39 717)	239 629
Other adjustments	(54 804)	(71 335)
Changes in assets		
Decrease in inventories	64 308	26 120
Decrease in contributions receivable	92 862	59 051
(Increase)/decrease in other receivables	(108)	6 284
Decrease/(increase) in advances from cash assistance	8 616	(80 618)
Decrease in other assets	243 828	67 620
Changes in liabilities		
(Decrease)/increase in accounts payable	(64 919)	51 942
Increase in deferred revenue	272 082	27 005
(Decrease)/increase in funds held on behalf of third parties	(130 240)	40 121
Increase/(decrease) in employee benefit liabilities	100 032	(162 052)
(Decrease) in provisions	(7 779)	(4 642)
(Decrease) in other liabilities	(30 973)	(85 160)
Net cash used in operating activities	**42 387**	**97 515**
Cash flows from (used in) investing activities		
Purchases of investments	(4 768 976)	(6 137 047)
Maturities and sale of investments	4 977 045	5 313 002
Investment revenue	34 206	23 157
Purchases of property and equipment	(28 574)	(27 498)
Proceeds on sale of property and equipment	2 504	2 628
Purchases of intangible assets	(347)	(2 134)
Disposals of intangible assets	(28)	-
Net cash used in investing activities	**215 830**	**(827 892)**
Cash flows used in financing activities		
CERF Central Emergency Response Fund loan	8 000	-
Payment of finance lease liabilities	(6 729)	(6 734)
Net cash used in financing activities	**1 271**	**(6 734)**
Effect of exchange rate changes on cash and cash equivalents	6 272	18 095
Net increase/(decrease) in cash and cash equivalents	**265 760**	**(719 016)**
Cash and cash equivalents		
Beginning of year	867 768	1 586 784
End of year	1 133 528	867 768

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

United Nations Children's Fund

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

(Thousands of United States dollars)

	Note	*Original budget*	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Country programme budgets					
Regular resources	5	793 494	825 023	815 018	10 005
Other resources: regular	5	1 734 655	2 008 940	1 932 914	76 026
Total		**2 528 149**	**2 833 963**	**2 747 932**	**86 031**
Other resources: emergency	5	**1 314 817**	**1 809 333**	**1 712 755**	**96 578**
Emergency (regular resources)		**35 000**	**13 663**	**13 663**	**-**
Global and regional programmes					
Regular resources		46 941	55 499	48 977	6 522
Other resources: regular		134 000	156 406	131 412	24 994
Total		**180 941**	**211 905**	**180 389**	**31 516**
Institutional budget					
Development effectiveness		147 122	162 395	135 447	26 948
Management		390 951	391 079	318 515	72 564
Special purpose		24 901	33 084	23 058	10 026
United Nations development coordination		9 338	7 482	7 125	357
Total		**572 312**	**594 040**	**484 145**	**109 895**
Private Fundraising and Partnerships budget		**148 768**	**133 680**	**131 421**	**2 259**
Grand total		**4 779 987**	**5 596 584**	**5 270 304**	**326 280**

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

United Nations Children's Fund
Notes to the 2016 financial statements

Note 1
Reporting entity

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

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

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

Note 2
Statement of approval of the Executive Director

1. The financial statements were certified by the Comptroller on 31 March 2017 as required by the UNICEF Financial Regulations and Rules, and transmitted for issue by the Executive Director on 31 May 2017.

Note 3
Basis of preparation

A. Basis of measurement

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

(a) Assets acquired through non-exchange transactions that are initially measured at fair value;

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

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

B. Foreign currency translation

Functional and presentation currency

3. Items included in the financial statements are measured using the currency of the primary economic environment in which an entity operates ("the functional

currency"). The functional and presentation currency of UNICEF is the United States dollar.

Transactions and balances

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

C. Use of estimates and critical judgments

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

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

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

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

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

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

D. Change in accounting estimates

8. UNICEF conducted the annual review of useful lives of assets at the year-end 31 December 2016. As a result of this review exercise, the useful life of transportation equipment will change from 5 to 8 years; and the useful life of communication and technology equipment will change from 5 to 10 years. Temporary buildings will be divided into prefabricated buildings: storage (estimated useful life of 10 years) and prefabricated buildings: offices/accommodation (estimated useful life of 25 years) as evidence suggests that the useful lives of these assets are significantly different.

9. In accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors, the change in accounting estimate will be applied prospectively effective 1 January 2017 and no restatement of comparative amounts will be performed for prior-year periods.

E. Future accounting changes

10. The International Public Sector Accounting Standards Board has published IPSAS 39: Employee benefits and impairment of revalued assets (amendments to IPSAS 21 and IPSAS 26). IPSAS 39: Employee benefits will replace IPSAS 25: Employee benefits on 1 January 2018 with earlier application encouraged. Initial assessment of the impact of the new IPSAS has been carried out and the impact is not likely to significantly affect the Fund's financial statements.

F. Capitalization of assets under transitional provision

11. UNICEF capitalized all assets that were under transitional provisions provided for under IPSAS 17: Property, plant and equipment as at 1 January 2016. This resulted in the addition of approximately 6,000 individual assets with a total carrying value of $2.21 million to property and equipment in 2016 (refer to note 12, Property and equipment and note 20, Net assets). Included are approximately 5,000 fully depreciated assets still in use.

G. Adoption of new accounting standards

12. UNICEF has adopted IPSAS 36: Investments in associates and joint ventures, IPSAS 37: Joint arrangements and IPSAS 38: Disclosure of interests in other entities in these financial statements. The adoption of these standards has not had a significant impact.

Note 4
Significant accounting policies

Financial assets

1. UNICEF classifies financial assets into the following categories: financial assets at fair value through surplus or deficit; loans and receivables; and available-for-sale financial assets. The designation depends on the purpose for which the financial assets are acquired and is determined at initial recognition. In 2016, UNICEF engaged an external investment manager to manage the after-service health insurance funds set aside in the after-service health insurance reserve, with the objective of earning returns that would contribute to the long-term funding of the after-service health insurance liability (see note 10, Investments). Financial assets in the externally managed portfolio follow the same accounting treatment as existing financial instruments. UNICEF does not classify any financial assets as held-to-maturity.

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

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

Financial assets at fair value through surplus or deficit

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

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

5. Furthermore, UNICEF holds foreign exchange forward contracts (free-standing derivatives) which are valued with reference to the prevailing United Nations operational rate of exchange. UNICEF uses derivatives only to manage foreign exchange risk. These derivatives are contracted only with creditworthy

counterparties pre-approved by the UNICEF Financial Advisory Committee, which renders advice to the Comptroller on matters of investments of funds not needed for immediate requirements of UNICEF.

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

Loans and receivables

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

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

9. Unused transfers of cash assistance due from implementing partners represent the Fund's claims to the unused cash assistance funds remaining with implementing partners after the completion or termination of a project. They are recorded as "other receivables" and are recovered from implementing partners.

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

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

Available-for-sale financial assets

12. Available-for-sale financial assets are non-derivative financial assets composed of traded bonds (both internally and externally managed) and externally managed equities and investment funds. They are initially recorded at fair value and subsequently are reported at fair value, with any resultant fair value gains or losses recognized directly in net assets except for impairment losses, foreign currency exchange differences and interest calculated using the effective-interest method. When an available-for-sale financial asset is de-recognized, the gain or deficit accumulated in net assets is reclassified as surplus or deficit.

13. Interest on available-for-sale fixed income investments and dividends on available-for-sale equity investments are recognized in the statement of financial performance during the period earned and when the right to receive the dividend payments is established, respectively.

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

Impairment of financial assets — assets carried at amortized cost

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

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

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

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

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

Impairment of financial assets — assets classified as available for sale

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

Advances of cash assistance to implementing partners

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

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

Inventory

23. Inventory held for programme distribution, such as programme supplies, is stated at the lower of cost or current replacement cost. Cost is determined using a weighted average cost formula.

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

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

Property and equipment

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

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

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

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

30. Estimated useful lives are calculated as follows:

• Buildings	50 years
• Temporary buildings	10-25 years
• Communications and information technology equipment	5 years
• Transportation equipment	5 years
• Furniture, fixtures and other equipment	10 years
• Leasehold and land improvements	Shorter of the lease term or remaining useful life of the asset

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

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

Intangible assets

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

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

Impairment of non-cash generating assets

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

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

Financial liabilities

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

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

38. Accounts payable and accruals arising from the purchase of goods and services are recognized when supplies are delivered or services consumed. Liabilities are stated at the invoice amounts, less the payment discounts if eligible at the reporting date. Where invoices are not available at the reporting date, the liability is estimated

and recorded. Financial liabilities measured at amortized cost, due within 12 months of the date of the statement of financial position, are classified as current liabilities. Otherwise, they are classified as non-current liabilities (see note 14, Accounts payable and accrued liabilities, note 16, Funds held on behalf of third parties, and note 17, Other liabilities).

39. Forward exchange contracts in a loss position are classified as held for trading. Financial liabilities held for trading are initially recorded at fair value, with any subsequent realized and unrealized gains or losses recognized in the statement of financial performance. Transaction costs are expensed as they are incurred. At year-end, the balance of forward exchange contracts in loss is closed out. If they are not closed out, derivatives with a negative fair value are reported as derivative instruments within other current liabilities in the statement of financial position.

Funds held on behalf of third parties

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

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

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

Employee benefits

43. UNICEF recognizes the following categories of employee benefits:

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

Short-term employee benefits

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

Post-employment benefits

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

Defined-contribution plan

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

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

Defined-benefit plans

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

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

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

Other long-term employee benefits

51. Other long-term employee benefits obligations are those that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits comprise home leave and compensation for death and

injury attributable to the performance of duties. These obligations are valued periodically using a qualified actuary.

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

Termination benefits

53. Termination benefits are recognized as an expense only when UNICEF is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to reduce redundancy. Termination benefits, if settled within 12 months, are reported at the amount expected to be paid; otherwise, they are reported at present value of the estimated future cash outflows.

Leases

54. UNICEF leases certain property and equipment. Leases of property and equipment where UNICEF substantially assumes all the risks and rewards of ownership are classified as finance leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

56. Each finance lease payment is allocated between the finance lease liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense under other expenses in the statement of financial performance over the term of the lease in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in finance-lease and other liabilities (see note 17, Other liabilities).

57. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of incentives received from the lessor, if any) are recognized on a straight-line basis under other operating expenses in the statement of financial performance over the period of the lease (see note 27, Other expenses).

Provisions

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

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

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

Revenue recognition

Voluntary contributions

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

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

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

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

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

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

67. For earmarked contributions (other resources):

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

(b) Where the agreement has no performance clause (e.g., the United States Agency for International Development), the revenue is recognized when the funds are received;

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

68. For earmarked contributions with a condition attached, UNICEF recognizes an asset (cash or receivable) and a liability (contributions received in advance or deferred revenue) at the earlier of cash received or formal written acknowledgement/agreement of the contribution to be provided (unless the contribution specifies a later start date). The liability is reduced and revenue is recognized only when conditions have been satisfied. For such agreements of short-term duration, which is defined as agreements with a start date during the current year and with an expiry date either in the same year or in the subsequent year, the revenue is recognized in the year the funds are due. For such agreements of long-term duration, UNICEF seeks to recognize revenue in the same period as programmatic activities are being carried out. Most agreements include a payment plan and therefore the payment due date is used as a proxy for identifying the period in which the programmatic activities are being carried out. For certain donors, however, it is not practical to use the payment due date as a proxy and therefore, for those donors, revenue is recognized in the same period in which expenditure is recorded. Lastly, for all other long-term agreements with a value of more than $20 million that do not have a payment schedule, each agreement is reviewed for indications of when the programmatic activities are likely to take place and revenue is recognized accordingly.

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

70. Revenue from voluntary contributions is shown net of:

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

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

Pledges

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

Contributions in kind

72. UNICEF receives contributions of office space and other facilities from Member States. These contributions, as well as in-kind contributions of goods, are initially measured and recorded at their fair value at the date of receipt. The fair value of these non-monetary assets is determined by reference to observable market values

or by independent appraisal. The revenue and the corresponding expense are recorded in the statement of financial performance as part of voluntary contributions.

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

Revenue from exchange transactions

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

75. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met for each of the type of activities described below:

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

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

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

(d) Licensing income is recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to UNICEF, and the amount of revenue can be measured reliably (see note 21, Revenue from voluntary contributions, and note 22, Other revenue).

Recognition of expenses

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

Transfers of cash assistance and programme supplies

77. In fulfilling its mandate, UNICEF transfers cash and programme supplies to governments, non-governmental organizations and other third parties ("implementing partners"). In the case of transferred supplies, an expense is recorded when the control of goods is transferred to an implementing partner. Transfers of cash assistance are initially reported as an advance on the statement of financial position where there are performance obligations imposed on the implementing partner, and are expensed when UNICEF is satisfied that those performance obligations are met. An accrual against advances is recorded at year-end for expenses incurred by implementing partners reported to but not processed by UNICEF (see note 8, Advances of cash assistance, and note 25, Transfer of programme supplies and cash assistance).

Commitments

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

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

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

(c) Cash transfers to implementing partners;

(d) Other non-cancellable commitments.

Contingencies

Contingent assets

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

Contingent liabilities

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

Segment reporting

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

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

Budget

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

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

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

86. The institutional budget is also broken down by cost classification, which comprises the following categories as disclosed in statement V:

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

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

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

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

87. An original budget as defined by IPSAS is "the initial approved budget for the budget period". Multi-year budgets need to be broken into annual allocations in order to identify the original budget for each year. Automatic carryovers of unused budgets form part of the original budget for the subsequent year.

88. The Executive Board approved the use of the Emergency Programme Fund to pre-finance urgent humanitarian actions when contributions have not yet been made by donors but are expected to be raised through emergency appeals. The Emergency Programme Fund approval from the Executive Board gives UNICEF the authority to allot up to $35 million for emergencies. For UNICEF, within the context of statement V, the original annual budget is:

(a) The amount originally approved or, if multi-year budget, allocated to the financial year;

(b) Any residual budgets (appropriation) that have been automatically carried over from prior years.

The other resources emergency original budget is based on the planned financial estimates of expected resources available for the following year.

The final budget is defined as:

(a) The original budget as defined above;

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

The other resources emergency final budget represents the budgets issued on the basis of donor emergency contributions and any residual budgets that have been carried forward from prior years.

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

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

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

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

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

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

Note 5
Comparison to budget

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Exchange rate changes*	*2016*	*2015*
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(5 270 304)	–	–	–	(5 270 304)	(5 111 654)
Basis differences	559 233	215 830	1 271	–	766 334	(675 135)
Exchange rate changes on cash and cash equivalents	–	–	–	6 272	6 272	18 095
Entity differences	(130 240)	–	–	–	(130 240)	40 121
Presentation differences	4 883 698	–	–	–	4 883 698	5 009 557
Net cash flows from the statement of cash flows	**42 387**	**215 830**	**1 271**	**6 272**	**265 760**	**(719 016)**

2. Statement V documents the various budgets to the actual amounts incurred against them. Both budgets and actuals (cash and budgetary commitments) are calculated on the same modified cash basis. Explanations of material differences between the original and the final budgets as well as between final budgets and actual amounts are presented in the financial overview for the year ended 31 December 2016.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	2016	*2015*
Cash at bank and on hand — convertible	197 157	164 134
Cash at bank and on hand — non-convertible	32 378	19 972
Cash at bank in money market demand accounts	115 224	157 542
Term deposits and other (90 days or less)	788 769	526 120
Total cash and cash equivalents	**1 133 528**	**867 768**

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

2. Included within the UNICEF cash balances is $5.69 million (2015: $nil) of cash managed by the external investment manager for the after-service health insurance investment portfolio.

Note 7
Contributions receivable and other receivables

A. Contributions receivable

(Thousands of United States dollars)

	Governments and intergovernmental agencies	*Inter-organizational arrangements*	*National Committees*	*Other organizations*	*2016*	*2015*
Gross current receivables						
Unearmarked — regular resources	24 312	73	237 455	–	261 840	216 381
Earmarked — other resources	954 482	24 009	103 821	29 152	1 111 464	1 315 313
Total current contributions receivable	**978 794**	**24 082**	**341 276**	**29 152**	**1 373 304**	**1 531 694**
Gross non-current receivables						
Unearmarked — regular resources	5 524	–	680	–	6 204	3 439
Earmarked — other resources	575 940	5 205	20 000	7 170	608 315	545 551
Total non-current contributions receivable	**581 464**	**5 205**	**20 680**	**7 170**	**614 519**	**548 990**
Total contributions receivable	**1 560 258**	**29 287**	**361 956**	**36 322**	**1 987 823**	**2 080 684**

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

B. Other receivables

(Thousands of United States dollars)

	2016	*2015*
Current other receivables		
Receivables from licensing cards and products	3 214	6 666
Value-added tax receivables	24 371	16 353
Receivables from staff members	6 228	4 887
Receivables from other United Nations agencies	11 825	4 010
Unused transfers of cash assistance due from implementing partners	1 271	1 919
Other	866	8 628
Impairment	(7 644)	(2 379)
Total current other receivables	**40 131**	**40 084**
Non-current other receivables	**1 406**	**1 345**
Total other receivables	**41 537**	**41 429**

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

Note 8
Advances of cash assistance

(Thousands of United States dollars)

	2016	*2015*
Advances of cash assistance by region		
Central and Eastern Europe and Commonwealth of Independent States	45 363	33 167
East Asia and the Pacific	33 216	38 958
Eastern and Southern Africa	157 072	178 341
Latin America and the Caribbean	28 742	21 083
Middle East and North Africa	201 743	190 359
South Asia	82 995	83 974
Western and Central Africa	205 049	216 234
Transfers to United Nations agencies and other organizations at Headquarters	5 877	4 803
Adjustment	(8 800)	(7 046)
Total advances of cash assistance by region	**751 257**	**759 873**

1. The adjustment included in the above table represents an accrual for where implementing partners have incurred valid expenses as at 31 December 2016 and reports had been received but not processed by UNICEF at the reporting date.

Note 9
Inventories

(Thousands of United States dollars)

	2016	*2015*
Programme supplies held in UNICEF-controlled warehouses	237 985	279 218
Programme supplies in transit	100 332	132 310
Programme construction in progress	30 085	21 183
Total inventories	**368 402**	**432 711**

Note 10
Investments

(Thousands of United States dollars)

	2016	*2015*
Current investments		
Term deposits (greater than 90 days)	1 837 921	2 349 732
Traded bonds	633 932	206 122
Structured deposits	13 478	20 046
Forward exchange contracts in gain	65 087	–
Equities	130 944	–
Total current investments	**2 681 362**	**2 575 900**
Non-current investments		
Traded bonds	776 248	1 089 779
Total non-current investments	**776 248**	**1 089 779**
Total investments	**3 457 610**	**3 665 679**

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

2. During the year, UNICEF started investing funds held in reserves for after-service health insurance liabilities with external fund managers. Included in the investments are $78.62 million (2015: $nil) in bonds; $130.94 million (2015: $nil) in equities; and $ 65.09 million (2015: $nil) in forward exchange contracts in gain related to these externally managed funds.

Note 11
Other assets

(Thousands of United States dollars)

	2016	*2015*
Current other assets		
Education grant advances to staff members	12 255	11 511
Prepaid expenses and other assets	31 095	149 115
Other procurement services-related assets	435 897	522 002
Promissory notes	–	8 437
Other assets – externally managed portfolio	730	–
Total current other assets	**479 977**	**691 065**
Non-current other assets		
Promissory notes	–	32 690
Other assets	1 867	1 917
Total non-current other assets	**1 867**	**34 607**
Total other assets	**481 844**	**725 672**

1. Prepaid expenses and other assets are mainly composed of advances to vendors. Included is $2.49 million (2015: $nil) in certified bank checks acquired as per the terms of the agreement to purchase office property in Santiago, and left in the possession of a notary pending certain conditions being met by the seller. This prepayment, amounting to 100 per cent of the purchase price, was released to the seller in March 2017 in exchange for the property title documents and physical handover of the property.

2. Other procurement services assets of $435.90 million (2015: $522.00 million) represent partner funds for procurement services for which UNICEF has sole drawing rights, based on the terms of the agreements. A corresponding liability is included in note 16, Funds held on behalf of third parties and note 17, Other liabilities until UNICEF has fulfilled its obligations as agent of the partner.

3. In previous years, UNICEF entered into secured promissory note agreements with a related party to facilitate the procurement services process on long-term arrangements. The outstanding principal amount of the notes for 2016 is $nil (2015: $41.13 million).

Note 12
Property and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Leasehold improvements*	*Furniture, fixtures and equipment*	*Infrastructure, information technology and communications equipment*	*Office information technology and computer equipment*	*Transportation equipment*	*Total 2015*
Cost								
Balance as at 1 January	83 712	94 000	10 674	11 817	17 275	10 096	29 025	256 599
Additions[a]	–	4 145	3 888	4 059	3 099	2 366	12 139	29 696
Disposals, transfers and adjustments[a]	(2 615)	(383)	–	(4 885)	(2 677)	(4 927)	(866)	(16 352)
Balance as at 31 December	**81 097**	**97 762**	**14 562**	**10 991**	**17 697**	**7 535**	**40 298**	**269 943**
Accumulated depreciation								
Balance as at 1 January	–	13 881	1 443	5 913	9 240	5 913	7 761	44 151
Depreciation	–	5 054	1 339	1 694	2 723	2 148	7 224	20 182
Impairment adjustment[a]	–	76	27	–	–	–	547	650
Disposal adjustment[a]	–	(53)	–	(3 242)	(1 219)	(2 465)	(553)	(7 532)
Balance as at 31 December	**–**	**18 958**	**2 809**	**4 365**	**10 744**	**5 596**	**14 979**	**57 451**
Carrying value as at 31 December	**81 097**	**78 804**	**11 753**	**6 626**	**6 953**	**1 940**	**25 319**	**212 492**

[a] Reflects regrouping of balances in order to improve the presentation and understanding of financial statements.

(Thousands of United States dollars)

	Land	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Infrastructure, information technology and communications equipment	Office information technology and computer equipment	Transportation equipment	Total 2016
Cost								
Balance as at 1 January	81 097	97 762	14 562	10 991	17 697	7 535	40 298	269 943
Capitalization of pre-2012 assets	–	1 787	–	8 324	15 856	6 415	40 942	73 324
Restated balance as at 1 January	81 097	99 549	14 562	19 315	33 553	13 950	81 240	343 267
Additions	–	6 090	3 358	3 014	2 940	1 770	13 902	31 074
Disposals	–	(42)	–	(758)	(749)	(352)	(545)	(2 447)
Balance as at 31 December	**81 097**	**105 597**	**17 920**	**21 571**	**35 744**	**15 368**	**94 597**	**371 894**
Accumulated depreciation								
Balance as at 1 January	–	18 958	2 809	4 365	10 744	5 596	14 979	57 451
Capitalization of pre-2012 assets	–	975	–	8 018	15 519	6 415	40 185	71 112
Restated balance as at 1 January	–	19 933	2 809	12 383	26 263	12 011	55 164	128 563
Depreciation	–	5 369	1 939	2 346	3 048	1 422	10 285	24 409
Impairment adjustment	–	144	2	14	5	2	650	817
Disposal adjustment	–	(19)	–	(268)	(615)	(222)	(456)	(1 580)
Balance as at 31 December	**–**	**25 427**	**4 750**	**14 475**	**28 701**	**13 213**	**65 643**	**152 209**
Carrying value as at 31 December	**81 097**	**80 170**	**13 170**	**7 096**	**7 043**	**2 155**	**28 954**	**219 685**

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

2. Included within buildings are $4.05 million (2015: $3.39 million) in construction, renovation and security enhancements costs in progress.

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

(Thousands of United States dollars)

	2016	*2015*
Land	80 000	80 000
Buildings	57 903	60 589
Total	**137 903**	**140 589**

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

5. The Three United Nations Plaza complex is recorded on the statement of financial position at its estimated fair value as at the date of the adoption of IPSAS. The annual lease payments of $6.73 million (2015: $6.73 million), exclusive of operating expense escalations, are allocated between the finance charges and the repayment of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the obligation. While the building and plaza are depreciated over their remaining useful lives, the underlying land is not depreciated. Finance charges on the Three United Nations Plaza complex are recorded within finance costs while depreciation expense on the building and plaza are recorded within depreciation and amortization expense in the statement of financial performance.

6. UNICEF has approximately 700 operating lease agreements for land, office, warehouse and residential space. The majority of lease agreements are under commercial terms. In 2016, approximately 190 agreements were for space provided to UNICEF by host governments on a free-of-charge basis, for which fair value of annual rent was estimated and recognized as an expense of $22.25 million (2015: $22.51 million) as well as in-kind contributions revenue (see note 21, Revenue from voluntary contributions). Rent for all operating leases is reported within rental and leasing expense (see note 27, Other expenses).

Note 13
Intangible assets

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licences and copyrights*	*Intangibles under development*	*Total 2015*
Cost					
Balance as at 1 January	1 081	10 439	16	223	11 759
Additions	552	–	28	1 698	2 278
Transfers	–	362	–	(362)	–
Disposal	(42)	–	(11)	–	(53)
Balance as at 31 December	**1 591**	**10 801**	**33**	**1 559**	**13 984**
Amortization					
Balance as at 1 January	299	3 574	1	–	3 874
Amortization	261	2 139	5	–	2 405
Impairment adjustment	34	–	–	–	34
Disposals	(6)	–	–	–	(6)
Balance as at 31 December	**588**	**5 713**	**6**	**–**	**6 307**
Carrying value as at 31 December	**1 003**	**5 088**	**27**	**1 559**	**7 677**

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licences and copyrights*	*Intangibles under development*	*Total 2016*
Cost					
Balance as at 1 January	1 591	10 801	33	1 559	13 984
Additions	112	–	4	250	366
Transfers	17	1 611	(17)	(1 611)	–
Disposals	(25)	–	(4)	–	(29)
Balance as at 31 December	**1 695**	**12 412**	**16**	**198**	**14 321**
Amortization					
Balance as at 1 January	588	5 713	6	–	6 307
Amortization	337	1 875	2	–	2 214
Disposals	(3)	–	–	–	(3)
Balance as at 31 December	**922**	**7 588**	**8**	**–**	**8 518**
Carrying value as at 31 December	**773**	**4 824**	**8**	**198**	**5 803**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2016	*2015*
Accounts payable	146 690	169 775
Accrued liabilities	118 197	160 031
Total accounts payable and accrued liabilities	**264 887**	**329 806**

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

Note 15
Deferred revenue

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

(Thousands of United States dollars)

	2016	*2015*
Contributions received in advance of a specified period	**42 488**	**28 411**
Deferred revenue		
Balance as at 1 January	1 533 306	1 533 698
Additions	1 461 465	2 085 102
Revenue recognized	(1 203 459)	(2 085 494)
Balance as at 31 December	**1 791 312**	**1 533 306**
Total	**1 833 800**	**1 561 717**

(Thousands of United States dollars)

	2016	*2015*
Current portion	1 218 950	1 013 407
Long-term portion	614 850	548 310
Total	**1 833 800**	**1 561 717**

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance as at 1 January 2016	*Funds received*	*Funds disbursed*	*Movement of accruals*	*Balance as at 31 December 2016*
Procurement services					
Governments	333 314	476 086	(483 315)	–	326 085
Inter-organizational arrangements	66 236	100 785	(136 958)	–	30 063
Non-governmental organizations	538 561	1 026 160	(1 146 671)	–	418 050
National Committees	1	52	(54)	–	(1)
Other arrangements					
Others	30 866	164 569	(141 990)	–	53 445
Accruals	(20 838)	–	–	11 096	(9 742)
Total funds held on behalf of third parties	**948 140**	**1 767 652**	**(1 908 988)**	**11 096**	**817 900**

1. UNICEF undertakes procurement services for governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. Funds are received from or made available by procuring partners in advance to cover UNICEF commitments to suppliers and handling fees.

Note 17
Other liabilities

A. Other liabilities

(Thousands of United States dollars)

	2016	*2015*
Current other liabilities		
Unearned income	41 340	19 317
Forward exchange contracts	64 424	-
Finance lease liabilities	3 836	3 604
Other liabilities	13 333	14 664
Total current other liabilities	**122 933**	**37 585**
Non-current other liabilities		
Finance lease liabilities	44 309	48 144
Other liabilities	8 580	70 724
Total non-current other liabilities	**52 889**	**118 868**
Total other liabilities	**175 822**	**156 453**

1. The unearned income of $41.34 million (2015: $19.32 million) represents mainly the Fund's handling fees received in advance for managing trust fund activities.

2. The forward exchange contracts in loss at year-end of $64.42 million (2015: $nil) relate to externally managed after-service health insurance investments.

3. Current other liabilities include a Central Emergency Response Fund loan of $8 million (2015: $nil) granted by the United Nations Office for the Coordination of Humanitarian Affairs to support the crucial response to the cholera outbreak in Haiti.

4. Included in non-current other liabilities are agreements where UNICEF has committed to procure minimum order quantities for vaccines under firm long-term agreements of $8.58 million (2015: $70.72 million).

B. Reconciliation between the total undiscounted future minimum lease payments with present value and future finance charges

(Thousands of United States dollars)

	2016	*2015*
Undiscounted minimum lease payments		
Not later than one year	6 728	6 728
Later than one year and not later than five years	26 914	26 914
Later than five years	30 279	37 007
Total undiscounted minimum lease payments	**63 921**	**70 649**
Present value of minimum lease payments		
Not later than one year	3 836	3 604
Later than one year and not later than five years	17 966	16 883
Later than five years	26 342	31 262
Total present value of minimum lease payments	**48 144**	**51749**
Future finance charges	**15 777**	**18 900**

Note 18
Employee benefits liabilities

(Thousands of United States dollars)

	2016	2015
Current employee benefits liabilities		
Home leave	7 768	7 610
Annual leave	83 990	85 433
Other end-of-service entitlements	1 339	1 510
Other employee benefits	8 924	7 341
Total current employee benefits liabilities	**102 021**	**101 894**
Non-current employee benefits liabilities		
Home leave	1 626	792
Other end-of-service entitlements	106 181	105 049
After-service health insurance[a]	1 026 336	928 440
Other employee benefits	109	66
Total non-current employee benefits liabilities	**1 134 252**	**1 034 347**
Total employee benefits liabilities	**1 236 273**	**1 136 241**

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

A. Defined-benefit plans

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

2. The after-service health insurance plan provides worldwide coverage for the health-related expenses of eligible former staff members and their dependants. The liability represents the present value of the share of UNICEF medical insurance costs for retirees and post-retirement benefits accrued to date by active staff. It comprises three main arrangements: United States-based insurance plans, Switzerland-based insurance plans and the Medical Insurance Plan.

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

4. The after-service health insurance Medical Insurance Plan is presented with the after-service health insurance liability in the first table to this note. For further transparency, the Medical Insurance Plan portion of the liability is presented separately from the after-service health insurance liability in the tables below.

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

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

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

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

A.1 Movement in the value of the defined-benefit obligation

(Thousands of United States dollars)

Defined-benefit obligation	*After-service health insurance*	*End-of-service entitlements*	*Medical Insurance Plan*	*Death benefit*	*2016 total*	*2015 total*
Balance as at 1 January	604 011	98 283	324 429	2 883	1 029 606	1 190 745
Current service cost	22 888	8 861	14 609	201	46 559	54 864
Interest cost on benefit obligation	25 588	3 406	13 777	96	42 867	45 200
Actuarial losses/(gains) on benefit obligation	24 276	1 170	14 246	25	39 717	(239 629)
Benefits paid (net of participant contributions)	(12 375)	(10 760)	(5 112)	(327)	(28 574)	(21 574)
Balance as at 31 December	**664 388**	**100 960**	**361 949**	**2 878**	**1 130 175**	**1 029 606**

A.2 Contributions from the United Nations Children's Fund for each of the contributory defined-benefit plans

(Thousands of United States dollars)

UNICEF contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical Insurance Plan*	*Total*
2016 actual contributions	29 519	28 438	18 444	76 401
2015 actual contributions	28 241	27 743	17 378	73 362

A.3 Contributions from plan participants for each of the contributory defined-benefit plans

(Thousands of United States dollars)

Participant contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical Insurance Plan*	*Total*
2016 actual contributions	n/a	n/a	4 313	4 313
2015 actual contributions	n/a	n/a	4 206	4 206

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

A.4 Reserves as recognized in the statement of financial performance

(Thousands of United States dollars)

	After-service health insurance	*End-of-service*	*Medical Insurance Plan*	*Death benefit*	*2016*	*2015*
Current service cost	22 888	8 861	14 609	201	46 559	54 864
Interest cost on benefit obligation	25 588	3 406	13 777	96	42 867	45 200
Total expense included in surplus	**48 476**	**12 267**	**28 386**	**297**	**89 426**	**100 064**

A.5 Actuarial (gains)/losses recognized directly in net assets

(Thousands of United States dollars)

Actuarial (gains)/losses on benefit obligation	*After-service health insurance*	*End-of-service*	*Medical Insurance Plan*	*Death benefit*	*2016*	*2015*
Current period	24 276	1 170	14 246	25	**39 717**	**(239 629)**

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

A.6 Funding of reserves

(Thousands of United States dollars)

	2016	*2015*
Funding of reserves		
Actuarial liabilities recognized in the statement of financial position	1 130 175	1 029 606
Other liabilities and provisions recognized in the statement of financial position	89 680	92 789
Funding	(614 950)	(577 327)
Funding deficit	**(604 905)**	**(545 068)**

11. During 2016, UNICEF moved some of the after-service health insurance funds held to an external fund manager in conjunction with other United Nations agencies. See note 10, Investments for total investment amounts.

B. Actuarial valuation

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

13. UNICEF carries out full actuarial valuation on a biennial basis, with the last full valuation carried out as at 31 December 2015. The valuation as at 31 December 2016 was carried out on a roll-forward basis; therefore no updates were made to census data. The next formal, full valuation is expected to take place in 2017, as at 31 December 2017.

14. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in the table under paragraph 8 above as "(net of participant contributions)", are deducted from the obligation to determine the residual obligation borne by UNICEF. Retirees and active staff members participate in the same health-care plans. Their collective contributions are offset against the total cost of providing health care in accordance with the cost-sharing ratios approved by the General Assembly.

Actuarial assumptions

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

16. **Inflation rate.** The inflation rate is an economic indicator that measures the rate of increase of a price index. Under IPSAS 25: Employee benefits, assumptions such as the discount rate and the health-care cost trend should be based on the same underlying inflation assumption. An inflation assumption rate of 2.25 per cent (2015: 2.25 per cent) was used for the 31 December 2016 valuation. This inflation assumption rate is used as a proxy for the long-term inflation expectations 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

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

18. Based on the analysis for 2016, the single equivalent discount rate is 4.04 per cent as at 31 December 2016 (2015: 3.96 per cent), and a discount rate, rounding to the nearest 25 basis points, would equal 4 per cent (2015: 4.00 per cent).

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

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

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

B.1 Principal actuarial assumptions

	2016 (percentage)	2015 (percentage)
Discount rate		
Rate at 1 January	3.96	3.83
Rate at 31 December	4.04	3.96
Rate of inflation	2.25	2.25
Expected rate of medical cost increase		
Medical inside the United States[a,b]	6.40	6.40
2024 and onwards medical inside the United States[c]	4.50	4.50
United States dental[b]	4.90	4.90
2024 and onwards United States dental[c]	4.50	4.50
Expected rate of salary increases (declining from age 20 to age 60)	**9.60-4.50**	**9.60-4.50**

[a] United States medical Medicare (United States medical non-Medicare is slightly higher).
[b] Rates for the following respective year.
[c] For 2015, rate extended to 2024.

B.2 Current rates of death underlying the values of United Nations Children's Fund liabilities

	2016		2015	
Rate of death: pre-retirement	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00065	0.00906	0.00065	0.00906
Female	0.00034	0.00645	0.00034	0.00645

Rate of death: post-retirement	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00072	0.01032	0.00072	0.01032
Female	0.00037	0.00766	0.00037	0.00766

B.3 Rates of retirement for Professional staff with 30 or more years of service

	2016		2015	
Rate of retirement	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.25	0.80	0.25	0.80
Female	0.25	0.90	0.25	0.90

Sensitivity analysis

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

B.4 Potential impact of changes in key assumptions used in measuring defined-benefit obligations and benefit costs

(Thousands of United States dollars)

	After-service health insurance		*End of service*	*Medical Insurance Plan*		*Death benefit*
Sensitivity of assumptions (impact on)	*Obligation*	*Expense*	*Obligation*	*Obligation*	*Expense*	*Obligation*
Discount rate						
Impact of: 1 per cent increase	(112 236)	n/a	(9 808)	(64 222)	n/a	(203)
Impact of: 1 per cent decrease	143 795	n/a	10 763	85 187	n/a	228
Health-care cost trend rates						
Impact of: 1 per cent increase	147 011	15 020	n/a	86 681	9 405	n/a
Impact of: 1 per cent decrease	(114 045)	(11 140)	n/a	(66 254)	(6 917)	n/a

C. Multi-employer pension plans

23. UNICEF recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

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

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

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

27. The financial obligation of UNICEF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly, measured as

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

28. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 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 with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as of 31 December 2017.

29. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

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

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

32. During 2016, UNICEF contributions paid to the Pension Fund amounted to $149.69 million (2015: $144.27 million). Expected contributions due in 2017 are $157.30 million.

33. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Pension Fund website at www.unjspf.org.

Summary information about the plan is presented below.

C.1 Actuarial valuation of the United Nations Joint Staff Pension Fund

(Thousands of United States dollars)

	2015[a]
United Nations Joint Staff Pension Fund actuarial surplus	562 100
Surplus as a percentage of pensionable remuneration	0.16

[a] Most recent Pension Fund actuarial valuation.

C.2 Contributions to the United Nations Joint Staff Pension Fund

(Thousands of United States dollars)

	2016	*2015*
UNICEF contributions	149 687	144 271
Participants' contributions	75 020	72 451
Total contributions	**224 707**	**216 722**

Note 19
Provisions

(Thousands of United States dollars)

	For returns of unused funds	*Other provisions*	*Total*
Balance as at 1 January 2016	28 544	2 058	30 602
Increase in provision	2 927	27	2 954
Utilization during the period	(10 556)	(177)	(10 733)
Balance as at 31 December 2016	**20 915**	**1 908**	**22 823**

1. A provision is reported for unused funds to be returned to donors, as determined for all projects where the related grants have a return clause, and have financially expired in the reporting year in which the contribution agreements require the return of unused funds. UNICEF expects to settle the liability within 12 months from the reporting date.

Note 20
Net assets

(Thousands of United States dollars)

		IPSAS reserves		*Other reserves*							
	Accumulated surpluses	*Actuarial gain/(loss)*	*Investment revaluation*	*Procurement services*	*Insurance*	*After-service health insurance fund*	*Separation fund*	*Medical Insurance Plan fund*	*Capital assets fund*	*Total reserves*	*Total net assets*
Balance as at 1 January 2015	**4 008 649**	**(88 455)**	**(2 189)**	**2 000**	**115**	**390 092**	**65 929**	**83 179**	**9 115**	**459 786**	**4 468 435**
(Deficit)	(75 539)	–	–	–	–	–	–	–	–	–	(75 539)
Actuarial gains	–	239 629	–	–	–	–	–	–	–	239 629	239 629
Prior-period adjustments	(238)	–	–	–	–	–	–	–	–	–	(238)
Changes in fair value of available-for-sale financial assets	–	–	(1 261)	–	–	–	–	–	–	(1 261)	(1 261)
Transfers to/from the fund	(41 099)	–	–	–	–	21 318	7 199	9 609	2 973	41 099	–
Balance as at 31 December 2015	**3 891 773**	**151 174**	**(3 450)**	**2 000**	**115**	**411 410**	**73 128**	**92 788**	**12 088**	**739 253**	**4 631 026**
End of transitional provision — property, plant and equipment	2 212	-	-	-	-	-	-	-	-	-	2 212
Surplus/(deficit)	(509 984)	–	–	–	–	2 523	–	–	–	2 523	(507 461)
Actuarial (losses)	–	(39 717)	–	–	–	–	–	–	–	(39 717)	(39 717)
Changes in fair value of available-for-sale financial assets	–	–	9 924	–	–	–	–	–	–	9 924	9 924
Utilization of reserve	48 122	–	–	–	–	(9 900)	(23 730)	(7 670)	(6 822)	(48 122)	–
Transfers to/from the fund	(76 401)	–	–	–	–	29 519	28 438	18 444	–	76 401	–
Balance as at 31 December 2016	**3 355 722**	**111 457**	**6 474**	**2 000**	**115**	**433 552**	**77 836**	**103 562**	**5 266**	**740 262**	**4 095 984**

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

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

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

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

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

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

6. *Reserve for capital assets*. In 1990, the Executive Board approved the establishment of a capital asset reserve of $22.0 million from regular resources to improve control over future purchases of capital assets such as office buildings and staff housing in the field.

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

8. *Reserve for procurement services*. In 1993, the Executive Board approved the establishment of a reserve for procurement services of $2.0 million to absorb possible future shortfalls. The reserve was funded by the surplus of handling fees charged for each procurement request against staff and related expenses charged against such fees by the Supply Division.

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

10. *Reserve for insurance*. In 1950, the Executive Board approved the establishment of a reserve for insurance of $0.2 million to absorb losses of UNICEF programme supplies and equipment not covered by commercial insurance. This amount was funded by approved freight allocations.

Note 21
Revenue from voluntary contributions

A. Voluntary contributions

(Thousands of United States dollars)

	2016	*2015*
Voluntary cash contributions		
Governments and intergovernmental agencies	2 905 011	2 894 306
Inter-organizational arrangements	347 520	435 741
National Committees	1 146 955	1 117 140
Others	284 966	391 006
Total voluntary cash contributions	**4 684 452**	**4 838 193**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	64 782	55 955
National Committees	2 629	6 620
Others	8 366	11 603
Total voluntary in-kind contributions	**75 777**	**74 178**
Total voluntary contributions	**4 760 229**	**4 912 371**
Less: returns to donors of unused contributions	(2 928)	(9 019)
Total voluntary contributions (net)	**4 757 301**	**4 903 352**

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

National Committees

2. The voluntary cash contribution revenue of $1,146.96 million (2015: $1,117.14 million) from National Committees represents the net contributions that the Committees have approved for transfer to UNICEF. Total contributions received by the National Committees during the year, excluding proceeds from licensing cards and products, were $1,483.24 million (2015: $1,450.78 million). Of that amount, $336.28 million (2015: $333.64 million) was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 34, Related parties below for additional information on the relationship between UNICEF and the National Committees).

In-kind contributions

3. In-kind contributions comprise contributions received as goods. Major types of goods received include resilience supplies, ready-to-use therapeutic food; and supplies to support and provide shelter, at a total value of $75.78 million (2015: $74.18 million). In-kind contributions also include rights to use assets such as land and buildings valued at $22.25 million (2015: $22.51 million).

B. Classification of voluntary contributions

(Thousands of United States dollars)

	2016	*2015*
Earmarked/unearmarked classification of voluntary contributions		
Regular resources	1 182 821	1 066 514
Foreign exchange gains/(losses)	3 144	947
Total regular resources (net)	**1 185 965**	**1 067 461**
Other resources — regular	1 980 214	2 141 805
Foreign exchange losses	(47 442)	(86 403)
Total other resources — regular (net)	**1 932 772**	**2 055 402**
Other resources — emergency	1 662 510	1 788 697
Foreign exchange losses	(23 946)	(8 208)
Total other resources — emergency (net)	**1 638 564**	**1 780 489**
Total voluntary contributions (net)	**4 757 301**	**4 903 352**

Note 22
Other revenue

(Thousands of United States dollars)

	2016	*2015*
Procurement services	45 355	41 549
Warehouse goods transfers revenue	10 786	7 154
Miscellaneous revenue	13 369	13 670
Licensing income	4 976	8 591
Gross proceeds from sale of greeting cards and products	–	210
Total revenue from greeting cards and products	**74 486**	**71 174**

1. UNICEF undertakes procurement services for governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. Procurement services commitments to governments and other development partners totalling $1,707.00 million (2015: $1,750.00 million) were made in 2016.

2. UNICEF recognized revenue of $45.35 million (2015: $41.55 million) related to management of procurement services. The direct expenses and other charges related to management of procurement services total $34.60 million (2015: $35.01 million), largely composed of salaries and wages, which are included as part of disclosed amounts in note 26, Employee benefits and note 35, Segment information.

3. The warehouse goods transfers revenue of $10.79 million (2015: $7.15 million) is related to reimbursement of direct sales of goods to third parties from the warehouse in Denmark. A further $10.02 million (2015: $6.63 million) in expenses related to the direct sale of goods to third parties from the warehouse in Denmark is disclosed separately in note 27, Other expenses.

4. Through the licensing of the UNICEF brand, UNICEF generates additional funds for programmes of cooperation in developing countries. Proceeds from licensing are accrued on the basis of revenue and expenditure reports received at year-end. In 2016, the total revenue was $4.98 million (2015: $8.59 million).

Note 23
Investment revenue and finance costs

(Thousands of United States dollars)

	2016	*2015*
Investment revenue	51 911	35 031
Total investment revenue	**51 911**	**35 031**

1. UNICEF generated $51.91 million (2015: $35.03 million) in investment revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities and bank accounts. This includes returns earned from the externally managed after-service health insurance funds of $2.32 million (2015: $nil).

2. Finance costs of $3.12 million (2015: $3.34 million) relating to finance lease obligations were incurred in the year.

Note 24
Net gains and losses

A. Net gains and losses

(Thousands of United States dollars)

	2016	*2015*
Net foreign exchange gains	51 724	8 286
Net fair value gains and losses on:		
Investments	2 803	–
Net gains on sale of property, plant and equipment	2 165	2 265
Other gains	–	2
Total net gains	**56 692**	**10 553**

B. Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*2016*	*2015*
Gains	4 137	70 984	75 121	78 062
Losses	(16 247)	(7 150)	(23 397)	(69 776)
		63 834		
Total net (losses)/gains	**(12 110)**		**51 724**	**8 286**

1. In addition to the above, a realized foreign exchange loss of $53.97 million (2015: loss of $101.96 million) and an unrealized loss of $14.28 million (2015: gain of $8.30 million) mostly related to other resources receivables are included within voluntary contributions in note 21, Revenue from voluntary contributions above, in accordance with the UNICEF Financial Regulations and Rules.

Note 25
Transfer of programme supplies and cash assistance

(Thousands of United States dollars)

	2016	*2015 Restated*
Cash assistance		
Transfers of cash to implementing partners	1 903 946	1 786 676
Co-funding activities	56 880	26 550
Jointly financed activities	9 056	23 299
Subtotal	**1 969 882**	**1 836 525**
Movement in accrual	1 754	(70 151)
Total transfers of cash assistance	**1 971 636**	**1 766 374**
Programme supplies		
Transfers of programme supplies	1 139 096	1 117 931
Total transfers of programme supplies	**1 139 096**	**1 117 931**
Transfers of cash assistance and programme supplies	**3 110 732**	**2 884 305**

1. Movement in accrual represents accrued expenses at year-end to account for implementing partners that have incurred valid expenses where the reports have been submitted by the reporting date but for which UNICEF has not yet processed the reports. The movement in accrual for expenses incurred for which the reports have not been submitted was discontinued in 2015. In 2016, this accrual was processed at regional levels rather than at a consolidated level to ensure accurate reporting of expenses by region, which is reflected in note 35, Segment information.

2. In 2016, freight costs of $64.84 million (2015: $85.02 million) were included in the transfers of programme supplies in line with policy (see note 4, para. 24). In prior years, freight costs were classified as distribution costs and reflected in note 27, Other expenses. For comparison purposes, the 2015 freight costs have been reflected in this note.

3. The regional split of expenses relating to transfers of cash assistance and programme supplies is reflected in note 35, Segment information.

Note 26
Employee benefits

(Thousands of United States dollars)

	2016	*2015*
Salaries and wages	736 472	712 363
Contribution to the United Nations Joint Staff Pension Fund	149 687	144 271
Increase in after-service health insurance expenses	45 975	49 645
Increase in other post-employment employee liabilities	12 029	10 910
Increase in other long-term employee benefits liabilities	18 573	18 006
Other personnel expenses	245 119	250 589
Total employee benefits	**1 207 855**	**1 185 784**

Note 27
Other expenses

(Thousands of United States dollars)

	2016	2015 Restated
Media production services	24 543	19 138
Advertising, promotion and public relations	6 909	5 478
Printing, binding, editing and translation	16 201	14 289
Management and operational services	49 583	48 637
Warehousing and logistical services	39 792	39 363
Personnel support	15 589	16 084
External audit	1 171	1 084
Travel	140 156	150 368
Distribution	25 921	26 311
Rental and leasing	86 232	80 908
Retentions commissions and cost of greeting cards and products	206	2 526
Repairs and other maintenance	31 832	32 859
Supplies and materials	39 159	45 685
Investment funds for market development	44 017	38 922
Communication	19 499	20 824
Other operating expenses	86 303	69 241
Write-offs and inventory shortages	3 678	11 164
Utilities	17 275	17 882
Warehouse goods transfers expenses (note 22)	10 016	6 627
Professional development	7 030	8 026
Insurance	3 289	2 853
Impairment loss	8 869	(241)
Total other expenses	**677 270**	**658 029**

1. For 2016, freight costs of $64.84 million (2015: $85.02 million) are now included in note 25, Transfer of programme supplies and cash assistance. In prior years, freight costs were classified as distribution costs.

2. Other operating expenses are composed mainly of information technology development, maintenance and expert services costs of $29.11 million (2015: $27.44 million), headquarters-related United Nations common service costs of $21.10 million (2015:$21.93 million), office operating expenses for hospitality of $11.77 million (2015: $12.03 million) and other office operating expenses of $19.40 million (2015:$7.84 million). Country offices' fundraising expenses of $11.66 million (2015: $10.63 million) are included in this other expenses balance.

3. Write-offs and losses recorded in 2016 include inventory, receivables and property and equipment totalling $3.68 million (2015: $11.16 million).

4. For 2016, $206.79 million (2015: $174.49 million) of total other expenses relate to management and business support costs. The remaining $892.73 million (2015 restated: $825.17 million), including programme-related professional and expert services, represents programme-related expenses. See note 35, Segment information.

Note 28
Other programme-related expert services

(Thousands of United States dollars)

	2016	*2015*
Other programme-related expert services	422 247	341 603
Total other programme-related expert services	**422 247**	**341 603**

Note 29
Financial instruments

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

Accounting classifications and fair values

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

A. Financial assets as at 31 December

(Thousands of United States dollars)

		Fair value through surplus or deficit				*Total fair value*	
Financial assets	*Loans and receivables*	*Available-for-sale*	*Designated as such upon initial recognition*	*Held for trading*	*Total carrying value*	*2016*	*2015*
Cash and cash equivalents	1 133 528	–	–	–	1 133 528	1 133 528	867 768
Term deposits	1 837 921	–	–	–	1 837 921	1 837 921	2 349 732
Traded bonds	–	1 410 180	–	–	1 410 180	1 410 180	1 295 901
Structured deposits	–	–	13 478	–	13 478	13 478	20 046
Forward exchange contracts in gain	–	–	–	65 087	65 087	65 087	–
Equities	–	130 944	–	–	130 944	130 944	–
Promissory notes	–	–	–	–	–	–	41 127
Contributions receivable	1 987 823	–	–	–	1 987 823	1 987 823	2 080 684
Other receivables	41 537	–	–	–	41 537	41 537	41 429
Total financial assets	**5 000 809**	**1 541 124**	**13 478**	**65 087**	**6 620 498**	**6 620 498**	**6 696 687**

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

B. Financial liabilities as at 31 December

(Thousands of United States dollars)

Financial liabilities	*Other financial liabilities (amortized cost)*	*Other financial liabilities*	*Total carrying value*	*Total fair value*	
				2016	*2015*
Financial liabilities					
Accounts payable	264 887		264 887	264 887	329 806
Funds held on behalf of third parties	817 900		817 900	817 900	948 140
Finance lease	48 144		48 144	48 144	51 749
Other liabilities	63 254	64 424	127 678	127 678	104 704
Total financial liabilities	**1 194 185**	**64 424**	**1 258 609**	**1 258 609**	**1 434 399**

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

Valuation method

5. The fair value hierarchy represents the categorization of market pricing to indicate the relative ease with which the value of investments held by UNICEF can be realized. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

6. The majority of the Fund's financial instruments have quoted prices in active markets and are classified as level 1. Derivative instruments that are "over-the-counter" are classified as level 2 because their fair value is observable either directly as a price or indirectly after being derived from prices. The instruments shown under the level 2 fair value measurement category consist of forward contracts for foreign currency hedges and the derivative contracts in the externally managed portfolio.

C. Financial instruments by valuation method

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*2016*	*2015*
Assets					
Financial instruments at fair value through surplus or deficit	–	78 565	–	78 565	20 046
Available-for-sale financial assets	1 541 124	–	–	1 541 124	1 295 901
Liabilities					
Financial instruments at fair value through surplus or deficit	–	(64 424)	–	(64 424)	–
Total	**1 541 124**	**14 141**	–	**1 555 265**	**1 315 947**

Note 30
Financial risk management

Exposure to credit risk

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

2. UNICEF holds bank accounts in more than 140 countries. This exposes the organization to significant default risk. To mitigate this risk, UNICEF has established a risk-assessment process that is to be completed before bank accounts may be opened at any bank where UNICEF has not had a prior business relationship. In addition, if there are no alternatives to dealing with a specified bank that has a higher risk, UNICEF may impose internal guidelines such as minimizing the balances on its bank accounts.

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

4. UNICEF exposure to credit risk from receivables from contributions and other receivables is influenced mainly by the type of donor. Receivables from governments, intergovernmental agencies and other United Nations organizations generally have a very low default risk. UNICEF has established an allowance for impairment that represents its estimate of incurred losses in respect of receivables from contributions and other receivables, based on specific identification of receivables that might be impaired.

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

A. Concentration of credit exposure by credit rating

(Thousands of United States dollars)

At 31 December 2016	*AAA*	*AA*	*A*	*B*	*Non-rated*	*2016*	*2015*
Cash and cash equivalents							
Cash	–	136 268	21 566	9	71 692	229 535	184 106
Term deposits	–	263 395	506 082	134 516	–	903 993	683 662
Subtotal	**–**	**399 663**	**527 648**	**134 525**	**71 692**	**1 133 528**	**867 768**
Investments							
Term deposits	–	558 554	1 279 367	–	–	1 837 921	2 349 732
Traded bonds	175 001	1 172 713	32 850	12 317	17 299	1 410 180	1 295 901
Structured deposits	–	3 030	10 448	–	–	13 478	20 046
Forward exchange contracts	–	–	–	–	65 087	65 087	–
Equities	–	–	–	–	130 944	130 944	–
Subtotal	**175 001**	**1 734 297**	**1 322 665**	**12 317**	**213 330**	**3 457 610**	**3 665 679**
Total	**175 001**	**2 133 960**	**1 850 313**	**146 842**	**285 022**	**4 591 138**	**4 533 447**

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

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

B. Ageing of receivables

(Thousands of United States dollars)

	Current and non-current	*Overdue*			*Foreign exchange losses*	*2016*	*2015*
		0 to 1 year	*1 to 2 years*	*Over 2 years*			
Contributions receivable	1 574 387	482 141	10 935	2 382	(82 022)	1 987 823	2 080 684
Other receivables	44 482	–	–	–	(2 945)	41 537	41 429
Total	**1 618 869**	**482 141**	**10 935**	**2 382**	**(84 967)**	**2 029 360**	**2 122 113**

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

C. Movements in allowance for impairment in respect of loans and receivables during 2016

(Thousands of United States dollars)

	Gross receivable as at 31 December 2016	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written-off as uncollectible*	*Net receivable as at 31 December 2016*	*Net receivable as at 31 December 2015*
Contributions receivable	1 990 853	(2 701)	–	(329)	1 987 823	2 080 684
Other receivables	49 912	(7 644)	–	(731)	41 537	41 429
Total	**2 040 765**	**(10 345)**	**–**	**(1 060)**	**2 029 360**	**2 122 113**

Exposure to liquidity risk

8. Liquidity risk is the risk that UNICEF will encounter difficulty in meeting its obligations associated with its accounts payables, other liabilities and promised transfers of cash to programmes. UNICEF Financial Regulations and Rules do not permit UNICEF to borrow funds from external providers except for CERF loans from UNOCHA.

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

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

D. Contractual maturities of United Nations Children's Fund financial liabilities

(Thousands of United States dollars)

	Due				*Overdue*					
	0-3 months	*3-6 months*	*6-12 months*	*More than 1 year*	*0-3 months*	*3-6 months*	*6-12 months*	*More than 1 year*	*2016 total carrying value*	*2015 total carrying value*
Accounts payable	87 187	1	6	(42)	51 373	2 103	4 892	1 170	146 690	169 775
Accrued liabilities	–	–	–	–	–	–	–	–	118 197	160 031
Total	**87 187**	**1**	**6**	**(42)**	**51 373**	**2 103**	**4 892**	**1 170**	**264 887**	**329 806**

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

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

Exposure to market risk

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

13. Treasury activities comprise the following four portfolios:

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

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

Currency risk

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

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

(b) Regarding expenses: all currencies used across all operating UNICEF countries, including the Indian rupee, the Pakistani rupee, the Nigerian naira, the Ethiopian birr and the Kenyan shilling, among many others;

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

16. UNICEF has not implemented hedge accounting, although it applies "natural hedges" by holding foreign currencies in order to cover forecasted foreign currency cash outflows in revenue-side currencies, in addition to entering into foreign exchange forward contracts on revenue-side currencies. In the externally managed investment portfolio, UNICEF uses derivative financial instruments to hedge some of its risk exposures or minimize deviations from benchmark allocations as set out in the agreement with the Investment Fund Manager.

17. The overall position of UNICEF in foreign currencies is not significant. The following table provides a summary of UNICEF foreign currency positions in financial instruments.

E. Financial instrument currency position in the statement of financial position

(Thousands of United States dollars)

	United States dollar	*Euro*	*Pound sterling*	*Swiss franc*	*Swedish krona*	*Norwegian krone*	*Japanese Yen*	*Other*	*2016*	*2015*
Cash and cash equivalents	1 008 995	65 772	8 688	1 223	(943)	(3 897)	(6 396)	60 086	1 133 528	867 768
Term deposits	1 831 030	–	–	–	–	–	–	6 891	1 837 921	2 349 732
Traded bonds	1 380 936	23 101	6 142	–	–	–	–	–	1 410 180	1 295 901
Structured deposits	3 015	10 463	–	–	–	–	–	–	13 478	20 046
Forward exchange contracts in gain	65 087	–	–	–	–	–	–	-	65 087	-
Equities	84 512	15 888	6 159	4 391	1 079	4 337	7 598	6 980	130 944	-
Promissory notes	–	–	–	–	–	–	–	–	–	41 127
Receivables from contributions	588 30	644 909	370 249	21 891	47 017	16 078	55 451	243 907	1 987 823	2 080 684
Other receivables	(75 356)	59 787	8 195	(464)	18 258	2 065	(43)	29 095	41 537	41 429
Total financial assets	**4 886 539**	**819 921**	**399 433**	**27 041**	**65 411**	**18 583**	**56 610**	**346 961**	**6 620 498**	**6 696 687**

	United States dollar	Euro	Pound sterling	Swiss franc	Swedish krona	Norwegian krone	Japanese Yen	Other	2016	2015
Accounts payable	(227 494)	(13 958)	(98)	(654)	(3)	–	(700)	(21 980)	(264 887)	(329 806)
Funds held on behalf of third parties	(817 899)	–	–	–	–	–	–	(1)	(817 900)	(948 140)
Other liabilities	(159 630)	(13 507)	(1 284)	(7)	–	(23)	–	(1 371)	(175 822)	(156 453)
Total financial liabilities	**(1 205 023)**	**(27 465)**	**(1 382)**	**(661)**	**(3)**	**(23)**	**(700)**	**(23 352)**	**(1 258 609)**	**(1 434 399)**
Net exposure	**3 681 516**	**792 455**	**398 051**	**26 380**	**65 408**	**18 560**	**55 910**	**323 609**	**5 361 889**	**5 262 288**

Interest rate risk

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

F. Fixed rate instruments

(Thousands of United States dollars)

	2016	2015
Fixed rate instruments	4 181 292	4 191 799
Other financial instruments	2 439 206	2 504 888
Total financial assets	**6 620 498**	**6 696 687**

Sensitivity analysis: foreign currency

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

G. Financial instrument currency position in the statement of financial position

(Thousands of United States dollars)

	Surplus/(deficit)	
As at 31 December 2016	*Strengthening of United States dollar by 10 per cent*	*Weakening of United States dollar by 10 per cent*
Euro	(79 245)	79 245
Pound sterling	(39 805)	39 805
Swiss franc	(2 638)	2 638
Swedish krona	(6 541)	6 541
Norwegian krone	(1 856)	1 856
Japanese yen	(5 591)	5 591
Total	**(135 676)**	**135 676**

20. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2016 only.

Derivatives

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

22. Gains arising from changes in the fair values of externally managed forward exchange contracts were $0.66 million (2015: $nil).

23. UNICEF invests in traded bonds, which are classified as available-for-sale financial instruments. These bonds have a call-option feature agreed to with the issuer at the time of purchase. This call-option feature gives the issuer the right to call the bond on pre-agreed dates throughout the life of the bond. Since the bonds are callable at par value (that is, their stated or face value), there is no risk of loss to the principal. Bonds held at the end of 2016 included a call-option feature were $1.33 billion (2015: $1.3 billion).

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

Sensitivity analysis: interest rates

25. The following table presents the sensitivity of net assets and surplus/deficits to a change in interest rates in the range of minus 30 basis points and plus 100 basis points, given outstanding positions as at 31 December 2016. Only the fair value of the bond portfolio is subject to fair value changes as a result of changes in interest rates as all bonds are classified as available-for-sale financial instruments. Changes in fair value for available-for-sale financial instruments are recorded directly in net assets.

H. Sensitivity of net assets and surplus/deficits to changes in interest rates

(Thousands of United States dollars)

	Impact		
	Net assets	*Surplus/deficit*	*Percentage*
Portfolio value	1 410 180	–	–
Plus 100 basis points	1 391 962	(18 218)	1.29
Minus 30 basis points	1 417 089	6 909	0.49

Other price risk

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

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

Note 31
Capital management

1. UNICEF defines the capital it manages as the aggregate of its net assets, which comprises accumulated surpluses and reserve balances. This definition of capital is used by management and may not be comparable to measures presented by other United Nations organizations. UNICEF does not have any long-term borrowings outside of its finance lease liabilities as its Financial Regulations and Rules prohibit it from borrowing funds to either bridge its cash requirements or leverage its cash position. Various reserves are established by management in order to provide funding of future expenses (see note 20, Net assets).

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

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

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

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

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

Other resources: regular and emergency

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

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

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

Restriction

7. UNICEF is subject to a Board-imposed liquidity requirement. The requirement does not constitute an external restriction. The UNICEF Financial Regulations and Rules indicate that, in order to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. In 1987, the Executive Board established the minimum year-end cash balance of regular resources as 10 per cent of projected regular resources income for the following year (decision 1987/14). There have been no changes in the way UNICEF manages its capital in 2016.

Note 32
Commitments

1. The following tables present the open purchase orders for which UNICEF had not received the related services or goods as at 31 December 2016. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2016	*2015*
Commitments for purchase of property and equipment (including finance leases)		
Buildings	154	40
Vehicles	5 332	8 542
Furniture and fixtures	43	54
Communications and information technology equipment	2 026	1 748
Other capital commitments		
Intangible assets	48	33
Total capital commitments	**7 603**	**10 417**
Operating commitments		
Contracts for purchase of supplies and other goods	268 108	287 103
Contracts for purchase of services	417 213	369 379
Commitments to transfer cash to implementing partners	70 533	98 869
Commitments to transfer supplies to implementing partners	424 459	313 240
Total operating commitments	**1 180 313**	**1 068 591**
Total commitments	**1 187 916**	**1 079 008**

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

Long-term agreements

3. UNICEF also has various long-term agreements with suppliers. The table below identifies the total remaining contract value on long-term agreements that remained open as at 31 December 2016.

(Thousands of United States dollars)

	2016	*2015*
Long-term agreements for goods	5 110 863	5 517 660
Long-term agreements for services	274 206	276 212
Total long-term agreements	**5 385 069**	**5 793 872**

Note 33
Contingencies

Contingent assets

1. In certain cases, prior to concluding contribution agreements, UNICEF receives pledges for future contributions. Furthermore, some contribution agreements require parliamentary approval before funds are received. These contingent assets are not recorded in the statement of financial position but are disclosed since the inflow of resources is probable. At the reporting date, probable contributions to UNICEF were estimated at $404.34 million (2015: $159.42 million).

Contingent liabilities

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

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

4. As at 31 December 2016, UNICEF did not have any accrued liabilities for contingent legal matters. Consistent with IPSAS, UNICEF is not required to disclose descriptions of the nature of its contingent liabilities, as potential outflows from settlements are remote. With respect to outstanding legal matters, on the basis of current knowledge, UNICEF believes that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on its operations, financial position, financial performance or cash flows. However, as the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties, these possible obligations may become actual liabilities by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNICEF.

Note 34
Related parties

National Committees

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

the recognition and cooperation agreements signed between UNICEF and each National Committee. National Committees are currently established in 34 countries.

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

A. Voluntary contribution revenue and receivables from National Committees

(Thousands of United States dollars)

	2016		*2015*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 146 955	361 411	1 117 140	279 911
Voluntary in-kind contributions	2 629	545	6 620	1 198
Total	**1 149 584**	**361 956**	**1 123 760**	**281 109**

3. Of the total voluntary cash contributions received in 2016, $593.98 million were regular resources, $153.34 million were other resources — emergency and $399.64 million were other resources — regular. The voluntary in-kind contributions of $2.63 million (2015: $6.62 million) comprised $2.55 million in other resources — emergency, with the remaining $0.08 million in other resources - regular.

4. According to the revenue and expenditure reports submitted by the National Committees, total contributions received by the National Committees in 2016, excluding proceeds from licensing activities, were $1,483.24 million (2015: $1,450.78 million). Of that amount, $336.28 million (2015: $333.64 million) was retained by the National Committees to cover the costs of their fundraising, advocacy and management and administration activities, or as reserves. As a result, a total amount of $1,146.96 million (2015: $1,117.14 million) in net cash contributions was either transferred or due to be transferred to UNICEF from the National Committees.

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

6. In accordance with the terms of the respective cooperation agreement with UNICEF, National Committees may establish reserves in order to comply with national laws and statutes as well as for other purposes. In the event of the liquidation of a National Committee, net assets, including reserves, would be transferred to UNICEF, subject to the provisions of the cooperation agreement, if legally permitted, or otherwise in accordance with national law and the statute of the Committee. The National Committees reported to UNICEF through their revenue and expenditure reports that the retained reserves, based on their local accounting standards, stood at $208.24 million (2015: $201.35 million) as at 31 December 2016.

Supported deliveries

7. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $134.62 million (2015: $120.50 million). The deliveries were not

reflected in the financial accounts of UNICEF, although they were handled through the administrative structures of the organization.

Key management personnel

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

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

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

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

B. Remuneration paid to key management personnel

(Thousands of United States dollars)

	Number of individuals	*Salary and post adjustment*	*Other entitlements*	*Post-employment and long-term employee benefits*	*2016*	*2015*
Key management personnel	35	5 963	1 567	351	7 881	7 125
Close family members	4	380	48	6	434	60
Total	**39**	**6 343**	**1 615**	**357**	**8 315**	**7 185**

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

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

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

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

United Nations programmes, funds and specialized agencies

13. UNICEF and other United Nations organizations work for and towards the enhancement of the efforts of the United Nations to achieve a better world for all. UNICEF is engaged extensively in the inter-agency financial and operating mechanisms of the United Nations, such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint

funding mechanisms, United Nations organizations work together on activities to achieve a set of objectives. Each participating organization assumes its share of responsibilities related to planning, implementing, monitoring and evaluating activities.

Other related parties

Global Partnership for Education

14. The Global Partnership for Education, previously the Education for All – Fast Track Initiative , is a global programme partnership involving bilateral donors, regional and international agencies, including UNICEF, development banks and civil society organizations on the one hand, and low-income countries on the other. Its overall aim is to strengthen international efforts to ensure inclusive, equitable quality education for all by 2030. UNICEF plays a significant role within the Global Partnership for Education both at the global and at country levels and is currently the coordinating agency for the local donor group in 14 countries and the supervising entity in 2. UNICEF has influenced the Global Partnership for Education to support the inclusion of countries in fragile situations. The funds provided by the Global Partnership for Education, which are recorded in voluntary contributions in support of global and country-specific programmes, are $54.73 million (2015: $57.85 million).

Global Fund to Fight AIDS, Tuberculosis and Malaria

15. The Global Fund to Fight AIDS, Tuberculosis and Malaria was established in 2002 as a public-private partnership with the goal of raising, managing and disbursing additional resources to prevent and treat HIV and AIDS, tuberculosis and malaria. In addition to the Global Fund's disease-specific funding, the Global Fund also provides resources for health systems strengthening. Since the Global Fund's inception in 2002, UNICEF has been an active partner at the global and country levels. The funds provided by the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $30.52 million (2015: $30.09 million).

Gavi, the Vaccine Alliance

16. Gavi, the Vaccine Alliance, was launched in 2000 as a public-private global health partnership committed to increasing access to immunization in low-income countries. UNICEF holds 1 permanent seat, out of 18, on its Board of Directors, and can also appoint 1 alternate Board member. UNICEF plays an important role in the provision of vaccines and immunization supplies for countries through the UNICEF Supply Division and provides technical assistance to governments in the preparation of applications to the Alliance and the implementation of Alliance-supported programmes. A handling fee for the management of these procurement services is recorded in note 22, Other revenue.

17. Gavi, the Vaccine Alliance makes funds available to UNICEF through escrow accounts and the use of promissory note agreements. The entire balance of Gavi's promissory notes of $41.13 million held by UNICEF at 31 December 2015 was redeemed in 2016.

18. As also disclosed in note 11, Other assets, UNICEF holds funds of $435.90 million (2015: $522.13 million), which represent amounts deposited into an irrevocable escrow account for which UNICEF has security of interest and sole drawing rights based on the terms of the agreements. A corresponding liability is

recorded in note 16, Funds held on behalf of third parties, and in note 17, Other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

19. UNICEF also manages funds provided by GAVI, the Vaccine Alliance, which are recorded in voluntary contributions in support of global and country-specific programmes, and amount to $70.63 million (2015: $61.08 million).

Micronutrient Initiative

20. The Micronutrient Initiative was incorporated on 4 July 2001, in Canada, with the primary objective of solving malnutrition. UNICEF is a significant partner of the Micronutrient Initiative because of shared objectives with regard to malnutrition. UNICEF holds 1 seat, out of 13, on the Micronutrient Initiative Board of Directors. Funds provided by the Micronutrient Initiative, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $7.61 million (2015: $18.50 million).

C. Revenue realized from other related parties as at 31 December

(Thousands of United States dollars)

	2016	*2015*
Global Partnership for Education	54 732	57 849
Gavi, the Vaccine Alliance	70 625	61 085
Global Fund to Fight AIDS, Tuberculosis and Malaria	30 515	30 097
Micronutrient Initiative	7 611	18 504
Total	**163 483**	**167 535**

Note 35
Segment information

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

Institutional and regular resources segments

Revenue

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

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

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

Activities

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

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

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

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

8. The regular resources segment includes activities described in programme documents. These activities are funded from the country programmes and the advocacy, programme development and intercountry programme (the expenditures against the budget are recorded on a modified cash basis and are described in statement V).

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

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

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

Other resources — regular and other resources — emergency segments

12. The other resources — regular segment includes funds contributed to UNICEF by governments, intergovernmental organizations, non-governmental organizations and the United Nations system for specific purposes within the programmes approved by the UNICEF Executive Board.

13. The other resources — emergency segment includes those funds earmarked for emergency operations.

14. These segments include activities described in programme documents. These activities are funded from the country programmes, emergency appeals and the advocacy, programme development and intercountry programme (the expenditures

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

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

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

Trust fund segment

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

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

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

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

A. Segment information on assets and liabilities by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Segment assets							
Current segment assets							
Cash and cash equivalents[a]	1 133 528	–	–	–	–	–	1 133 528
Inter-segment activity[b]	(3 003 115)	–	1 791 736	763 603	447 776	–	–
Investments	2 681 362	–	–	–	–	–	2 681 362
Inventories	18 337	9 341	182 048	158 676	–	–	368 402
Contributions receivable	–	261 840	590 566	520 898	–	–	1 373 304
Other receivables	8 457	16 472	8 311	6 891	–	–	40 131
Advances of cash assistance	–	112 504	331 399	307 354	–	–	751 257
Other assets	18 320	7 483	12 367	3 978	437 829	–	479 977
Non-current segment assets							
Investments	776 248	–	–	–	–	–	776 248
Contributions receivable	-	6 204	463 241	145 074	–	–	614 519
Property and equipment	172 644	27 282	5 763	13 930	66	–	219 685
Intangible assets	3 070	2 574	93	66	–	–	5 803
Other receivables	954	49	17	30	356	–	1 406
Non-current other assets	1 867	–	–	–	–	–	1 867
Total segment assets, 2016	**1 811 671**	**443 749**	**3 385 541**	**1 920 501**	**886 027**	**–**	**8 447 489**
Total segment assets, 2015	**1 574 603**	**391 847**	**3 849 244**	**1 772 973**	**1 205 318**	**–**	**8 793 985**

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

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

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Segment liabilities							
Current segment liabilities							
Accounts payable	47 306	17 203	60 766	46 836	92 776	–	264 887
Deferred revenue	–	24 844	713 015	481 091	0	–	1 218 950
Funds held on behalf of third parties	–	–	–	–	817 900	–	817 900
Other liabilities	81 473	29 415	–	–	12 045	–	122 933
Employee benefits	101 531	255	235	–	–	–	102 021
Provisions	1 908	–	12 755	8 160	–	–	22 823
Non-current segment liabilities							
Deferred revenue	–	6 534	463 242	145 074	–	–	614 850
Employee benefits	1 134 252	–	–	–	–	–	1 134 252
Other liabilities	44 309	–	–	–	8 580	–	52 889
Total segment liabilities, 2016	**1 410 779**	**78 251**	**1 250 013**	**681 161**	**931 301**	**–**	**4 351 505**
Total segment liabilities, 2015	**1 244 608**	**43 399**	**1 309 258**	**354 587**	**1 211 107**	**–**	**4 162 959**
Net assets, 1 January 2016	**678 442**	**–**	**2 539 988**	**1 418 386**	**(5 790)**	**–**	**4 631 026**
Surplus/(deficit) for the year	57 913	–	(383 028)	(179 112)	(3 234)	–	(507 461)
Actuarial (losses) recognized directly in the reserves	(39 717)	–	–	–	–	–	(39 717)
Changes in fair value of available-for-sale financial assets	9 924	–	–	–	–	–	9 924
End of transitional provision for property, plant and equipment	1 863	279	3	68	–	–	2 212
Utilization of funds	57 963	(279)	(21 432)	(1)	(36 252)	–	–
Net assets, 31 December 2016	**766 388**	**–**	**2 135 531**	**1 239 341**	**(45 276)**	**–**	**4 095 984**
Net assets, 31 December 2015	**678 442**	**–**	**2 539 988**	**1 418 386**	**(5 790)**	**–**	**4 631 026**

B. Segment information on revenue and expenses by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Segment revenue							
Voluntary contributions	–	1 185 963	1 932 773	1 638 565	–	–	4 757 301
Other revenue	–	56 619	–	496	17 371	–	74 486
Investment revenue	–	51 911	–	–	–	–	51 911
Internal cost recovery	275 308	–	–	–	–	(275 308)	–
Internal direct attribution	95 892	–	–	–	–	(95 892)	–
Total segment revenue, 2016	**371 200**	**1 294 493**	**1 932 773**	**1 639 061**	**17 371**	**(371 200)**	**4 883 698**
Total segment revenue, 2015	**358 645**	**1 158 243**	**2 056 334**	**1 782 093**	**12 887**	**(358 645)**	**5 009 557**
Segment expenses							
Transfers of cash assistance	–	250 883	929 566	791 187	–	–	1 971 636
Transfer of programme supplies	–	96 569	518 050	524 477	–	–	1 139 096
Employee benefits	481 981	281 073	282 536	161 958	307	–	1 207 855
Depreciation and amortization	12 603	8 016	2 198	3 784	22	–	26 623
Other programme-related expert services	–	117 572	233 315	71 360	–	–	422 247
Other expenses	206 786	207 341	349 088	264 988	20 267	(371 200)	677 270
Finance costs	3 124	–	–	–	–	–	3 124
Total segment expenses, 2016	**704 494**	**961 454**	**2 314 753**	**1 817 754**	**20 596**	**(371 200)**	**5 447 851**
Total segment expenses, 2015	**667 882**	**932 050**	**2 150 420**	**1 685 894**	**18 048**	**(358 645)**	**5 095 649**
Gains and (losses), net 2016	55 507	2 661	(1 048)	(419)	(8)	–	56 692
Gains and (losses), net 2015	1 947	9 020	(850)	435	1	–	10 553
Net surplus/(deficit), 2016	**(277 787)**	**335 700**	**(383 029)**	**(179 112)**	**(3 233)**	**–**	**(507 461)**
Net surplus/(deficit), 2015	**(307 290)**	**235 213**	**(94 936)**	**96 634**	**(5 160)**	**–**	**(75 539)**

C. Segment information on expenses by region

(Thousands of United States dollars)

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Transfers of cash assistance							
Central and Eastern Europe and Commonwealth of Independent States	-	3 752	38 712	52 005	-	-	94 469
East Asia and the Pacific	-	12 878	67 230	26 107	-	-	106 215
Eastern and Southern Africa	-	72 988	315 840	96 622	-	-	485 450
Headquarters	-	5 932	4 977	2 604	-	-	13 513
Latin America and the Caribbean	-	9 747	30 405	12 100	-	-	52 252
Middle East and North Africa	-	11 718	105 151	444 650	-	-	561 519
South Asia	-	48 889	95 127	46 713	-	-	190 729
Western and Central Africa	-	84 979	272 124	110 386	-	-	467 489
Total transfers of cash assistance	**-**	**250 883**	**929 566**	**791 187**	**-**	**-**	**1 971 636**
Transfer of programme supplies							
Central and Eastern Europe and Commonwealth of Independent States	-	667	9 530	22 027	-	-	32 224
East Asia and the Pacific	-	6 205	35 697	17 387	-	-	59 289
Eastern and Southern Africa	-	20 945	144 218	84 517	-	-	249 680
Headquarters	-	(611)	6 682	4 275	-	-	10 346
Latin America and the Caribbean	-	2 432	3 744	4 104	-	-	10 280
Middle East and North Africa	-	1 790	43 639	255 898	-	-	301 327
South Asia	-	22 693	64 100	27 652	-	-	114 445
Western and Central Africa	-	42 448	210 440	108 617	-	-	361 505
Total transfer of programme supplies	**-**	**96 569**	**518 050**	**524 477**	**-**	**-**	**1 139 096**
Employee benefits							
Central and Eastern Europe and Commonwealth of Independent States	19 364	8 768	7 932	7 257	-	-	43 321
East Asia and the Pacific	28 877	23 739	27 943	4 034	-	-	84 593
Eastern and Southern Africa	40 311	65 398	68 089	29 297	41	-	203 136
Headquarters	285 365	22 125	40 698	6 518	266	-	354 972
Latin America and the Caribbean	29 516	12 185	15 291	2 247	-	-	59 239
Middle East and North Africa	24 106	18 912	18 451	73 247	-	-	134 716
South Asia	17 295	42 325	38 782	8 631	-	-	107 033
Western and Central Africa	37 147	87 621	65 350	30 727	-	-	220 845
Total employee benefits	**481 981**	**281 073**	**282 536**	**161 958**	**307**	**-**	**1 207 855**
Depreciation and amortization							
Central and Eastern Europe and Commonwealth of Independent States	212	70	9	158	-	-	449
East Asia and the Pacific	296	504	101	120	-	-	1 021

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Eastern and Southern Africa	1 632	1 672	607	696	1	-	4 608
Headquarters	6 207	516	147	14	19	-	6 903
Latin America and the Caribbean	907	112	39	9	-	-	1 067
Middle East and North Africa	674	891	264	1 624	-	-	3 453
South Asia	1 487	1 291	404	197	-	-	3 379
Western and Central Africa	1 188	2 960	627	966	2	-	5 743
Total depreciation and amortization	**12 603**	**8 016**	**2 198**	**3 784**	**22**	**-**	**26 623**
Other programme-related expert services							
Central and Eastern Europe and Commonwealth of Independent States	-	4 988	9 003	4 103	-	-	18 094
East Asia and the Pacific	-	5 905	12 519	3 098	-	-	21 522
Eastern and Southern Africa	-	15 646	81 726	12 845	-	-	110 217
Headquarters	-	39 872	21 956	4 027	-	-	65 855
Latin America and the Caribbean	-	6 064	8 727	1 737	-	-	16 528
Middle East and North Africa	-	2 969	6 960	32 738	-	-	42 667
South Asia	-	29 982	51 887	2 918	-	-	84 787
Western and Central Africa	-	12 146	40 537	9 894	-	-	62 577
Total other programme-related expert services	**-**	**117 572**	**233 315**	**71 360**	**-**	**-**	**422 247**
Other expenses							
Central and Eastern Europe and Commonwealth of Independent States	3 958	6 313	11 954	13 360	-	-	35 585
East Asia and the Pacific	10 579	12 574	22 490	6 497	14	-	52 154
Eastern and Southern Africa	9 944	43 128	84 067	43 474	3 007	-	183 620
Headquarters	139 765	45 108	67 507	26 846	14 518	(371 200)	(77 456)
Latin America and the Caribbean	20 280	9 451	13 162	5 094	96	-	48 083
Middle East and North Africa	6 226	11 973	23 963	125 327	88	-	167 577
South Asia	7 055	20 544	43 532	9 858	1 660	-	82 649
Western and Central Africa	8 979	58 250	82 413	34 532	884	-	185 058
Total other expenses	**206 786**	**207 341**	**349 088**	**264 988**	**20 267**	**(371 200)**	**677 270**
Finance costs							
Headquarters	3 124	-	-	-	-	-	3 124
Total finance costs	**3 124**	**-**	**-**	**-**	**-**	**-**	**3 124**
Total expense by region							
Central and Eastern Europe and Commonwealth of Independent States	23 535	24 558	77 141	98 909	-	-	224 143
East Asia and the Pacific	39 751	61 805	165 980	57 243	14	-	324 793
Eastern and Southern Africa	51 887	21 9 778	694 547	267 450	3 048	-	1 236 710
Headquarters	434 461	112 942	141 966	44 285	14 802	(371 200)	377 256
Latin America and the Caribbean	50 703	39 991	71 368	25 291	97	-	187 450

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2016*
Middle East and North Africa	31 006	48 252	198 428	933 485	89	-	1 211 259
South Asia	25 837	165 724	293 832	95 969	1 660	-	583 021
Western and Central Africa	47 315	288 404	671 491	295 122	886	-	1 303 218
Total other expenses	**704 494**	**961 454**	**2 314 753**	**1 817 754**	**20 596**	**(371 200)**	**5 447 851**

Note 36
Post-balance sheet events

1. There have been no material post balance sheet events requiring disclosure.

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