United Nations

United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

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

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Note

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

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Letters of transmittal

Letter dated 31 May 2018 from the Executive Director of the United Nations Children's Fund addressed to the Executive Secretary of the Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2017. 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*) Henrietta H. **Fore**
Executive Director

Letter dated 24 July 2018 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 2017, 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*) Rajiv **Mehrishi**
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 2017 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 2017 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

The Executive Director of UNICEF is responsible for the other information, which comprises the financial overview for the year ended 31 December 2017, 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

The Executive Director is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as the Executive Director 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, the Executive Director 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 the Executive Director 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 the Executive Director.

- Draw conclusions as to the appropriateness of the Executive Director'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*) Rajiv **Mehrishi**
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

24 July 2018

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 2017. The audit was carried out through field visits to the Afghanistan, Sri Lanka, Ghana and Burkina Faso country offices and the Nepal and Senegal regional offices, as well as a through a review of the Fund's financial transactions and operations at Geneva and Copenhagen and its headquarters in New York.

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 surplus of $788.59 million for the year 2017 (2016: restated deficit of $199.86 million). This was attributable mainly to an increase in voluntary contributions (increase of $1,366.10 million compared with restated 2016 figures). UNICEF changed its policy of recognition of voluntary contributions in 2017 and applied it retrospectively. In 2017, an increase of 15.02 per cent was noticed in total assets compared with the restated previous year, while an increase of 31.20 per cent was observed in total liabilities. The ratio of total assets to total liabilities was 2.96, which is lower than the ratio of 3.38 in 2016 (restated). The current ratio was 4.58, 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 UNICEF in areas such as financial management, travel management, internal controls, hiring of consultants, National Committees, fundraising activities, management of cash transfers, inventory and procurement management, contract management, supply chain management and quality assurance. The Board has made suitable recommendations to address those weaknesses.

Key audit findings

Disclosure regarding comparison of budget and actual amounts

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.

The Board observed that there were material variations between the final budget and actual expenditure under different budget segments ranging from 5 per cent to 20 per cent.

Internal control on travel

UNICEF informed the Board that following an enhancement of the Virtual Integrated System of Information (VISION), which is the UNICEF enterprise resource planning system, effective 1 September 2016 a hard stop blocks new travel

authorizations from opening when three or more travel authorizations are open for a traveller in the system.

In its test check, the Board noted 11 cases where travellers had more than three trips (started after 1 September 2016) open. The Board also noticed instances where travellers with three open trips were able to get four or more trips opened for themselves without closing earlier trips.

In accordance with current travel policy, 100 per cent of daily subsistence allowance is released and expensed on the creation of a trip. This decision was based on a review which found that adherence to trip closure requirements being high, 100 per cent expensing would be both appropriate and economical on cost and staff time. The Board observed that in view of deficiencies in trip management pointed out by the Board, the policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip is not appropriate. Hence, UNICEF needs to review that policy without delay.

Given the fact that the trips not only of travellers but also of managers remained open beyond the stipulated time, and the VISION-based hard stop function is not working effectively, it is important for UNICEF to review its travel processes.

Inconsistencies in reports of the travel module in VISION

The Board came across several cases where the output of the travel management functionality of VISION was inconsistent for a given trip across different reports. The Board noticed the following inconsistencies in different reports:

(a) Open trips were not consistently shown in all the reports;

(b) The traveller was paid the trip settlement amount even when the trip was not processed and closed;

(c) A trip with the same trip number showed two different end dates;

(d) The trip was shown closed even when travel was not over.

With the above-mentioned inconsistencies, the Board is concerned about the reliability of the customization of the travel management functionality of VISION.

Cash transfer disbursement and reporting

In accordance with UNICEF procedures on the harmonized approach to cash transfers, microassessments are undertaken at least once per programme cycle for implementing partners that are expected to receive $0.1 million or more. UNICEF stated that there are controls in VISION that prevent country offices from transferring more than $0.1 million to implementing partners that have not been assessed.

A test check revealed that some of the non-assessed implementing partners were disbursed more than $100,000 in contravention of the above-mentioned provision. This indicated that the controls in VISION are not working according to the extant procedures.

The Board also observed that in the Afghanistan country office, 89 implementing partners were granted direct cash transfers of more than $0.1 million for various programme activities during 2015–2016, but the country office undertook microassessments in respect of only 16 implementing partners and completed microassessments in respect of only six of those partners. Not assessing the implementing partners exposes UNICEF to inherent risks against the delivery of intended programme outputs and integrity in their functioning.

Closure of contracts whose validity had expired

The Board observed from the information available on the supply dashboard as at 26 January 2018, that the validity period of 138 contracts had ended between 31 July 2013 and 31 December 2017 but they remained open in VISION with a balance of $0.89 million. These included 46 contracts whose validity had expired before 1 January 2017. Keeping contracts open does not reflect good contract management practice and runs the risk of being misused.

The Board reviewed contracts pertaining to the years 2016 and 2017 at the West and Central Africa Regional Office and the country offices in Ghana, Burkina Faso, Sri Lanka and Afghanistan. The Board observed that 291 contracts with a value of $8.26 million remained open even after the completion of the contract period, for one to 20 months from the end of the valid period for provision of services.

The Board observed that a definite timeline should be prescribed for closure of contracts after expiry of their validity period. Moreover, specific reasons should be clearly recorded if outstanding balances are being reflected in the supply dashboard after the contract has expired. As the closure of contracts after obtaining the performance evaluation report is mandated in the Supply Manual, having these open service contracts and contracts with negative balances pending for closure is a matter of concern. Developing specific key performance indicators for monitoring contract closure would also help management to effectively ensure timely closing of contracts. The Board feels that since the performance evaluation report is to be used as a future reference, not uploading it in VISION would affect the future selection of contractors.

Codification of activities in the annual workplan for 2017 related to Water, Sanitation and Hygiene for All

Annual workplans operationalize the Strategic Plan results framework. The annual workplan for 2017 for Water, Sanitation and Hygiene for All has listed the outputs and activity indicators along with the corresponding codes. This is the Strategic Plan output code which the activity of the annual workplan is fed into. The Board's analysis showed that some activities could not be correlated to the related Strategic Plan goals mentioned in the annual workplan.

Main recommendations

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

Disclosure regarding comparison of budget and actual amounts

(a) **Explain the material differences between actual amounts and the budgeted amounts in the financial statements in accordance with the requirement of IPSAS;**

Internal control on travel

(b) **Review and ensure compliance with the internal control mechanism in the travel management and related processes;**

(c) **Review its policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip;**

Inconsistencies in reports on the travel module of VISION

(d) **Get a verification of the compatibility and the customization process of VISION, including the travel management functionality, done;**

Cash transfer disbursement and reporting

(e) **Review and strengthen the internal control and monitoring system over cash transfers to implementing partners and fully adhere to the laid down policy for these cash transfers;**

Closure of contracts whose validity had expired

(f) **Prescribe a definite timeline for closure of contracts and frame a specific key performance indicator for monitoring closure of contracts;**

Codification of activities in the annual workplan of 2017 related to Water, Sanitation and Hygiene for All

(g) **Clearly link the Strategic Plan and the annual workplan during the operationalization of the UNICEF 2018–2021 Strategic Plan.**

Key facts

$6.65 billion	Revenue and other gains
$5.86 billion	Expenses
$0.79 billion	Surplus for the year
$9.95 billion	Assets
$3.36 billion	Liabilities
$6.59 billion	Accumulated surpluses and reserves

A. Mandate, scope and methodology

1. The United Nations Children's Fund (UNICEF) was established to provide long-term humanitarian and developmental assistance to children and mothers in developing countries. It is mandated by the General Assembly to advocate the protection of children's rights, to help meet the basic needs of children and to expand the opportunities for 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 2017 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 2017 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 Executive Board. 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

four UNICEF country offices and two regional offices,[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 planning 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 of previous recommendations

6. There were 47 outstanding recommendations up to the period ending 31 December 2016, of which 17 (36 per cent) have been implemented, 29 (62 per cent) are under implementation and one (2 per cent) has not been implemented by management as it has not been accepted (see annex). The recommendation that has not been implemented pertains to production and distribution of individual reports on trip closure. There are four recommendations that are being reiterated by the Board in the present report, on the following issues:

(a) Claim and actively pursue the value-added tax refunds that are due;

(b) Review cases of delay and take appropriate action in accordance with the terms and conditions of contracts to improve timely delivery;

(c) Ensure timely receipt of vaccine arrival reports;

(d) Identify reasons for the detention of containers for long periods and provide guidance to the regional and country offices to reduce the time containers are detained.

2. Financial overview

7. Revenue for 2017 was $6,576.74 million, an increase of $1,385.45 million compared with 2016 (2016: $5,191.30 million, restated figure). The increase in revenue was attributable mainly to the increase in voluntary contributions by $1,366.10 million and the increase in investment revenue by $19.79 million in 2017 compared with 2016. Expenses also increased, from $5,447.85 million in 2016 to $5,863.43 million in 2017. The increase in expenses over 2016 was attributable mainly to an increase in cash assistance and transfer of programme supplies of $200.16 million and an increase in other programme-related expert services by $51.44 million over 2016. As a result, UNICEF reported a net surplus of $788.59 million in 2017 (2016: restated deficit of $199.86 million).

8. The ratio of total assets to total liabilities was 2.96, which indicated strong solvency. The current ratio was 4.58, which showed high liquidity, indicating that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2017. Even though all the important ratios have shown a slight decline over the previous year, UNICEF remains in a very comfortable and solvent position. The financial ratios of UNICEF over the past three years are set out in table II.1.

[1] Ghana and Burkina Faso country offices and Western and Central Africa Regional Office in Senegal; and Sri Lanka and Afghanistan country offices and South Asia Regional Office in Nepal.

Table II.1
Financial ratios

Description of ratio	*2017*	*Restated 2016*	*2015*
Total assets: total liabilities[a]			
Assets: liabilities	2.96	3.38	2.11
Current ratio[b]			
Current assets: current liabilities	4.58	5.13	2.80
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	3.55	3.96	2.04
Cash ratio[d]			
(Cash + short-term investments): current liabilities	2.56	2.78	1.40

Source: UNICEF 2017 and 2016 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. As at 31 December 2017, UNICEF had total assets of $9.95 billion (2016: $8.65 billion, restated), consisting mainly of investments of $4.22 billion (2016: $3.46 billion), contributions receivable of $2.71 billion (2016: $2.19 billion, restated) and cash and cash equivalents of $883.58 million (2016: $1,133.53 million). The total liabilities of UNICEF stood at $3.36 billion as at 31 December 2017, with employee benefits liabilities at $1.64 billion, representing 48.81 per cent of the total liabilities. Long-term employee benefits liabilities were $1.52 billion, which was 97.30 per cent of the non-current liabilities of $1.56 billion as at 31 December 2017.

3. Financial management

Revision in the International Public Sector Accounting Standards policy on revenue recognition

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

11. In accordance with the provisions of IPSAS 23: Revenue from non-exchange transactions (taxes and transfers), if any donor agreement contains a performance obligation that fulfils the requirement of a condition, the entity can recognize the revenue as and when it fulfils such a performance obligation.

12. Until 2016, UNICEF treated all earmarked agreements as having conditions and as intended to be used for specific purposes. In 2017, UNICEF revised its policy on revenue recognition as advised by the Board. The Board noted that in the revised policy UNICEF revisited its understanding of the earmarked agreements. In accordance with the revised policy, UNICEF analysed major grants to see whether the performance obligations present in the donor agreements fulfilled the criteria of a condition. After analysis, it concluded that the performance obligations present in all the agreements currently in force did not represent a condition but instead the agreements were found to have restrictions.

13. As a result of the revised policy, UNICEF has restated its 2016 financial statements. The impact on the 2016 financial results included an increase in revenue from voluntary contributions of $307.60 million. As UNICEF applied this policy with retrospective effect, it also recorded an increase in accumulated surplus in 2016 of $1.69 billion, which represented the cumulative voluntary contributions revenue adjustment through to the 2015 reporting period.

14. To confirm the approach of UNICEF, the Board examined a sample of agreements that UNICEF had with all major donors. The Board noted that UNICEF had framework agreements with some major donors and project-specific agreements with others. The Board also had detailed discussions with UNICEF on its previous experience with the donors and the specific examination it was carrying out of particular donor agreements. The Board found that each agreement had very specific clauses related, inter alia, to performance obligations, refund/return of resources and monitoring, which required detailed examination. The Board is of the opinion that UNICEF should complete the examination of all remaining agreements at the earliest possible date.

15. **The Board recommends that UNICEF review all multi-year donor agreements and decide whether their stipulations satisfy the criteria of a condition.**

Contribution in kind

16. Paragraphs 68 and 69 of note 4 are silent on the accounting policy for in-kind revenue recognition, whether based on physical receipt of the assets or the right to use assets or on signing of the agreements. UNICEF clarified that goods received in kind are recognized as revenue at the earlier of when the agreement is signed or the goods are received. Accordingly, note 4 needs to be suitably modified.

17. UNICEF stated that generally receipt of the goods is the most common approach and other scenarios are infrequent and not material. Therefore, it considers current disclosures to be in line with IPSAS requirements.

18. The Board, however, holds the view that the current disclosure in note 4 did not specify the accounting policy of UNICEF.

19. **The Board recommends that UNICEF suitably disclose its accounting policy for recognition of in-kind revenue.**

Segment reporting in the financial statements

20. In note 35, table A (Segment information on assets and liabilities by fund type), instead of showing the net assets separately under the respective segments, UNICEF combined the net assets of the institutional and regular resource programme segments and showed them under the institutional segment.

21. **The Board recommends that UNICEF disclose the net assets of institutional and regular resource programme segments as distinct segments.**

Fair value of long-term receivables

22. Paragraphs 45 and 48 of IPSAS 29: Financial instruments — recognition and measurement, provide that a receivable shall be measured at its fair value.

23. Table II.2 details contributions receivable as at 31 December 2017.

Table II.2
Contributions receivable as at 31 December 2017 (without foreign exchange adjustment)

Nature of receivable	*Period*	*Amount (millions of United States dollars)*
Current receivables	Current year	1 093.80
	Due in 2018	597.84
Non-current receivables	Due in 2019	460.71
	Due in 2020	416.26
	Due between 2021 and 2025	93.32
Total		**2 661.93**

Source: Data from the administration.

24. UNICEF estimated the fair value of the contributions receivable as shown in table II.2 at $2,688.73 million, but accounted for these contributions receivable at their carrying amount of $2,708.28 million.

25. In accordance with the requirement of IPSAS 29, the long-term receivables should have been depicted at their fair value and not at the carrying amount. This resulted in an overstatement of $19.55 million of contributions receivable, revenue and surplus for the year.

26. UNICEF stated that given the small amount of discounting (0.7 per cent of the carrying value of the receivables), the impact of discounting is not material and inclusion or exclusion would not have an impact on the users of the financial statements. It further stated that the depiction of contributions receivable in the 2017 financial statements is in compliance with IPSAS.

27. The Board is of the opinion that the depiction of long-term receivables at their fair value is a specific requirement of IPSAS and this policy should be implemented during preparation of the financial statements.

28. **The Board recommends that UNICEF depict contributions receivable at their fair value in compliance with IPSAS.**

Disclosure regarding comparison of budget and actual amounts

29. 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.

30. UNICEF has multiple budgets, including: (a) country programme budgets; (b) emergency appeal budgets; (c) global and regional programme budgets; (d) emergency programme funds; (e) the institutional budget; and (f) the private fundraising and partnership budget. The budget cycle, the level of aggregation and the source of funds vary for each type of budget.

31. The UNICEF budgets for the various programmes approved by the Executive Board are subject to availability of funding. The original budget comprises the amounts for both regular resources and other resources initially allocated for the current year and any residual amounts that are carried forward from prior years. The final budget represents the contributions received against the Board-approved ceiling and plan for the calendar year.

32. In accordance with paragraphs 15 and 16 of IPSAS 24, an explanation of the material difference between budget amounts and actual amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

33. The total budget utilized in 2017 was $5.84 billion, which was 92 per cent of the final budget. The variations between the final budget and actual expenditure under various budget segments are as shown in table II.3.

Table II.3
Comparison of budget and actual amounts
(Thousands of United States dollars)

Budget	*Final budget*	*Actual expenditure*	*Variance*	
			Amount	*Percentage*
Regular resources	849 806	837 302	12 504	1
Other resources — regular	2 357 261	2 187 400	169 861	7
Country programme budgets	3 207 067	3 024 702	182 365	5
Other resources — emergency	2 027 377	1 899 667	127 710	6
Emergency programme fund (regular resources)	51 233	51 233	–	–
Regular resources	60 703	54 283	6 420	10
Other resources — regular	137 751	118 140	19 611	14
Global and regional programme budgets	198 454	172 423	26 031	13
Institutional budget	669 073	532 583	136 490	20
Private fundraising and partnership budgets	163 720	154 779	8 941	5
Total	**6 316 924**	**5 835 387**	**481 537**	**8**

Source: Statement V: Comparison of budget to actual amounts in UNICEF financial statements.

34. The Board observed that there were material variations between the final budget and actual expenditure under the different budget segments, ranging from 5 per cent to 20 per cent, for which there is no explanation in the financial statements.

35. UNICEF stated that the required explanation was provided in the financial overview for the year ended 31 December 2017.

36. The Board noticed that according to the requirements of IPSAS, the explanation for the material differences is to be part of the financial statements. The financial overview is the report of management and is not part of the financial statements. The Board further noted that in the financial overview the reasons for material differences were explained with reference to the source of funds (other resources — regular and other resources — emergency). However, the material differences under the different budget segments were not explained in the financial overview.

37. **The Board recommends that UNICEF explain the material differences between actual amounts and budgeted amounts in the financial statements in accordance with the requirement of IPSAS.**

4. Travel management

38. Travel expenditure in UNICEF during 2017 is reported as $149.85 million. It is 2.56 per cent of the total expenditure of $5,863.43 million.

39. 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 travel is undertaken. In accordance with paragraph 11.14 of the same instruction, it is the responsibility of each staff member to submit a travel certification within 15 calendar days from 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. Furthermore, paragraph 11.18 of the instruction states that the approving officer shall not approve any new travel authorization for a staff member who has not completed the required travel certification for previous official travel and, in addition, recovery of the related travel expenses from the staff member's pay may be initiated if the staff member does not comply with the certification requirements.

40. The Board was informed by UNICEF that following an enhancement in VISION (the UNICEF enterprise resource planning system), effective from 1 September 2016 all new travel authorizations are blocked from opening when three or more travel authorizations are open in the system. The travel service has developed and incorporated three functionalities in VISION: (a) a formal warning mechanism for staff having more than two trips open; (b) automated reminders for open travel authorizations in VISION; and (c) a hard stop[2] on new travel authorizations when more than three authorizations are already open.

41. The Board examined the data on open travel authorizations as available in the business intelligence reports between December 2017 and April 2018. The focus of the examination was to ascertain: (a) how many trips remained open globally in UNICEF; (b) whether the VISION enhancement for bringing about a hard stop on new travel authorizations when three or more authorizations are open was working; and (c) whether the travellers and their managers were acting in accordance with the established policy as required.

42. The Board noted that several trips were open beyond the stipulated time for closing globally in all regions of UNICEF. The regions with the highest number of open trips were headquarters in New York, the West and Central Africa region, the Eastern and Southern Africa region, the Middle East and North Africa region and the Europe and Central Asia region.

43. The Board further noted that many managers had kept their own trips open beyond the stipulated time period. Persons occupying managerial positions are expected to ensure compliance with rules by others, hence it is important that they themselves comply with the policies of UNICEF.

Internal control on travel

44. In its test check, the Board noted 11 cases where travellers had more than three trips (started after 1 September 2016) open, which should not have been possible if the enhancement of VISION to impose a hard stop for travellers with three or more trips had been deployed effectively. The Board also noticed instances where travellers with three open trips were able to get four or more trips opened for themselves without closing earlier trips. The enhanced capacity of VISION should have prevented travellers from being able to open the additional trips if they had three open travel authorizations.

45. The Board further noted that pursuant to the current travel policy, 100 per cent of daily subsistence allowance is released and expensed on creation of a trip. This decision was based on a review which found that adherence to trip closure

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[2] Whereby the system automatically prevents processing of new travel authorizations.

requirements being high, 100 per cent expensing would be both appropriate and economical on cost and staff time. The Board observed that in view of deficiencies in trip management pointed out by the Board, the policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip is not appropriate. Hence, UNICEF needs to review that policy without delay.

46. UNICEF stated that the trips noted by the Board were not done using the "create action" function but were generated by copying from an existing travel authorization. The VISION system has a system validation for a hard stop in the "create action" function.

47. Given the fact that the trips of not only travellers but also managers are remaining open beyond the stipulated time and the VISION-based hard stop facility is not comprehensive and also is not working effectively, it is important for UNICEF to review the travel processes.

48. **The Board recommends that UNICEF review and ensure compliance with the internal control mechanism in the travel management and related processes.**

49. **The Board further recommends that UNICEF make travellers and managers aware about their duties and roles as envisaged in the travel policy.**

50. **The Board further recommends that UNICEF review its policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip.**

51. UNICEF agreed with the recommendations.

Inconsistencies in reports of travel modules of VISION

52. The travel function is being handled through the customization of VISION. The Board studied several trips by comparing the information on the same trip presented in different reports prepared through VISION and the information generated through the business intelligence tool to see if the status of the trip as closed or open was consistently displayed across various reports.

53. The Board noticed the following inconsistencies in the reports:

(a) A traveller was paid the trip settlement amount even when the trip was not processed and closed. UNICEF stated that there has been no functional requirement for a travel authorization to be certified/closed for payment to be made. In the Board's opinion this is a procedural weakness in the system;

(b) The same trip number showed two different end dates. UNICEF stated that the same trip may be shown multiple times (have multiple records) if there is a change in the trip end date or location;

(c) A trip was shown as closed even when the travel was not over. UNICEF stated that this was an anomaly and it would update the system.

54. With inconsistencies in the travel management functionality of VISION, the Board is concerned about the effectiveness of the control mechanism in place for travel management.

55. **The Board recommends that UNICEF get a verification of compatibility and customization process of VISION, including the travel management functionality, done.**

5. Internal control

Segregation of duties

56. Segregation of duties is an important internal control which involves the distribution of tasks and associated privileges for a specific business process among multiple staff, with the primary objective of preventing errors and fraud. A segregation of duties conflict exists whenever an individual is assigned roles that should be segregated. Segregation of duties is achieved by avoiding situations whereby one individual is responsible for an entire transaction cycle.

57. The internal controls and the segregation of duties rules implemented by UNICEF are detailed in the UNICEF financial and administrative policy. The roles to be segregated are detailed in the user access management guide. Segregation of duties conflicts are required to be either remediated (reassigning or withdrawing one of the roles in the conflict) or mitigated by putting in compensating controls (controls intended to reduce the risk of an existing or potential control weakness).

58. The Board noted from the segregation of duties violation report that there were 1,943 violations of segregation of duties rules in UNICEF. Out of these, 495 violations pertained to the New York headquarters and out of these 372 were mitigated, 82 were not mitigated and 41 were related to instances where a staff member was acting as the officer-in-charge.

59. UNICEF stated that transactions that had a high risk owing to a lack of segregation of duties are now processed at the Global Shared Service Centre. Risk is mitigated by processes of the Service Centre that limit the ability of any one staff member from processing the full scale of a transaction, even when they have the roles to do so.

60. The Board noted that the segregation of duties violation report does not show the updated and actual position of violations of segregation of duties rules as managers have not updated it with the mitigation provided by the Global Shared Service Centre, despite reminders from the Division of Financial and Administrative Management. Similarly, after implementation of the Service Centre, the user access management guide, which was issued before the introduction of the Centre in January 2013, also needs to be updated. Furthermore, as segregation of duties is an important element of internal control, accurate and reliable information should be available to management for better and proper monitoring of segregation of duties violations. It is also expected that with the introduction of the Global Shared Service Centre, the requirement of physical segregation of duties may not be necessary, as the same purpose can be achieved by the inbuilt internal control system created by the Centre. This will also help UNICEF to reduce the manpower otherwise involved in executing these controls.

61. **The Board recommends that UNICEF complete the review of the user access management guide and the segregation of duties rules and update them in a time-bound manner.**

62. **The Board further recommends that UNICEF update the segregation of duties violation report to reflect the mitigation of segregation of duties conflict by the Global Shared Service Centre process and to incorporate transaction-level monitoring.**

63. UNICEF agreed with the recommendations.

6. Management of consultants

Hiring of consultants

64. UNICEF utilizes temporary assistance of consultants in order to respond quickly, flexibly and effectively to organizational priorities. The relevant UNICEF administrative instruction (CF/AI/2013-001, Amendment 2 dated 9 February 2015) sets the provisions for individual contracts that are issued for consultants and individual contractors. In accordance with this instruction, UNICEF issues individual contracts to engage consultants and individual contractors.

65. Data extracted from VISION showed that UNICEF issued 6,660 contracts to hire consultants and individual contractors during 2017, out of which 1,012 contracts pertained to headquarters divisions. The Board examined the contracts of consultants pertaining to headquarters divisions. Deviations from the administrative instructions observed by the Board are discussed in the paragraphs below.

66. Paragraph 5.7 of the administrative instruction provides that the decision to opt for single-source selection shall be properly documented in a note for the record, duly approved by the head of office or division director with the delegated authority as detailed in section 4 of the instruction.

67. Out of the total 6,660 contracts issued globally during 2017 for the hiring of consultants, 432 were awarded based on the single-source selection method. The Board reviewed 39 such cases pertaining to headquarters divisions and noticed cases where: (a) the note for the record attached in VISION had only the recommendation for selection and the approval of the division director was not available; and (b) the note for the record did not have the designation of the signing authority or the date of signature and, therefore, the Board could not ascertain whether they were approved by the division director.

68. Sections 3.7 and 4.2 of the administrative instruction provide for re-engagement of former and retired staff members subject to prior written clearance by the Director of the Division of Human Resources.

69. The Board noted that there were a total of 719 consultants who fell under the category of retired or former employees. The Board observed that in 390 such cases, UNICEF did not obtain the clearance of the Director of the Division of Human Resources.

70. UNICEF informed the Board that in some cases clearances by the Director of the Division of Human Resources were not obtained owing to oversight; in some cases, it was seeking clarification from the hiring section; and in some cases, there may be an error in vendor data and the consultants were not former or retired staff.

71. According to section 4.3 of the administrative instruction, an individual contract must not be approved by the appropriate approving authority prior to review by, and receipt of, a recommendation from the appropriate Contracts Review Committee if the contract amount is equal to or exceeds the thresholds[3] stipulated in the UNICEF financial and administrative policy.

72. The Board noticed that there were 374 contract cases globally where the meeting of the Contracts Review Committee should have taken place based on the threshold contract amount. However, there was no record of a Contracts Review Committee meeting in 101 cases.

[3] The thresholds are $100,000 if the contracting authority is in New York, Copenhagen, Geneva, Brussels, Tokyo or a regional office and $50,000 if the contracting authority is in a UNICEF country office.

73. According to paragraph 6.41 of the administrative instruction, a formal output evaluation is to be conducted at the time of the completion of an assignment or at the end of the contracting period, as applicable, on a designated form. Paragraph 6.26 of the administrative instruction stipulates that the payment of fees is subject to satisfactory completion of services and certification by UNICEF to that effect at the appropriate milestones.

74. Analysis of data showed that 3,177 contracts were closed globally as at 13 April 2018 and in respect of 1,466 contracts details of evaluation were not properly recorded in VISION.

75. UNICEF mentioned several reasons, such as VISION showed "evaluation not made" even though the evaluations were done; the evaluation was not done using the designated form; only an interim evaluation was done; and the evaluation was unsigned.

76. The Board is concerned that VISION was not updated in a timely manner. In the absence of timely updating, it would provide incomplete and outdated information. This may lead to ill-informed decision-making.

77. **The Board recommends that UNICEF ensure compliance with the procedures for hiring consultants.**

78. **The Board further recommends that UNICEF ensure that VISION is updated with the latest information and all supporting documents are uploaded on a real-time basis.**

79. UNICEF stated that the authority for the issuance and administration of individual contracts has been delegated to division directors in headquarters locations and heads of office in country offices, as appropriate, subject to clearances stipulated in the policy. The heads of offices are therefore accountable for the management of consultants and individual contractors, including compliance with the policy. However, the Division of Human Resources, which is the business owner for the policy on individual consultants and contractors, will continue to work to support offices in strengthening their knowledge of the policy and to provide guidance to offices in the implementation of the policy and compliance with the applicable procedures.

7. National Committees

Expenses in excess of prescribed ceiling

80. Rule 107.8 of the UNICEF financial regulations and rules stipulates that UNICEF is to make arrangements with the National Committees[4] that enable them to retain up to 25 per cent of their gross proceeds in any one calendar year to meet their costs of operation (including fundraising and advocacy).

81. Paragraph 14 (a)(i) of the cooperation agreement between National Committees and UNICEF stipulates that the standard minimum annual contribution rate of National Committees to UNICEF is 75 per cent of gross proceeds raised and the Committee may retain up to 25 per cent of gross proceeds to cover the costs of its activities. The National Committee is to strive to reach this standard minimum contribution rate. A variance of 5 per cent of gross proceeds is permitted for expenses applied to child-rights advocacy.

82. The Board noted from the revenue and expenditure reports of 2016 that of the 26 National Committees with UNICEF-approved budgets to retain more than 25 per

[4] The National Committees are independent organizations, set up at the country level to raise funds to finance the activities of UNICEF.

cent of their gross revenue collection, 21 National Committees retained more than 25 per cent of their gross revenue collection.

83. UNICEF stated that given each National Committee's individual context, it is not achievable for all to reach 75 per cent this year or in the next few years. UNICEF further stated that the Joint Strategic Plan budget process is in line with paragraph 14 (b) of the cooperation agreement, which states that the National Committee agrees it will engage, as part of the Joint Strategic Plan, in a process of continuous improvement to maximize income and ensure credible and acceptable margins. The Joint Strategic Plan includes a road map to achieve these goals. Consequently, UNICEF accepted the position of the National Committees and documented the mutually agreed timelines for improving the contribution rates.

84. The Board, while noting the response of UNICEF, observes that it is important for UNICEF to engage, as recommended in the Board's previous report (A/72/5/Add.3, para. 36), with the National Committees to bring the retention level to 25 per cent or less so that UNICEF gets more funding for its activities.

Financial reporting requirement of National Committees

85. The National Committees planning and reporting calendar stipulates that the National Committees should submit their audited financial statements and certified final revenue and expenditure reports by 20 April of the following year.

86. In a review of dates of submission of certified financial statements by National Committees, the Board observed that the certified revenue and expenditure reports of the Committees of Belgium, Denmark, Sweden, Hungary, France and Hong Kong (China) for the year ending December 2016 were received with a delay ranging from 7 to 253 days. The Board also noticed that the Committees of Hungary, France and Hong Kong (China) also submitted their certified 2015 revenue and expenditure reports late.

87. UNICEF informed the Board that it is already exercising its oversight and coordinating and communicating with the National Committees on the submission dates. Full compliance is based on action by the National Committees, rather than incremental follow-up. National Committees can only submit audited financials once their boards have approved them, and several boards do not meet until after the deadline. UNICEF has requested that National Committee board meetings to be held earlier, however this is at the discretion of the Committee and it is not feasible for some of them.

88. The Board notes the initiatives by UNICEF in pursuing matters with the National Committees and the assurance that UNICEF will coordinate with the National Committees to comply with the reporting calendar. However, the status of delays in submissions by National Committees reflect that the efforts by UNICEF need to be strengthened further.

89. **The Board recommends that UNICEF periodically interact, guide and direct National Committees that are consistently delaying submission of audited financial statements and certified final revenue and expenditure reports.**

Investment by National Committees

90. In accordance with clause 14 (k) relating to management of funds and assets of the cooperation agreement, National Committees have agreed to follow a low-risk investment policy. Low-risk investments are investments that are not speculative and include bank accounts, money market funds or certain Government bonds or investments that are otherwise in accordance with existing national charity standards.

91. From annual financial statements of National Committees for the period ended 31 December 2017, the Board noticed that:

(a) The National Committee of New Zealand had an investment of $2.15 million of which $1.19 million was invested in stocks (55 per cent);

(b) The National Committee of the United States of America had invested in United States equities and non-United States equities for $8.64 million and $2.92 million respectively, which was 27 per cent of the total investment of $42.67 million, and the audited financial statements disclosed an appreciation in fair value of the investment in an amount of $1.39 million.

92. **The Board recommends that UNICEF engage with the National Committees for appropriate management of their investments and review their investment policy.**

93. UNICEF accepted the recommendation and stated that it would review the investment policies of National Committees by the fourth quarter of 2018.

8. Fundraising activities

94. Paragraph 3.2.1 of the guidance document on 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.

95. The private fundraising and partnerships plan 2014–2017 has identified five priority income streams as offering the greatest potential for income generation from private sector fundraising and partnerships: (a) pledges; (b) major donors; (c) legacies; (d) corporate streams; and (e) foundations.

96. The Board noticed that there was a shortfall in fundraising from major donors and corporate streams in comparison to all targets. The performance in all priority income streams against the targets of the strategic plan, the budget and the revised Joint Strategic Plan is detailed in table II.4.

Table II.4
Status of revenue collection, 2017

	Targets for 2017 (Millions of United States dollars)				*Achievement in 2017 against targets (Percentage)*		
Income channel	*Strategic Plan*	*Budget*	*Revised Joint Strategic Plan*	*Achievement in 2017 (Millions of United States dollars)*	*Strategic Plan*	*Budget*	*Revised Joint Strategic Plan*
Pledges	1 000	768	731	778	78	101	106
Major donors	150	60	77	55	37	92	71
Legacies	200	79	85	85	43	108	100
Corporate streams	290	203	186	183	63	90	98
Foundations	183	332	231	311	170	94	135

Source: Private fundraising and partnerships dashboard.

97. UNICEF stated that annual budgets were adjusted on the basis of past performance and external market factors while the Joint Strategic Plan figures are negotiated separately, and attributed the shortfall in achievement of targets to dollar appreciation and acknowledged challenges in the corporate channel.

Fundraising from the corporate channel

98. The 2017 workplan and proposed budget states that UNICEF will pursue an integrated approach to corporate engagement, including resource mobilization, corporate social responsibility initiatives and programmatic cooperation.

99. The Board observed that the target for fundraising from the corporate channel was almost achieved, as the actual revenue collected for 2017 was $183 million vis-a-vis the revised Joint Strategic Plan target of $186 million. The Board further noted that at the country office and National Committee level there was wide variation in revenue collection for the corporate stream (see table II.5).

Table II.5
Corporate revenue received by various country offices and National Committees

Range (corporate contribution received as percentage of revised Joint Strategic Plan target)	*National Committees/country offices*	*Number of National Committees and country offices*
0–25	**National Committee**: Israel Country offices: Chile, Gulf Area Office, Indonesia and Singapore	5
26–50	**National Committees**: Iceland, Lithuania and Switzerland **Country offices**: Brazil and Colombia	5
51–75	**National Committees**: Andorra, Australia, Austria, Hungary, Italy, Luxembourg, Poland, Portugal, Slovakia and Turkey **Country offices**: China, India, Philippines, Romania, Serbia and Uruguay	16
76–100	**National Committees**: Belgium; Canada; Denmark; Finland; Japan; New Zealand; Norway; Hong Kong, China; Republic of Korea; Spain; Sweden; United Kingdom of Great Britain and Northern Ireland and United States **Country offices**: Bulgaria, Malaysia, Peru and Thailand	17
Outliers	**National Committees**: France (101 per cent), Germany (102 per cent), Slovenia (105 per cent), Greece (106 per cent), Czechia (123 per cent), Ireland (179 per cent) and Netherlands (264 per cent) **Country offices**: South Africa (128 per cent), Argentina (156 per cent), Mexico (190 per cent), Ecuador (317 per cent), Croatia (418 per cent) and Bolivarian Republic of Venezuela (1,623 per cent)	13
Total		**56**

Source: Private Fundraising and Partnerships Division.

100. The Board observed that out of 56 National Committees and country offices, 26 could not reach the 76 per cent target whereas 13 National Committees and country offices exceeded the target.

101. The Board further noticed that in respect of 11 National Committees and country offices, the target, as contained in the revised joint strategic plan for 2017, was set at less than the actual contribution collected during 2016.

102. UNICEF stated that the 2017 revised Joint Strategic Plans were agreed to before the 2016 actual results had been reported for these National Committees and country offices. It further stated that it agreed with the Board's view that UNICEF should continue to address the reasons for underperformance of this income channel and stated that UNICEF has recently restructured the corporate partnerships team to provide more targeted support.

103. The Board is concerned about the wide variation in revenue collection by National Committees and country offices from corporate donors.

104. **The Board recommends that UNICEF analyse the reasons for low contributions and then formulate an appropriate strategy to enhance the level of contributions from potentially important income channels such as corporate donors.**

105. UNICEF stated that management has already extensively analysed the target results, with the 2018–2021 impact plan as the resulting evidence-based strategy. One of the proven key strengths of the strategy is that it relies on diversification of income channels to meet the overall income goals. As a result of this diversity, an estimation of future income with full precision is not feasible. Overperformance in certain channels is balanced by underperformance in others. Overall, gross revenue targets for 2017 and for the four-year strategic period were met and significantly exceeded.

106. While the Board appreciates the fact that targets for fundraising from corporate channels was almost achieved, it is also of the opinion that a focused strategy towards the underachieving National Committees and country offices has the potential to enhance the existing level of corporate contributions for UNICEF.

Funding for the humanitarian action for children appeal

107. The humanitarian action for children appeal is the UNICEF global appeal, which highlights the challenges faced by children in humanitarian situations, the support required to help them survive and thrive across different sectors like emergency preparation, child protection, health, Water, Sanitation and Hygiene for All, education and social inclusion, the required financial support and the results that are possible in even the most difficult circumstances.

108. The Board observed that in the West and Central Africa Regional Office, compared with the appeal amount of $558.86 million for 2017, the receipts were $315.54 million indicating a funding gap of 43 per cent. The funding gap in the respective appeals ranged between 19 per cent and 72 per cent. Similarly, in the South Asia Regional Office, the receipt was $88 million compared with the appeal amount of $154 million, indicating a funding gap of 43 per cent.

109. UNICEF stated that it had made numerous efforts to mobilize resources for emergency purposes, which included maintaining strong relations with donors in the region, attending international meetings and humanitarian summits to strengthen networking and advocacy, and producing public advocacy, press releases and communication initiatives to sensitize public and private audiences on emergencies in the region. It also mentioned the role of National Committees, the Public Partnerships Division and the Office of Emergency Programmes at the headquarters level in fundraising activities.

110. **The Board recommends that UNICEF further strengthen its efforts in fundraising activities to get the desired response from donors to handle emergency situations.**

111. UNICEF agreed with the recommendation.

Donor reporting

112. According to paragraph 4.310 of the UNICEF Programme Policy and Procedure Manual, UNICEF is expected, and legally bound, to submit reports to donors on the use of contributions. Offices should ensure timely and good quality reports to account for the resources entrusted to the organization and to help raise future resources. According to the Public Partnerships Division general guidance and checklist, timely

submission of good quality donor reports is one of the main accountabilities UNICEF has with respect to maintaining good relations with its donors. Future funding can be ensured only in as far as donors are content with the reports of UNICEF.

113. The status of donor reporting in UNICEF for 2017 (as at March 2018) showed that 84 per cent (3,094 out of 3,666) of donor reports were sent to donors on time, while the remaining 16 per cent were either sent with a delay[5] or were overdue for submission.[6] At headquarters, only 63 per cent (842 out of 1,334 reports) of the reports were sent to donors on time, while the remaining 37 per cent (492 out of 1,334 reports) were either sent with a delay (259 reports) or were overdue (233 reports). The Board noted that 259 reports were sent with a delay of 2 to 11 months. Furthermore, out of 233 reports overdue for submission in headquarters, 62 reports were overdue for submission to donors by 11 to 14 months, 97 reports were overdue by 6 to 10 months and 74 reports were overdue by 3 to 5 months.

114. UNICEF cited various reasons for the delays, such as further consolidation of the report before submission to the donor, sending of reports by country offices, grant holders or divisions directly to donors instead of to the Public Partnerships Division, delayed submission of reports by country offices and grant holders to the Division, improving the quality of reports by the Division, sending incomplete reports, oversight and non-updating of information in VISION.

115. The Board noted that the reasons quoted by UNICEF underline the need to strengthen the mechanism for monitoring donor reports as the delayed submission or non-submission of reports to donors on the use of their contributions may adversely affect good relations with donors, as well as the raising of future resources.

116. **The Board recommends that UNICEF strengthen the mechanism for monitoring donor reports and ensure timely submission of all donor reports.**

117. **The Board further recommends that UNICEF update information on submission of donor reports in VISION.**

118. While agreeing, UNICEF stated that in 2018 it would roll out a new donor reporting portal, which will: (a) increase the visibility of narrative and financial donor reporting through UNICEF; (b) simplify the review and clearance process; and (c) contribute to timely submission of cleared reports to donors.

9. Management of cash transfers

Harmonized approach to cash transfers

119. UNICEF adopted a revised harmonized approach to cash transfers framework 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 participate in the framework. Harmonized approach to cash transfers activities include:

(a) Macroassessments 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) Microassessments of the implementing partner to assess the partner's financial management capacity determining the overall risk rating of the partner and the frequency of assurance activities. Microassessments are required when the partner receives more than $0.10 million in a calendar year;

[5] Reports sent to the donor after the stipulated time.
[6] Reports were due to be sent but were not sent until March 2018.

(c) Assurance plans based on the risk rating of the implementing partner in the microassessment. UNICEF country offices: (i) conduct spot checks on the partner's reports of utilization of cash; (ii) conduct programmatic visits to assess the achievements reported by the partners; and (iii) plan a scheduled audit by an external service provider if the partner receives more than $0.50 million per programme cycle.

120. UNICEF expenses on direct cash transfers during 2017 were $2.22 billion, which was 38 per cent of the total expenses of $5.86 billion. This was a 13 per cent rise from the expenses of $1.97 billion in 2016. Transfer of cash assistance included 45 per cent in transfers to Governments and 46 per cent to civil society organizations. Among the regions, the Middle East and North Africa region had the highest direct cash transfer expenses, at $762.74 million, followed by the Eastern and Southern Africa region at $490.09 million, the West and Central Africa region at $446.72 million, the South Asia region at $206.78 million, the Europe and Central Asia region at $147.18 million, the East Asia and Pacific region at $88.38 million, the Latin America and Caribbean region at $66.96 million and headquarters at $15.81 million.

Assessment activity and monitoring mechanism of implementing partners

121. In accordance with the policy on the harmonized approach to cash transfers, country offices are required to implement 90 per cent of targeted assurance activities.

122. The 2017 global harmonized approach to cash transfers implementation report shows that the overall target related to assessment activities has largely been achieved, except that the Latin America and Caribbean region and the Middle East and North Africa region fell short in terms of spot checks. The Board further noted that six country offices conducted less than 90 per cent of the target for spot checks: Ethiopia (86 per cent), Pakistan (85 per cent) Haiti (77 per cent), Syrian Arab Republic (70 per cent), Mozambique (66 per cent) and Yemen (59 per cent).

Cash transfer disbursement and reporting

123. In accordance with paragraph 23B of UNICEF procedures on the harmonized approach to cash transfers, microassessments are undertaken at least once during each programme cycle on implementing partners expected to receive $100,000 or more. UNICEF stated that there are controls in VISION to prevent country offices from transferring more than $0.10 million to implementing partners that have not been assessed.

124. A test check of non-assessed implementing partners revealed that more than $0.10 million was disbursed to some of these implementing partners in contravention of above-mentioned rule. This indicated that the stated controls in VISION relating to the transfer of funds to implementing partners were not working according to the extant procedure.

125. UNICEF stated that the status of the implementing partners referred to was updated in the first quarter of 2018 to "non-assessed", subsequent to which the system would apply the requisite control to them.

126. The Board also observed that in the Afghanistan country office, direct cash transfers of more than $100,000 were made to 89 implementing partners for different programmatic activities during 2015–2016, but the Afghanistan country office undertook microassessments in respect of only 16 of them. Microassessments in respect of only six implementing partners were completed in 2017. Not assessing the implementing partners exposes UNICEF to inherent risks against the delivery of intended programme outputs and integrity in their functioning.

127. UNICEF stated that microassessments are valid for five years. Country offices in any year conduct microassessments only on those partners for which the microassessment has expired or on new partners for which no microassessment has been done. The Afghanistan country office is not expected to assess 89 partners every year if they have a valid assessment or if a high risk is assumed. It also stated that vendors can be divided into two categories: government and civil society organization partners; and United Nations agency and bilateral partners. Government and civil society organization partners are validated against risk ratings and United Nations agencies and bilateral partners are not validated. The policy on microassessment requirements for cash transfers to partners needs to be updated to reflect that UNICEF does not pursue microassessments for United Nations agencies and bilateral partners.

128. UNICEF further stated that the vendor master record has been updated in all the government cases and the one civil society organization case. The validation built into the system uses the vendor master record and is done against the risk rating value in the vendor master record. It is possible to update the record independently of the funding commitments currently in effect for a particular vendor; that is, even if there are transactions recorded against the vendor already. The system cannot do a retroactive reduction of the amounts disbursed at the point the vendor risk rating is modified. The system does not retain the earlier risk rating value. There was a valid risk rating during the time of the transaction which was subsequently updated to "not required", which caused the vendor to appear in the extraction list of records wherein the funding commitments amount was greater than what should be permitted.

129. The Board noted that the UNICEF procedure prescribes that microassessments are undertaken at least once each programme cycle and are valid for up to five years. Furthermore, no document relating to existing valid assessments was provided to the Board to support the assertion made by UNICEF.

130. The Board noted that the concerned country office acknowledged the delay in conducting microassessments in 2015 and 2016 and attributed the delay to multiple factors, which were both internal and external and included security-related issues that prevented the contracted firm from carrying out the planned microassessments. However, the Afghanistan country office assured the Board that it would implement the plan for identified partners and streamline all assurance activities in accordance with the harmonized approach to cash transfers guidelines.

131. **The Board recommends that UNICEF review and strengthen the internal control and monitoring system over cash transfers to implementing partners and fully adhere to the laid down policy for these cash transfers.**

10. Procurement and inventory management

Deficiencies in vendor master records

132. The vendor master record in VISION is an internal UNICEF database that includes details of all vendors with which UNICEF may wish to contract. In accordance with paragraph 2.2 of divisional procedure 003, except in instances of adding or changing vendor bank details, which are handled by the Financial Advisory Committee, only the Quality Assurance Centre is authorized to request the Global Shared Service Centre to register or amend vendor general information in the vendor master record.

133. The Board examined the extract of the vendor master record provided by the Supply Division and observed that out of 3,516 active vendors in the vendor master record, 1,169 vendors did not have bank account details and 843 vendors had no email accounts registered. The Board further cross-checked the vendors with no bank details registered in the vendor master record with purchase orders placed during 2017 and

observed that purchase orders for eight standard items and five generic items were placed with 12 such vendors during the year.

134. UNICEF informed the Board that out of those 12 vendors, the bank details for two vendors had been updated after the lack of data was pointed out by the Board, bank details for one vendor were in the process of being updated, two vendors had alternate payee details and one vendor had registered authorized distributors for transactional purposes. UNICEF accepted that bank details were missing in respect of the remaining six vendors.

135. In the audit report for 2016 (A/72/5/Add.3), the Board also had pointed out deficiencies in the vendor master record and had recommended periodic reviews of the vendor master record.

Contracting with ineligible vendors

136. In accordance with divisional procedure 036, the Supplier Evaluation Unit in the Quality Assurance Centre evaluates suppliers against a range of criteria. The divisional procedure states that the latest Supplier Evaluation Unit evaluation results supersede any current applicable waiver. If the evaluation result of a supplier is either "not recommended" or "no recommendation can be made" for financial reasons, the Unit is supposed to inactivate the supplier in the vendor master record. This would be done after consultations with the Chief of the Quality Assurance Centre, the Vendor Review Committee and the Office of the Director as appropriate, and after informing the concerned Centre, which would disallow any transactions whatsoever with the supplier.

137. The standard operating procedures on vendor evaluation state that vendors suspended by other United Nations agencies will be deemed ineligible for contracting by UNICEF and that a vendor included in the ineligibility list in the United Nations Global Marketplace database is considered an ineligible vendor.

138. The Board observed that during 2017, the Supplier Evaluation Unit re-evaluated 130 vendors, on the basis of which 128 vendors were "recommended", one vendor was "not recommended" and for one vendor the result was "no recommendation can be made". The Unit further undertook 945 vendor re-evaluations based on requests from country offices, following which 21 vendors were "not recommended" and for 18 vendors the result was "no recommendation can be made". However, the Supplier Evaluation Unit database was not updated after the evaluations and re-evaluations that had previously been done in 2014.

139. The UNICEF Supply Division responded that since it contracts with a large number of vendors, the evaluations and re-evaluations are carried out based on risk, efficiency and cost effectiveness and that the Supplier Evaluation Unit database shows the evaluation and re-evaluation dates, and that vendors which are not re-evaluated are maintained in the database for historical reference purposes. The Board observed that not updating the latest status of vendors following evaluations and re-evaluations not only represents non-compliance with procedures but also entails the risk of contracting with ineligible vendors.

140. The Board further cross-checked the list of vendors which had evaluation results of either "not recommended" or "no recommendation" from the Supplier Evaluation Unit database with that of purchase orders placed during 2017. The Board observed that a vendor was re-evaluated in 2014 and a waiver to the blocking of that vendor was extended for 12 months. Hence, the vendor was to be re-evaluated in August 2015. The Vendor was, however, re-evaluated only in November 2015 and the blocking was waived with validity up to 31 December 2017 even though the vendor was suspended from the roster maintained by the Procurement Division of the United

Nations Secretariat. Furthermore, during the 2017 re-evaluation, the vendor was again "not recommended" during a meeting held by the Supplier Evaluation Unit on 13 June 2017. However, this was not updated in VISION and purchase orders valued at $1.18 million were placed to the vendor (20 of these purchase orders were placed from 16 June 2017 to 21 November 2017).

141. The UNICEF Supply Division responded that in line with divisional procedure 036, due to exigencies and other strategic organizational needs, the Director of the Supply Division may approve a waiver to allow procurement from a vendor with either number 99[7] or number 97[8] blocks and such is the case for the referenced vendor. The Supply Division further informed the Board that the current waiver was approved with validity up to 4 September 2018 and upon expiry of the waiver, the block would be reinstated in VISION and a review undertaken to assess the status of the vendor's malpractices. UNICEF further stated that the waiver was time-bound and attributable to the vendor, rather than being attributable to a specific agreement.

142. The Board observed that the waiver was given for specific supply items and for a specific agreement. It was not given for all the items supplied by the said vendor. The referenced waiver in 2015 with validity up to 31 December 2017 was also for a specific long-term agreement and the block waiver given in 2016 with validity up to 4 September 2018 was also for other specific long-term agreements. However, the Supply Division placed supply orders under a long-term agreement for which no valid waiver was in force. Furthermore, in accordance with divisional procedure 036, the latest Supplier Evaluation Unit evaluation supersedes any current waiver applicability. Accordingly, the result of the re-evaluation during the meeting of the Unit of 13 June 2017, that is, "not recommended" should have superseded the waivers already approved.

143. Thus, the Board observed that not updating the status of a vendor in the Supplier Evaluation Unit database and in VISION exposes UNICEF to the risk of contracting with unstable and unethical vendors who were removed from the Procurement Division roster.

144. **The Board recommends that UNICEF update the vendor database with the results of evaluations/re-evaluations and the recommendations of the Vendor Review Committee on a real-time basis.**

Unclaimed refunds of value added tax

145. The UNICEF Programme Policy and Procedure Manual states that in accordance with the basic cooperation agreement, no direct taxes, cess, tolls or duties shall be levied on supplies, equipment or services furnished by UNICEF under the country programme action plan. UNICEF shall also be exempt from value added tax (VAT) in respect of local procurement of supplies or services in support of UNICEF-assisted activities.

146. The Board observed that in the Sri Lanka country office there was an outstanding receivable amount of VAT of $0.004 million from the Government of Nepal related to emergency preparedness supplies for children bought by the Nepal country office in 2014. In respect of the Afghanistan country office, there was an outstanding receivable of VAT of $0.026 million from the Government of Nepal with regard to material purchased through the South Asia Regional Office in 2014 and 2015. There was also an outstanding receivable at the South Asia Regional Office for

[7] Block due to financial reasons.
[8] Block due to ethical reasons.

VAT of $0.091 million from the Government of Nepal pertaining to the years 2015 to 2017.

147. The Board noticed that in the Ghana country office in accordance with the policy of the Government of Ghana, VAT refunds were to be claimed on a quarterly basis. The Board, however, observed that the Ghana country office did not furnish claims for VAT refunds on a quarterly basis. For 2017, the country office submitted claims only once (in May 2017) and subsequently in January 2018. VISION exhibited 186 invoices involving $0.12 million outstanding in VAT as at the end of 2017. Out of the outstanding VAT, the Ghana country office claimed $0.08 million in respect of 148 invoices, leaving 38 invoices unclaimed with an outstanding VAT of $0.045 million.

148. UNICEF stated that not claiming VAT on a quarterly basis was a situational matter and beyond the control of the Ghana country office.

149. The Board is concerned about the delay in claiming VAT refunds by the country offices.

150. **The Board recommends that UNICEF country offices claim and actively pursue the VAT refunds due.**

151. UNICEF agreed with the recommendation.

Quality assurance release of pharmaceutical and other stock

152. Divisional procedure 031 deals with the process for quality control of stock materials entering the warehouse. Paragraph 5.2 of the procedure states that all pharmaceuticals and other stock materials conforming to all the prescribed specifications shall be released from "Q-stock"[9] to unrestricted stock within two working days.

153. UNICEF informed the Board that goods are normally released daily, on the basis of a workflow report from the warehouse management system and that a monthly VISION report provides an overview of goods received in each period.

154. The Board examined the monthly VISION reports for 2017 provided by the Supply Division and observed that the reports provide an overview of goods received, dates of inspection of goods for quality checking and dates of quality release of stock from restricted to unrestricted stock after quality checking and clearance. The Board also observed from the VISION reports of 2017 that quality release dates[10] preceded the dates of inspection of six pharmaceutical products (in March 2017) and 13 non-pharmaceutical stocks (in April 2017) during the year. Logically, the release of the stock from restricted to unrestricted stock should be done after quality assurance checking and not precede the inspection for quality checks. There are no recorded reasons for the unlikely situation of the quality release preceding the quality inspection. The Board also observed that quality release dates were not provided in respect of 650 pharmaceutical products and 279 non-pharmaceutical stocks during 2017 as a result of which it was not possible to verify the timeliness of the release of stock from restricted to unrestricted stock after quality checking.

155. UNICEF informed the Board that cases where quality release dates are not given are those of pre-delivery inspection for direct deliveries to country offices and hence have no bearing on the warehouse activity in terms of release of goods. However, the

[9] "Q-stock" is the restricted stock that will be released into unrestricted stock in the warehouse after quality inspection clearance by the Quality Assurance Centre.

[10] The quality assurance release date is the date of release of stock from restricted Q-stock status to unrestricted stock in the warehouse after quality assurance checking.

VISION report did not reflect that these were cases of pre-delivery inspection and hence the information given in the report is not complete.

156. Furthermore, the Board examined the consolidated VISION report provided by the Supply Division with details of 6,403 items delivered and released in the warehouse for 2017, and observed that for 1,176 items, quality release was not carried out within two working days and hence did not conform to the requirement of the divisional procedure.

157. UNICEF responded that for non-pharmaceutical goods receipt, the internal Quality Assurance Centre target is taken as an indicative measure and that owing to priorities of work in other areas, a few cases of receipt of goods can be completed some days after the goods are posted to Q-stock. UNICEF also stated that this practice has not resulted in any delays further down the line in any warehouse operations.

158. The Board observed that the delay in updating the quality release can have an impact on programmatic delivery. These delays and deficiencies in reporting go against the spirit of the prescribed timelines and would, in the long run, potentially weaken the internal control and monitoring system.

159. **The Board recommends that UNICEF follow the timeline for release of pharmaceutical and other stock from restricted to unrestricted stock after required quality checks.**

160. UNICEF agreed with the recommendation and stated that it would be implemented by the end of the third quarter of 2018.

Goods-in-transit

161. In accordance with the UNICEF 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 procedures for assessment, planning, procurement, shipping, goods clearance, warehousing and inventory management, in-country distribution, supply tracking, and monitoring and evaluation. In-country logistics refers to supply chain activities relating to 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 and inland transportation and supply tracking.

162. The Board noted that in the Afghanistan country office inventories worth $4.55 million ordered through 67 deliveries were reflected as goods-in-transit as at 22 November 2017. Out of this, 29 deliveries worth $0.76 million were delayed beyond 150 days. These 29 deliveries were held in the Islamic Republic of Iran since June and July 2017. Although the Afghanistan country office had taken up the matter with the freight forwarder and the Supply Division, the supply was delayed beyond 150 days because of public holidays and a dispute between clearing agents.

163. The Board is concerned with the undue delay in receipt of the deliveries, which might leave these supplies to be of no use to the programmatic activities.

11. Contract management

Non-closure of contracts whose validity had expired

164. In accordance with the Supply Manual, the purpose of contract management is to ensure that all parties to the contract fully meet their respective obligations as efficiently and effectively as possible, providing the best value for money. The last step in the contract management phase is closure of the contract. In VISION, this is executed through the acceptance by the requisitioner of the services provided and subsequent payment of final invoices by the finance section. Upon prompting from

the requisitioner that the contract has been completed and there are no additional payments to be made, the supply/procurement unit closes the contract and attaches the final performance evaluation of the contractor to the contract record on VISION and places a hard copy on the contract file. In addition, the manual provides that the report evaluating the contractor and its findings are to be used as future reference and as lessons learned for future guidance.

165. The Board observed from information available on the supply dashboard (as at 26 January 2018) that the validity period of 138 contracts had ended between 31 July 2013 and 31 December 2017 but they remained open in VISION with a balance of $0.89 million. These included 46 contracts whose validity had expired before 1 January 2017.

166. The Board also observed that 26 contracts had negative balances of $0.50 million for which there was no reason recorded in the system.

167. The Board test checked, on a random basis, the status of performance evaluation of the contractors in respect of 12 contracts in VISION and observed that in none of these cases were the evaluations available.

168. The Board also reviewed the contracts pertaining to 2016 and 2017 at the West and Central Africa Regional Office and the Ghana, Burkina Faso, Sri Lanka and Afghanistan country offices and observed that 291 contracts with a value of $8.26 million remained open for one to 20 months from the termination of the service validity period.

169. The West and Central Africa Regional Office and the Ghana, Burkina Faso, Sri Lanka and Afghanistan country offices agreed to close the contracts at the earliest possible time in accordance with UNICEF policy.

170. UNICEF stated that the Supply Manual indicates that contract close-out is to be undertaken after fulfilment of contractual obligations that exist beyond delivery, including correction of any deficiencies during the warranty period, verification of physical completion, settlement of any contractor's claims, receipt of the contractor's final invoice and processing of final payment, release of performance security and preparation of an evaluation report on the performance of the contractor to be used as a future reference. All the open contracts (24 out of 778 contracts at the West and Central Africa Regional Office and the Ghana and Burkina Faso country offices) were on track and still open for a reason in line with chapter 6 of the supply manual as they were awaiting a final invoice from the vendor.

171. The Board observed that a definite timeline should be prescribed for closure of contracts after expiry of their validity period. Besides, specific reasons for outstanding balances being reflected in the supply dashboard after expiry of the contract validity period should be clearly recorded. As closure of contracts after obtaining the performance evaluation report is mandated in the Supply Manual, having these open service contracts and contracts with negative balances pending for closure is a matter of concern. Developing specific key performance indicators for monitoring contract closure would also help management to effectively ensure timely contract closing. The Board is also concerned about the negative balances in the expired contracts. The Board feels that since evaluation reports are to be used as a future reference, not uploading them in VISION will have a bearing on the future selection of contractors.

172. **The Board recommends that UNICEF prescribe a definite timeline for closure of contracts and also frame specific key performance indicators for monitoring closure of contracts.**

173. **The Board further recommends that UNICEF analyse the reasons for negative balances in contracts for which the validity period has expired and take suitable action to address the issue.**

174. UNICEF accepted the recommendations and stated that these would be implemented by the end of the third quarter of 2018.

Non-levy of liquidated damages

175. The general terms and conditions of purchase orders issued by the Sri Lanka and Afghanistan country offices had a clause to claim liquidated damages for delays in delivery of goods beyond the last day of the delivery schedule. On the basis of the clause, liquidated damages need to be claimed at a rate of 0.5 per cent of the value of the goods purchased for every additional day of delay, with a maximum for liquidated damages of 10 per cent of the value of the purchase order.

176. The Board noted that the Sri Lanka country office had issued purchase orders for procurement of portable air compressors, water tanks and infant kits to meet emergency requirements on the basis of requests from implementing partners. The vendors could not supply the goods on time against the orders and the delays ranged from 22 to 116 days beyond the targeted delivery date.

177. However, the Board noticed that payments for the purchase orders mentioned had been made without claiming liquidated damages. Thus, the Sri Lanka country office had failed to claim liquidated damages from the vendors for the delayed supply of goods meant for emergency requirements.

178. The Afghanistan country office had issued purchase orders for procurement of 450 ambulances (three-wheeled) through five different purchase orders, including two purchase orders for consignees (189 ambulances to Kandahar and 60 to Tirin Kot) to meet programme requirements. The purchase orders clearly mentioned a delivery date and had a specific clause for claiming liquidated damages for delayed supply. The Board noticed that the vendors significantly delayed the supply of goods meant for humanitarian action but the Afghanistan country office did not claim liquidated damages from the vendors.

179. **The Board recommends that UNICEF country offices levy liquidated damages against suppliers that fail to meet the supply timeline.**

180. UNICEF acknowledged the recommendation and stated that diversions and delays were due to operating constraints. It further stated that a policy for liquidated damages has been implemented and the outcome has been positive.

Timely supply of material

181. UNICEF has established emergency levels (level 1, 2 or 3) in relation to the need for additional, external support for the country office concerned. It is important to get immediate supplies of materials to address needs in an emergency situation. The Board noted that implementing partners of the Sri Lanka country office requested the office to supply various items to meet emergency needs that arose due to heavy floods and landslides in different parts of the country during 2017. However, the country office took up to 112 days to process a request and issue the purchase order. Suppliers took up to 133 days from the issue of a purchase order to make the final delivery. The Board further noticed that one order of portable air compressors and first aid boxes had not been delivered until the time of the audit (November 2017), even though the orders were placed in July 2017 (for portable air compressors) and in September 2017 (for first aid boxes).

182. The Sri Lanka country office replied that essential items had been supplied within 3 to 10 days. The Board noted that only 6 out of 22 items requested by the implementing partners were supplied in the time span of 3 to 10 days. The Board observed that delays in supplying equipment required for a humanitarian response would defeat the very purpose for which those items were procured and adversely affect the emergency response under various programmes.

183. **The Board recommends that UNICEF country offices ensure that the procurement procedure related to emergency supplies be completed and supplies delivered within the stipulated timelines.**

184. UNICEF agreed with the recommendation.

12. Supply chain management

Delay in deliveries

185. Timely arrival of supply is a critical programme requirement. Procurement and shipping activities should therefore be closely coordinated to ensure that target arrival dates of shipments are met.

186. The procurement and delivery undertaken by the Supply Division includes both emergency and non-emergency items. In accordance with the Supply Manual, UNICEF establishes emergency levels (level 1, 2 or 3) in relation to the need for additional and external support for the country office. The divisional procedure of the Supply Division states, inter alia, that the Division must be able to respond promptly and efficiently to emergency calls and to prioritize more than one emergency at a time. The Emergency Coordinator assesses a supply order received as an emergency order and decides whether it should be treated as a rapid response emergency,[11] as an emergency[12] or as another emergency.[13]

187. The Board examined the data of Supply Division procurement of supplies in emergency and non-emergency cases for 2017 and observed that:

(a) There was a total of 5,279 supply orders (4,403 supply orders in non-emergency and 876 supply orders in emergency cases) received by the Supply Division during the year;

(b) There was no entry of agreed target arrival dates in 1,721 supply orders as at 31 December 2017;

(c) In 10 supply orders, target arrival dates were noted as late as 2021 out of which four orders were for an emergency situation;

(d) In 178 supply orders, the shipment was sent after the target arrival date;

(e) In 299 supply orders where the target arrival date was 2017, shipment had not yet started as at 31 January 2018;

(f) Shipment for 421 supply orders where the target arrival date was 2017 were in transit as at 31 January 2018;

(g) There was delay of one day to 1,097 days in delivery of 359 supply orders.

[11] Should be ready for pick up within 48 hours and arrive at the entry point of the receiving country within 72 hours.

[12] Should be ready for pick up within 10 days and arrive at the entry point of the receiving country within 14 days.

[13] Should be ready for pick up within 10 days and arrive at the entry point of the receiving country within 60 days.

188. UNICEF informed that the guidance, procedures and monitoring processes to ensure timely delivery of supplies were in place. UNICEF further stated that considering the nature of operations, UNICEF anticipates that this would be an ongoing process which it would continue to strive to improve.

189. The Board is concerned that suppliers not delivering supplies on time might adversely affect the programmatic activities of the country offices and UNICEF.

190. **The Board reiterates its recommendation (A/72/5/Add.3, para. 159) that UNICEF review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to ensure timely delivery.**

Vaccine arrival reports

191. In accordance with the Supply Manual, the Supply Division Vaccine Centre: (a) monitors compliance with shipping instructions; and (b) ensures that any deviation from the confirmed shipping plan on account of vaccine availability or transport delays is promptly communicated to the consignee and the country office. Furthermore, all vaccines should be inspected within 24 hours of their arrival at the designated place of delivery and the results of the inspection should be communicated to UNICEF through a vaccine arrival report within three days.

192. The Board reviewed vaccine arrival reports of 2017 and observed that out of 2,488 shipments made in 2017, vaccine arrival reports for 2,370 shipments were received while reports for 118 shipments were yet to be received by 31 December 2017, although they were due.

193. Out of the 2,370 vaccine arrival reports received, the Board noted that in 64 reports, the date of inspection recorded in the system was prior to the date of the receipt of the shipment, which indicated incorrect data entry. The Board further noted that only 1,613 shipments were inspected within 24 hours of receipt, while 693 shipments (29 per cent) were not inspected within 24 hours. The delays ranged from 2 to 100 days.

194. Furthermore, in 890 (38 per cent) out of 2,370 shipments, the vaccine arrival reports were received within the designated 72-hour or three-day period, while in 1,480 cases reports were either received late or not received. The delay in submission of vaccine arrival reports ranged from one to 302 days.

195. The Supply Division stated that it supports country offices and continuously monitors and follows up on submission of vaccine arrival reports, including in terms of their timely submission. As of the third quarter of 2017, it has been made mandatory for country offices to include information on when they received the vaccine arrival reports from the consignee. This would allow for further transparency and appropriate corrective actions in case of delays from country offices. The Supply Division further stated that challenges with regard to timely submission of the reports remain at the country level, often as a result of lengthy customs clearance processes and limited resources.

196. Thus, the Board observed that country offices did not adhere to timelines in submitting vaccine arrival reports to the Vaccine Centre at the Supply Division. The delays in submission of the reports made it difficult for the Supply Division to effectively monitor supply and delivery of vaccines in a timely manner.

197. **The Board recommends that UNICEF, the regional offices and the Supply Division identify countries where vaccine arrival reports are regularly delayed and formulate country-specific strategies for monitoring timely receipt of vaccine arrival reports.**

198. UNICEF accepted the recommendation and stated that UNICEF would work with the relevant offices to identify a country-specific process for monitoring the timely receipt of vaccine arrival reports.

Demurrage charges

199. In accordance with the Supply Manual, UNICEF global freight forwarders use Internet-based tracking and tracing systems that can also be accessed by country offices. Country offices should access these on a regular basis to monitor arrival dates and avoid any delay charges. These charges include port or airport storage (charges levied by port or airport authorities) and container demurrage (charges levied by the shipping companies that own the sea containers). The UNICEF global freight agreements cover 30 days free of demurrage for coastal country offices and 45 days free for landlocked country offices, unless otherwise noted.

200. In addition, UNICEF may incur container detention charges that can be levied on consignees that unload containers but do not return them. These charges accumulate at a daily rate until they are settled in full. Furthermore, the divisional procedure stipulates the need to ensure a proper infrastructure to support on-time delivery of Supply Division goods.

201. The Board examined the report prepared by the Supply Division for January 2018, which contains the cumulative status up to 31 December 2017, and noticed that a total number of 9,081 containers were shipped to seven regions of UNICEF during 2017 with estimated arrival dates of 31 December 2017 or earlier. The Board also noticed that the total number of demurrage days was 213,451, with estimated demurrage of $4.82 million. The average number of demurrage days per container was 24. The Board also noted that the East Asia and Pacific Regional Office had the highest average of demurrage days (102 days) among the UNICEF regions.

202. The Board further examined the position of containers shipped, picked up by the consignees and returned empty to the port during 2017 for all the regions where demurrage costs were incurred. The Board noticed that 6,540 containers were shipped and returned empty to port by seven regions with a total number of demurrage days of 52,896, involving total estimated demurrage of $1.22 million. The average number of demurrage days per container, in cases where a container was shipped and returned empty to port, worked out to eight days. Of these, in the regions of West and Central Africa and South Asia, the number of demurrage days per container was higher than the other regions, at 13 and 9 respectively, as shown in table II.6.

Table II.6
Status of containers shipped and returned empty to the port

Region	*Number of containers shipped*	*Number of demurrage days*	*Total demurrage cost (United States dollars)*	*Average number of demurrage days per container*
East Asia and the Pacific	128	159	2 937	1
Europe and Central Asia	84	19	450	–
Eastern and Southern Africa	1 643	6 109	138 063	4
Latin America and the Caribbean	157	242	5 750	2
Middle East and North Africa	1 673	10 927	258 037	7
South Asia	446	4 219	102 937	9
West and Central Africa	2 409	31 221	714 487	13
Total	**6 540**	**52 896**	**1 222 661**	**8**[a]

Source: Freight forwarder container monitoring report provided by UNICEF Supply Division.
[a] Average.

203. The Board also noticed that 2,541 containers delivered to the port of entry had not been returned to the port by the consignee by 31 December 2017, accruing 160,555 demurrage days. The average number of demurrage days per container was 63. The estimated demurrage value for these containers worked out at $3.60 million. Furthermore, the average days of demurrage were higher in respect of the Europe and Central Asia, East Asia and the Pacific and South Asia regions, at 148, 141 and 114 days respectively, as shown in table II.7.

Table II.7
Status of containers shipped and not yet returned to the port

Region	*Number of containers shipped*	*Number of demurrage days accrued*	*Total demurrage cost accrued (United States dollars)*	*Average number of demurrage days per container*
East Asia and the Pacific	329	46 392	965 900	141
Europe and Central Asia	23	3 401	81 562	148
Eastern and Southern Africa	462	757	11 937	2
Latin America and the Caribbean	54	189	2 475	4
Middle East and North Africa	276	6 330	142 025	23
South Asia	465	53 190	1 216 475	114
West and Central Africa	932	50 296	1 181 188	54
Total	**2 541**	**160 555**	**3 601 562**	**63**[a]

Source: Freight forwarder container monitoring report provided by UNICEF Supply Division.
[a] Average.

204. UNICEF stated that the actual charges paid by UNICEF country offices were often negotiated to obtain waivers with carriers and port authorities.

205. Notwithstanding the final negotiation with the carriers, the Board is concerned about the continuing occurrences of demurrage across the regions.

206. **The Board reiterates its recommendation (A/72/5/Add.3, para. 184) that UNICEF identify reasons for detention of containers for long periods and provide guidance to the country and regional offices to reduce container detention time, and further recommends that the Supply Division expedite the analysis of the root causes for the detention of containers, which affects the efficacy of supply chain management functions.**

207. UNICEF agreed with the recommendation.

13. Water, Sanitation and Hygiene for All programme

208. The UNICEF strategy for the Water, Sanitation and Hygiene for All programme (2016–2030) is designed to guide the UNICEF organization-wide contribution to achieving Sustainable Development Goal 6: Ensure availability and sustainable management of water and sanitation for all. In accordance with the integrated results and resource framework 2014–2017 attached to the UNICEF Strategic Plan 2014–2017, the Water, Sanitation and Hygiene for All programme is covered under outcome P3: Improved and equitable use of safe drinking water, sanitation, healthy environments and improved hygiene practices. All policies and strategies related to any programmatic areas, including Water, Sanitation and Hygiene for All, fall under the purview of the Programme Division.

209. Table II.8 indicates the expenditure on the Water, Sanitation and Hygiene for All programme for the 2014–2017 Strategic Plan period.

Table II.8
Expenditure on the Water, Sanitation and Hygiene for All programme for the period 2014–2017

(Thousands of United States dollars)

Year	*Expenditure*
2014	727 368
2015	868 679
2016	948 517
2017	1 018 335
Total	**3 562 899**

Source: UNICEF strategic plan analysis document.

Incorrect codification of activities in annual workplans for 2017

210. The annual workplans operationalize the Strategic Plan results framework. The annual workplan for 2017 for Water, Sanitation and Hygiene for All lists the outputs and activity indicators along with the corresponding codes (Strategic Plan output codes).

211. The Board's analysis showed that some activities could not be correlated to the related Strategic Plan 2014–2017 goals mentioned in the annual workplan. For example, activity number 4.2 of the annual workplan (Advocacy with partner agencies (World Health Organization), governments, academia, donors, the private sector and civil society for Water, Sanitation and Hygiene for All in health-care facilities), was stated to be related to Strategic Plan output P3b.3. However, this Strategic Plan output deals with countries with at least 50 per cent of primary schools having access to adequate sanitation facilities for girls. Activity 13.5 of the annual workplan (Develop guidance for climate resilient Water, Sanitation and Hygiene for All programming and raise capacity) was stated to be related to Strategic Plan output P3.c.1. However, this Strategic Plan output deals with countries implementing a "sustainability compact" for Water, Sanitation and Hygiene for All with evidence of continuous monitoring.

212. UNICEF stated that the Programme Division has developed a new office management plan that is aligned with the Strategic Plan 2018–2021.

213. **The Board recommends that UNICEF clearly link the Strategic Plan and the annual workplan during the operationalization of the UNICEF Strategic Plan 2018–2021.**

Strategic monitoring questions[14] *for the Water, Sanitation and Hygiene for All outcome of the Strategic Plan 2014–2017*

214. The Board observed that the data for the strategic monitoring questions for the entire Strategic Plan period of 2014–2017 were available for only 157 out of 190 countries where UNICEF supports activities under Water, Sanitation and Hygiene for All. Therefore, it was not a complete data set for all the countries where UNICEF works. Similarly, the information related to many strategic monitoring questions was not available from all 157 countries. This would prevent any comparative analysis of the results achieved through the Water, Sanitation and Hygiene for All programme.

[14] Strategic monitoring questions are the main monitoring mechanism to assess the results of the Strategic Plan.

215. UNICEF stated that the information collected for monitoring Water, Sanitation and Hygiene for All activities across its various programme areas, across regions and over the four-year UNICEF Strategic Plan period (2014–2017) had gaps, and information from different sources was not consistent. Furthermore, information was not available on all the indicators for all the 190 countries where UNICEF supports activities under the Water, Sanitation and Hygiene for All programme.

Water, Sanitation and Hygiene for All programme implementation in the South Asia Regional Office

216. The Board did an analysis of performance of the Water, Sanitation and Hygiene for All programme in the South Asia Regional Office. Table II.9 depicts the allotment and expenditure in the regional office for the programme for the period 2012–2016.

Table II.9
Allotment and expenditure under the Water, Sanitation and Hygiene for All programme, 2012–2016
(United States dollars)

	Water, Sanitation and Hygiene for All programme	
Country and regional offices	*Allocation*	*Expenditure*
Afghanistan	37 668 139	37 668 139
Bangladesh	78 755 000	50 725 122
Bhutan	3 592 247	3 592 247
India	37 415 083	37 415 083
Maldives	262 463	258 640
Nepal	31 857 120	31 857 120
Pakistan	84 988 020	84 988 026
Sri Lanka	11 159 038	11 159 038
South Asia Regional Office	1 528 693	1 523 417
Total	**287 225 803**	**259 186 832**

Source: Data from the South Asia Regional Office.

217. The Board observed that between 2012 and 2016, country offices under the South Asia Regional Office had spent $259 million against the allotment of $287 million for Water, Sanitation and Hygiene for All programmes, leaving $28 million (10 per cent) as unutilized.

Water, Sanitation and Hygiene for All quality assurance

218. The Afghanistan country office engaged a non-governmental organization (NGO) as a third-party monitoring agency in September 2017 for a donor-supported programme to ensure quality assurance and provide on-site construction supervision of every drinking water system constructed. The NGO conducted 29 field visits. In its inspection report, the NGO highlighted weaknesses in work conducted under the Water, Sanitation and Hygiene for All programme, such as deviations from the technical drawing and specifications and poor quality of construction of water supply facilities.

219. The Board noted that in accordance with the running working plan for 2016–2017, third-party monitoring and supportive supervision of water, sanitation and hygiene for all in school interventions was to be conducted. However, this had not

been conducted. In the absence of the third-party monitoring, the country office would not get assurance about the quality of the work undertaken under the Water, Sanitation and Hygiene for All programme. Results from the third-party monitoring for a donor-funded project highlighted a need for third-party monitoring for all the activities under the programme to get an assurance over the quality of work performed.

220. **The Board recommends that the Afghanistan country office involve third-party monitoring to get an assurance on the quality of work done under programmatic activities.**

221. UNICEF stated that the Afghanistan country office has now established a modality by which third-party monitors are trained in gathering programmatic data and evidence in the field.

14. Quality assurance and monitoring

Handling complaints in the Supply Division

222. Divisional procedure 047 seeks to systematize and ensure proper receipt, recording, review, follow-up, closing, reporting and analysis of all complaints received in the Supply Division from every stakeholder and to keep the complainant informed. The aim is to continually improve the processes within the Supply Division, enhance clients' and partners' satisfaction and ensure that complaints are handled promptly, properly recorded, analysed and resolved within the shortest time possible. Paragraph 6.2 of the procedure defines an operating error as an error made (wholly or partly) by UNICEF (by the Supply Division, country offices or other UNICEF entities) that may result in a direct financial loss to UNICEF. A complaint is not treated as an operating error if the financial loss is covered by an insurance claim or a supplier or freight forwarder, or if the complaint leads to an indirect loss.[15]

223. A complaint is considered as closed when: (a) a correction is identified; (b) a correction is implemented; (c) corrective action is identified; and (d) corrective action is implemented. All the four stages have to be completed for closure of a complaint. The key performance indicator for handling the complaint process is for 80 per cent of all corrections to be identified within 25 working days.

224. The Board examined the process of grievance handling in the Supply Division. The Supply Division informed the Board that 188 complaints were received during 2017 categorized into 98 delivery-related cases (52 per cent), two invoicing-related cases (1 per cent), five processes-related cases (3 per cent) and 83 products and packing-related cases (44 per cent). Out of these, corrections were identified within 25 days in respect of 161 cases (86 per cent). In the remaining 27 (14 per cent) cases, corrections were not identified within 25 days for various reasons.

225. The Supply Division further informed the Board that out of the total complaints received, 27 related to various implementing partners, 15 cases were with Governments (56 per cent), six cases were with NGOs (22 per cent) and six cases were with other United Nations agencies (22 per cent). There was a loss of $34,363 resulting from complaints in respect of other United Nations agencies.

226. The Board reviewed the complaints received up to November 2017 that were shown as being open in the Supply Division complaints system. Although all complaints entered into the system have to be closed after finding a proper solution, the Board observed that 43 complaints received between 15 June 2015 and 29 November 2017 still remained open. These complaints related to the delivery,

[15] Indirect losses are losses that are not directly accountable to a budget, such as damage to the reputation of UNICEF or delays that do not result in any costs.

process, and packaging and product categories. Out of these, five complaints involved a financial loss of $126,902.

227. The Board also observed that out of the 43 open complaints pointed out in the audit, eight complaints were closed in the system after being pointed out by the Board (that is, between 22 and 24 January 2018). The Board further observed from the statement provided by the Supply Division that out of the 35 remaining open complaints:

(a) Corrections have not been identified in four cases;

(b) Corrections have not been implemented in 28 cases;

(c) Corrective action has not been identified in 23 cases;

(d) Corrective action has not been implemented in 28 cases.

228. The Board noted that although the key performance indicator provides for identifying a correction within 25 working days, a similar timeline has not been prescribed for closure of complaints. As a result, complaints lodged more than two years ago are still pending for closure in the system. The Board observed that the above-mentioned delays in closing the complaints through implementation of corrections and corrective actions would affect client and partner satisfaction in the long run.

229. **The Board recommends that the Supply Division prescribe a specific timeline for closure of complaints.**

230. **The Board further recommends that the Supply Division review all open complaints, ensure timely implementation of corrective actions, prioritize handling of cases indicating financial loss and ensure timely closure of all complaints in the complaint system.**

231. UNICEF accepted the recommendation and assured the Board that it would revise the concerned divisional procedure to introduce a "solution-owner action plan" for realistic and timely closure of complaints.

UNICEF programme outcome activities

232. In accordance with the United Nations document on the organization of UNICEF (E/ICEF/Organization/Rev.2), the regional management team serves to advise on policies, strategies and human and financial resources and monitor implementation and evaluate regional results and lessons learned. The regional director is accountable to monitor and ensure achievement of programme objective within the region and to monitor the progress, effectiveness and relevance of the UNICEF country programme within the region with a view to improving country programme performance.

233. The Board reviewed the status of programme activities regarding the extent of achievement of completion of output areas. The regional dashboard of the South Asia Regional Office for programme activities showed that out of a total number of 319 active output areas (as at 9 December 2017), 13 output areas had been met, 214 areas were on track, 26 areas were constrained, one area was without any progress, 12 areas had been closed before completion and no report or details were available for 53 areas. The Board noted that 29 per cent (92 out of 319) of output areas were not progressing as planned or no details were available.

234. The South Asia Regional Office stated that the Regional Office plays an advisory and quality assurance role to country offices throughout the country programme cycle. It also clarified that at the end of the year the Regional Office reviews and checks the quality of country office annual reports, the results assessment

module and strategic monitoring questions and provides written feedback to the country offices. It also analyses the key performance indicators of all the country offices and raises red flags to the offices. With reference to the 12 output areas that were closed before completion, the Regional Office replied that this was because of a lack of or insufficient funding, changes in priorities by government counterparts and change in the programme environment. No specific reply was given for the 53 output areas for which no reports were available.

235. The Board noted that the document on the organization of UNICEF makes the South Asia Regional Office accountable for monitoring implementation activities and ensuring achievement of programme objectives. As 29 per cent of output activities are either not completed or the details of their status were not available, the Board observed that there would be uncertainty in measuring the achievements of programmatic objectives.

236. For programme cycles, UNICEF has adopted the outcome based approach. The performance of the organization in respect of programmes is measured in terms of targets achieved against each outcome/output and the related standard indicators.

237. The Board examined and reviewed the result assessment module regarding the outcome/output performance for the Ghana, Burkina Faso and other country offices of the West and Central African region for the programme cycles during the year 2017. The findings are given in table II.10 and discussed in the subsequent paragraphs.

Table II.10
Outcome/output and standard indicator performance

	Outcome				*Output*			
Country office	*Total*	*Met*	*On track*	*Percentage (met to total)*	*Total*	*Met*	*On track*	*Percentage (met to total)*
Ghana country office	11	6	1	55	41	26	3	63
Burkina Faso country office	10	2	4	20	34	4	21	12
West and Central Africa region	244	9	191	4	957	62	737	6

Source: Data from Regional Office.

238. Table II.10 shows that except for the Ghana country office, which had achievements in respect of both outcomes and outputs at over 50 per cent, the achievements for others are very low.

239. Besides the status shown in table II.10, the Board observed that in the Burkina Faso country office, although the programme cycle ended on 31 December 2017, some outcomes/outputs were still shown as “constrained” or “on track”. The Board is of the opinion that at the end of the programme cycle, the outcomes/outputs which were not met should be rated as “not met” instead of showing them as “constrained” or “on track”. However, the Regional Office replied that it could not report the unachieved targets as “not met” at the end of the cycle because the result assessment model did not have “not met” as an option.

240. The Board reviewed the outcome/output performance and financial summary of the country offices and observed that all country offices had fully utilized the programme funds for all outcome areas but had not been able to achieve the relative results.

241. The Ghana country office stated that “on track” also meant that the set targets were achieved as planned. The Burkina Faso country office replied that not all outcomes/outputs were reported in the results assessment module.

242. The Board observed that 100 per cent utilization of the intended budget in the regional with a very low achievement of outcomes/outputs by the country offices needs to be examined in depth to understand the reasons for the low achievement in spite of full utilization of the funds.

243. **The Board recommends that the UNICEF Ghana and Burkina Faso country offices and the West and Central Africa Regional Office periodically review and expedite implementation of planned activities to ensure that the targets mentioned against the outcomes are achieved on time.**

244. UNICEF agreed with the recommendation.

245. **The Board further recommends that the UNICEF Ghana and Burkina Faso country offices and the West and Central Africa Regional Office review the ratings of various outcomes/outputs and indicators so as to avoid discrepancies in ratings and to ensure that the users get a correct performance report.**

246. While agreeing with the recommendation, UNICEF stated that the status of progress should include the result assessment module rating as well as contextual and qualitative aspects mentioned in the narrative progress report to provide a more comprehensive view at both the output and outcome levels.

C. Disclosures by management

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

247. UNICEF reported to the Board that losses in assets of $3.21 million (2016: $3.68 million) had been written off during 2017, including programme inventory of $2.96 million, contributions receivable of $0.21 million, and other receivables and property and equipment of $0.03 million.

2. Ex gratia payments

248. In 2017, UNICEF reported total payment of $0.73 million as ex gratia payments in 17 countries to qualifying national staff in duty stations subject to danger pay (2016: nil).

3. Cases of fraud and presumptive fraud

249. 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.

250. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or that have been brought to their attention. We also enquire whether management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Internal Oversight Services. 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.

251. UNICEF reported 20 cases (2016: 35 cases) of fraud or presumptive fraud to the Board during the period under review. The financial implications of the allegations amounted to $2.15 million (2016: $0.54 million) and the cases had resulted in estimated substantiated financial losses amounting to $1.58 million (2016: $1.22 million), of which UNICEF had recovered $0.01 million. UNICEF reported that two allegations could not be substantiated but a financial loss of $0.57 million was established.

D. Acknowledgement

252. 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*) Rajiv **Mehrishi**
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

24 July 2018

Annex

Status of implementation of recommendations up to the year ended 31 December 2016

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendation by the Board*	*UNICEF response*	*Board's Assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	A/69/5/Add.3 of 2013	Chapter II, paragraph 69	UNICEF require its country offices to apply fully justified budget assumptions in preparation for resource estimation with respect to activities set out in the multi-year/rolling workplans.	Guidance on the preparation of multi-year/rolling workplans for country offices has been strengthened to include the development of assumptions for budget preparation. In addition, a results-based management training module has been developed and successfully rolled out. A workplan guidance document was developed and issued in the fourth quarter of 2017. The new budget management tool which aims to streamline and facilitate resource estimation processes is expected to be rolled out to all offices during the fourth quarter of 2018 rather than the second quarter.	Management has informed the Board that action is under way to be fully completed at the end of the second quarter of 2018. Therefore, the recommendation is considered to be under implementation.		X		
2	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	Further to the issuance of revised guidance on annual workplans in 2015, UNICEF implemented PRIME, a software platform to replace manual integrated monitoring and evaluation plans. PRIME requires multiple aspects of quality assurance throughout the year, ensuring that integrated monitoring and evaluation plan activities are realistic, thus improving their completion rate. A further refinement is under way to integrate PRIME with the evaluation and research database and the evaluation management response-tracking system for a comprehensive, integrated information system for	Management has reported that action is under way and a roll-out is being done. Testing of the newly added features is under way. Therefore, the recommendation is considered to be under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			submission of annual management plans to the regional offices be strengthened to improve the governance of country offices.	planning, managing and reporting on monitoring and evaluation activities. Roll-out is planned for the first half of 2018.					
3	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.	UNICEF is developing a new budget management tool that will link resource utilization with outcome results. The tool will be rolled out in the fourth quarter of 2018. The roll-out will be accompanied by policy/ procedure guidance and support.	The Board noted that action was under way and a tool was planned for roll-out by the fourth quarter of 2018. Furthermore, testing of newly developed features is currently under way. Therefore, this recommendation is considered to be under implementation.		X		
4	A/71/5/Add.3 of 2015	Chapter II, paragraph 90	Steps to be taken to improve the completion rate of the integrated monitoring and evaluation plan activities, and timely execution of annual workplans.	In addition to the implementation of the PRIME platform, a further refinement is under way to integrate it with the evaluation and research database and the evaluation management response-tracking system for a comprehensive, integrated information system for planning, managing and reporting on monitoring and evaluation activities. The roll-out is planned for the first half of 2018.	Action is under way and is slated for completion in the second quarter of 2018. Hence, recommendation is treated as being under implementation.		X		
5	A/71/5/Add.3 of 2015	Chapter II, paragraph 104	Set quantitative thresholds for projecting staff requirements and reduce the recruiting time lag.	Recruitment reform, launched in February 2017 and fully implemented by July 2017, provided various modalities and flexibilities in sourcing talent, including talent groups and lateral reassignments.	In view of the reported improvement in the recruitment time, the recommendation is	X			

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				The reform simplifies the recruitment process and decentralizes approving authority for posts at the P-1 to P-4 levels. These efforts have improved the average recruitment time for international Professional posts from 117 days in 2016 to 83 days as at October 2017.	considered as implemented.				
6	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".	UNICEF is developing a new budget management tool which is planned to be rolled out to all offices during the fourth quarter of 2018 to ensure effective budget management and expenditure monitoring.	The Board noted that management is in the process of developing a budget management tool for the purpose. Therefore, the recommendation is considered to be under implementation.		X		
7	A/71/5/Add.3 of 2015	Chapter II, paragraph 114	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 (VARs).	UNICEF reviewed existing guidance in conjunction with World Health Organization (WHO) guidelines on international packaging and shipping of vaccines. Guidance that is in line with WHO guidelines on the timely submission of vaccine arrival reports has been published to country offices. Performance indicators have been established to monitor the	The Board noted that the Supply Manual has been revised following the WHO guidelines and the Supply Division monitors receipt of vaccine arrival reports through the key performance indicator.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				achievement of timely vaccine arrival reports.	Yet, many cases of delay in receipt of vaccine arrival reports continued to be noted during the audit of 2017 and receipt of vaccine arrival reports within three days was limited to just 41 per cent. Hence the recommendation is considered to be under implementation.				
8	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.	In addition to improving the functionality of dashboards for monitoring goods in transit in the InSight platform, UNICEF has developed a policy to ensure coordination among freight forwarding agents, country offices and implementing partners to capture real time data in VISION on goods in transit. New electronic data interchange requirements included by UNICEF in contracts for global freight forwarders will facilitate close to real-time monitoring on goods in transit. This, along with the development of a new enhancement in VISION to record "short" shipments separately, ensures that the goods-in-transit reports now capture the status of deliveries of supplies accurately.	The Board noted the action reported by the Supply Division and, in view of the improvement and ongoing efforts of the Supply Division, the recommendation is treated as implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
9	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.	UNICEF amended guidance and procedures with an emphasis on screening and agreeing to sales orders with realistic target arrival dates with country offices and the importance of issuing purchase orders with realistic target arrival dates. Amendments include additional available contractual remedies in case of non-performance by a supplier.	The Board noted that the Supply Division has taken corrective action by amending the divisional procedures 110 and 114 and chapter 6 of the Supply Manual on 31 October 2017 and that the changes have been shared with staff. The Supply Division provided a list of 71 purchase orders with 131 cases of liquidated damages levied during 2017. Out of these, the Board verified 16 cases pertaining to the period October to December 2017, where liquidated damages had been levied and credit notes had been received or adjusted on invoices, and found that the details of credit notes received or adjustments to invoices were available in VISION and respective purchase order and long-term agreement files. Based on the action taken by the Supply Division, the recommendation is treated as implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
10	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 amended divisional procedure 110 to include screening of sales orders with a stronger emphasis on the importance of agreeing to realistic target arrival dates with country offices. Chapter 6, section 5 (Purchase orders) of the Supply Manual has been amended to highlight the importance of issuing purchase orders with realistic delivery dates. The changes were shared with staff dealing with contracts in the Supply Division on 26 September 2017.	In view of the action taken by UNICEF, the recommendation is treated as implemented.	X			
11	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 requests closure of this recommendation as it is implemented.	In view of the action taken by UNICEF, the recommendation may be treated as implemented.	X			
12	A/72/5/Add.3 of 2016	Chapter II, paragraph 16	UNICEF consider disclosing the nature and type of in-kind services received.	UNICEF has disclosed the nature and type of in-kind services in the 2017 financial statements.	The 2017 accounts include as a part of note 21 a disclosure about in-kind services received by UNICEF. Hence this recommendation is considered to be implemented.	X			
13	A/72/5/Add.3 of 2016	Chapter II, paragraph 25	UNICEF implement the guideline on identifying the operational costs that should be met from the programme budget and the institutional budget.	UNICEF has, as a first step, applied appropriate criteria and typology for post cost and implemented this as part of the 2018–2021 integrated budget. A similar exercise for non-post cost is being undertaken and the guidance has been drafted. This recommendation will be	Management has reported that action is under way and is targeted for completion by the end of the second quarter of 2018. Hence, the recommendation is		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				implemented by the third quarter of 2018.	considered as being under implementation.				
14	A/72/5/Add.3 of 2016	Chapter II, paragraph 31	(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 governance to achieve the targets of private sector fundraising.	The strong engagement between UNICEF and the National Committees during the annual review of the Joint Strategic Plans ensures that plans and targets are aligned with the UNICEF Strategic Plan. The reduction in targets noted by the Board reflects the sound management practice of updating projections based on new information received during the year. It facilitates more realistic revenue and spending projections.	In view of the action taken, part (a) of the recommendation is treated as implemented. The desired results with respect to containment of the expenses of National Committees and generation of more revenue were still not achieved; therefore part (b) of the recommendation is considered as being under implementation.		X		
15	A/72/5/Add.3 of 2016	Chapter II, paragraph 36	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.	UNICEF closely monitors the contribution rate of every National Committee and strongly encourages each of them to meet the desired contribution rate of 75 per cent of gross proceeds. Where the contribution rate has yet to be achieved owing to local fundraising challenges, UNICEF and the National Committees have agreed on road maps to improve contribution rates.	The Board noted that the desired contribution rate of 75 per cent is still to be achieved for all National Committees and therefore this recommendation continues to be under implementation.		X		
16	A/72/5/Add.3 of 2016	Chapter II, paragraph 41	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	UNICEF introduced additional disclosure requirements and incorporated them in the joint strategic plan templates for 2017–2020 as a separate annex. Among other items, the requirements include targets and key performance indicators for related entities.	In view of the action taken by UNICEF, the recommendation may be treated as implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			Joint Strategic Plan separately.						
17	A/72/5/Add.3 of 2016	Chapter II, paragraph 46	Ensure that the private sector fundraising strategic plans of Brazil, Mexico, Peru and the Bolivarian Republic of Venezuela are finalized and aligned with Private Fundraising and Partnerships Strategic Plan.	The private sector fundraising strategic plans of Brazil, Mexico, Peru and the Bolivarian Republic of Venezuela were all approved in August 2017.	The Board noted that remedial action had been taken and hence the recommendation is considered to be implemented.	X			
18	A/72/5/Add.3 of 2016	Chapter II, paragraph 52	Put in place a mechanism for quarterly reporting of regular resources and other resources-regular contributions separately for monitoring and taking timely corrective actions.	UNICEF introduced an additional reporting requirement for National Committees. Beginning in 2017, UNICEF requires three forecast updates from National Committees rather than the two previously provided. The above, coupled with quarterly collection of gross revenue information by UNICEF, will strengthen monitoring of contributions.	The Board noted the action taken and in view of the same the recommendation is treated as having been implemented.	X			
19	A/72/5/Add.3 of 2016	Chapter II, paragraph 57	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.	Through the end of 2017, the Private Fundraising and Partnerships Division has been monitoring and reconciling the various targets. Considerable effort has been put into ensuring alignment of the different plans (2014–2017) and have also ensured alignment of new plans (UNICEF strategic plan, impact plan, joint strategic plans, private sector plans and result assessment module key performance indicators). This includes monitoring revenue targets in the different channels.	The progress described by the UNICEF will be verified in the next audit by the Board.		X		

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendation by the Board*	*UNICEF response*	*Board's Assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
20	A/72/5/Add.3 of 2016	Chapter II, paragraph 62	Formulate an appropriate mechanism to enhance the level of contributions from potential income channels such as corporate donors. The strategy needs to be finalized before implementation of the next Private Fundraising and Partnerships Plan.	The development process for the new private fundraising and partnerships plan for 2018–2021 included assessments of the potential of various fundraising channels. UNICEF plans to redirect engagement with corporate entities to optimize non-financial and financial partnerships. The corporate donor channel was not considered as a priority when viewed from a fundraising perspective only, and this is reflected in the new private fundraising and partnerships plan. A mechanism to enhance contributions from corporate donors is therefore no longer relevant as the strategy has changed.	The Board noted weakness in harnessing the potential of the different income streams and achievement of growth under the impact plan (2018–2021) would only be known in the next audit; hence the recommendation is considered as being under implementation.		X		
21	A/72/5/Add.3 of 2016	Chapter II, paragraph 68	Strengthen implementation of the harmonized approach to cash transfers to achieve targets.	The harmonized approach to cash transfers has been implemented in all relevant offices. Robust reporting mechanisms have been put in place for country offices, regional offices and headquarters to monitor the level of implementation of the harmonized approach and identify areas of weaknesses. Risk mitigating measures are also put in place to address the inability of individual country offices to meet standard performance indicators. Furthermore, the Harmonized Approach to Cash Transfers Policy and Procedures Manual has been issued with various supporting guidelines and system tools to assist country offices in effectively implementing the harmonized approach to cash transfers framework. Based on the 2017 year-end harmonized approach to cash transfers status report, globally	The Board continued to note weakness in implementation of the harmonized approach to cash transfers. In view of this, the recommendation is considered to be under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				UNICEF country offices achieved 158 per cent of the minimum required programmatic visits and 105 per cent of the minimum required spot checks. All regions showed improvement over the prior year. The top 25 country offices all met the programmatic requirements and only six of them missed the financial one, typically because of a lack of access and timing of the assurance activities.					
22	A/72/5/Add.3 of 2016	Chapter II, paragraph 74	Expedite the cost benefit analysis of the harmonized approach to cash transfers framework.	UNICEF is in the process of commissioning an evaluation to assess the 2014–2017 investment in the harmonized approach to cash transfers, including a cost-benefit analysis.	The Board noted that action on the recommendation was under way. Therefore, the recommendation is considered to be under implementation.		X		
23	A/72/5/Add.3 of 2016	Chapter II, paragraph 84	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.	The risk of improper payments is mitigated through proper segregation of duties. Payees are only added to the vendor master file by staff of the Global Shared Service Centre with proper authorization. In addition, UNICEF is preparing a procedure to clarify the requirements for alternative payee updates to the vendor master file and for implementing partners to provide documented authorization.	The Board noted that UNICEF is preparing a procedure to clarify the requirements for alternative payee updates to the vendor master file and for implementing partners to provide documented authorization. Therefore, the recommendation is considered to be under implementation.		X		

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendation by the Board*	*UNICEF response*	*Board's Assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
24	A/72/5/Add.3 of 2016	Chapter II, paragraph 90	Ensure investments only in those counterparties that meet the approved standards as per the investment policy.	The UNICEF investment policy allows for investments other than those stipulated in the investment policy, subject to approval by the Financial Advisory Committee. UNICEF confirmed that all financial counterparties and debt issuers of investments purchased are reviewed and their creditworthiness and limits approved by the Financial Advisory Committee prior to undertaking any financial activities and/or commitment of investments. This applies to the Baa-rated counterparties noted by the Board, for which the incremental risk associated with the investments was considered minimal for the improved returns on the investments.	The Board noted that the recommended policy change was approved during the Financial Advisory Committee meeting held on 7 September 2017. In view of the action on the recommendation, it is treated as implemented.	X			
25	A/72/5/Add.3 of 2016	Chapter II, paragraph 95	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.	During 2016, UNICEF evaluated and reformulated the organization's approach to enterprise risk management and risk reporting. UNICEF determined that the enterprise risk management process needed significant revamping to make the reporting on the assessment more relevant and timely. UNICEF offices perform risk assessments annually, report their risk profiles in the enterprise risk management tool (inSight) and are instructed to update their risk assessments as often as necessary. In 2017, UNICEF had a 98 per cent annual risk assessment completion rate.	The Board noted that action was under way to address the concerns raised in the recommendation. Therefore, the recommendation is treated as under implementation.		X		

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendation by the Board*	*UNICEF response*	*Board's Assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
26	A/72/5/Add.3 of 2016	Chapter II, paragraph 99	Ensure that 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.	UNICEF has redrafted the current regulatory content of the enterprise risk management policy and expects to complete action by the fourth quarter of 2018.	The Board noted that action was under way to address the concerns raised in the recommendation. Therefore, the recommendation is treated as under implementation.		X		
27	A/72/5/Add.3 of 2016	Chapter II, paragraph 103	Ensure that risk liaisons are formally selected and the database in respect of risk liaisons is invariably updated.	UNICEF stated that it has designated risk liaisons.	In view of the action taken by the UNICEF, the recommendation may be treated as implemented.	X			
28	A/72/5/Add.3 of 2016	Chapter II, paragraph 105	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.	UNICEF has developed training materials for risk personnel on risk management. These will be delivered in 2018.	The Board noted that action is under way to address the recommendation. Hence, the recommendation is treated as being under implementation.		X		
29	A/72/5/Add.3 of 2016	Chapter II, paragraph 111	Ensure the formulation of risk tolerance and risk appetite at appropriate operational levels.	UNICEF will articulate a risk tolerance and risk appetite statement at the organizational level.	The Board noted that action is under way to address the recommendation. Hence, it is treated as being under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
30	A/72/5/Add.3 of 2016	Chapter II, paragraph 119	Review the existing mechanism of stock-keeping and establish minimum and maximum stock levels for emergency and non-emergency items.	UNICEF agreed to establish minimum stock levels for standard stock items, including emergency supplies that are managed by the Supply Division. At the time of the recommendation, owing to the fluctuating demand of emergency needs, UNICEF did not agree with the recommendation that it establish maximum stock levels. UNICEF reviewed the existing mechanism of stock-keeping and issued procedures for establishment of both the minimum and maximum stock levels for emergency items.	The Board noted that the Supply Division has reviewed the mechanism of stock-keeping and issued the new divisional procedure 119 in October 2017. In view of the action taken by the Supply Division, the recommendation is treated as implemented.	X			
31	A/72/5/Add.3 of 2016	Chapter II, paragraph 125	Ensure periodic review of vendor master records and remove all inconsistencies.	UNICEF reiterated that vendor maintenance was centralized at the Global Shared Service Centre and informed the Board of the actions taken to remedy the matters raised. The Centre performs annual data clean-up and archiving exercises, which further remove the risk of duplicate records as well as long-term inactive vendors. Over 38,000 inactive records and 1,500 duplicates were removed from the master data management records during 2017. New records are checked for duplicates according to existing standard operating procedures in addition to annual data clean-up and archiving exercises.	The Board checked the vendor master data provided by the Global Shared Service Centre and noted that there were no duplicate vendors. However, the Board noticed that other issues, like vendors not having bank account details and email identification, still persist. The Board also noticed that vendors having no bank details in the vendor master record were given purchase orders/long-term agreements. Hence the task of removing all inconsistencies remains and the recommendation is considered to be under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
32	A/72/5/Add.3 of 2016	Chapter II, paragraph 132	Record the reasons for deviation from the Supply Manual guidelines on availment of the long-term agreement in VISION.	UNICEF amended the relevant policy and procedures with instructions on the need to record the reasons for not utilizing long-term agreements in VISION.	The Board noted the corrective action taken by revising divisional procedure 004 and section 8 of chapter 8 of the Supply Manual on 31 October 2017. The recommendation is treated as implemented.	X			
33	A/72/5/Add.3 of 2016	Chapter II, paragraph 133	Develop the long-term agreement management system, including constant monitoring of its expiry, timely renewal and entering the agreement with better price for regularly purchased items.	UNICEF has amended the guidance on the considerations for establishing long-term agreements as part of the procurement approach. In addition, it has streamlined the tools for tender planning, including monthly review and updates of the strategic tender calendar for long-term agreement expiration dates and planned extension/tendering actions and has implemented a periodic review of non-strategic tenders. Expiration of long-term agreements is further monitored in InSight on an ongoing basis.	The Board noted the long-term agreement management system is planned in two phases and that only the portion on services covered in the first phase is implemented. Phase II is still under implementation. Hence, the recommendation is considered to be under implementation.		X		
34	A/72/5/Add.3 of 2016	Chapter II, paragraph 138	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.	UNICEF has implemented this recommendation to ensure that all exemptions on taxes and tolls are availed in accordance with its cooperation agreements. New closure activity requesting compliance with host country agreements on value added tax (VAT) (either the exemption or the reimbursement modality) was implemented as part of the 2017 closure. Country offices confirm compliance with the respective cooperation agreement on an annual basis. The first annual confirmation	The Board noted that action has been initiated. Therefore, the recommendation is treated as being under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				was effective for the year ended 31 December 2017.					
35	A/72/5/Add.3 of 2016	Chapter II, paragraph 159	Review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to improve timely delivery.	UNICEF amended procedures to include guidance on additional available contractual remedies for the application of liquidated damages in case of supplier non-performance. It has also issued revised general terms and conditions and conducted related global training sessions. UNICEF has further developed a template for recording cases of liquidated damages claimed and cases where liquidated damages have not been applied, including proper justification and contract management measures taken.	The Board noted delays in this year's audit. Therefore, the recommendation is treated as being under implementation.		X		
36	A/72/5/Add.3 of 2016	Chapter II, paragraph 170	Ensure the timely receipt of vaccine arrival reports.	UNICEF has published guidance in line with WHO guidelines on the timely submission of vaccine arrival reports and has also established performance indicators to monitor the achievement of timely vaccine arrival reports.	The Board noted that the Supply Manual has been revised according to the WHO guidelines and the Supply Division monitors receipt of vaccine arrival reports through key performance indicator number 6. Yet, many cases of delays in receipt of vaccine arrive reports continued to be noticed during the 2017 audit and receipt of vaccine arrival reports within 3 days was limited to only 41 per cent. Hence the recommendation is		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
					considered to be under implementation.				
37	A/72/5/Add.3 of 2016	Chapter II, paragraph 184	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.	UNICEF agreed with the recommendation and will review the factors contributing to the detention of containers for long periods and conduct a root-cause analysis, which is planned to be completed by May 2018.	The Board noted that the recommendation was under implementation.		X		
38	A/72/5/Add.3 of 2016	Chapter II, paragraph 193	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.	As information on open travel authorizations is already included in UNICEF management dashboards, UNICEF did not accept the recommendation to produce and distribute individual reports on trip closure to approximately 150 offices.	The Board continue to note delays in trip closures. As UNICEF has not taken any action on it, the recommendation is treated as not implemented.			X	
39	A/72/5/Add.3 of 2016	Chapter II, paragraph 196	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 requests closure of this recommendation as it is implemented.	In view of the action taken by the UNICEF, the recommendation may be treated as implemented.	X			
40	A/72/5/Add.3 of 2016	Chapter II, paragraph 199	Put in place a system check for exploring alternatives to travel by way of using technology before authorizing travel.	UNICEF implemented a system of confirmation that travellers have explored other alternatives to travel prior to any travel. A new functionality has been added to VISION which requires all staff members creating a travel authorization to certify that all alternatives to travel have been considered, including utilizing technology. It is only upon a staff member's certification that all alternatives have been explored will	The progress described by UNICEF will be verified in the next audit by the Board.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				the system allow them to proceed and create a travel authorization.					
41	A/72/5/Add.3 of 2016	Chapter II, paragraph 208	Continue to collect data from all the country offices that are implementing the infant and young children feeding programme and ensure the completeness of the data for all the parameters.	UNICEF will continue to collect data from country offices via the nutrition dashboard. For reasons beyond its control, UNICEF may not be able to ensure the completeness of data for all the parameters as, in some programmes, data is obtained from routine information systems such as health management information systems and may not be available for all parameters. UNICEF is working to strengthen the nutrition dashboard (NutriDash) to (a) ensure its sustainability, and (b) improve data visualization of nutrition programmes globally. Draft visualizations for the infant and young children feeding module have been developed.	The Board noted that action was under way for implementing the recommendation. Therefore, the recommendation is treated as being under implementation.		X		
42	A/72/5/Add.3 of 2016	Chapter II, paragraph 213	Regularly monitor the progress of programme implementation and extend support to the country offices based on the progress made.	UNICEF monitors nutrition programmes using three different mechanisms: (a) strategic monitoring questions, (b) the results assessment module, and (c) the nutrition dashboard (NutriDash). For 2016, UNICEF collected nutrition programme data for 108 countries. UNICEF also provided direct support to 27 countries and six regional offices. Furthermore, it organizes quarterly calls with regional advisers and the global nutrition cluster coordinator, in addition to a global network meeting including the chiefs of nutrition of 10 countries.	In view of the action taken by UNICEF, the recommendation is treated as implemented.	X			

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
43	A/72/5/Add.3 of 2016	Chapter II, paragraph 224	Use the lessons learned from the Millennium Development Goals for effective implementation of the Sustainable Development Goals.	Based on experience with the Millennium Development Goals, UNICEF has learned that ensuring a complete baseline and periodic monitoring of the Sustainable Development Goals will require five strategies which UNICEF has committed to supporting and pursuing: (a) systematic coordination among different organizations that support data monitoring to identify and help close data gaps; (b) the prioritization of data monitoring support to countries that are least able to generate data on their own; (c) new data collection methods to be used in environments where traditional methods (surveys, administrative data) are not feasible (for example, in conflict settings); (d) greater commitment from countries themselves to support the monitoring of the Sustainable Development Goals; and (e) strengthened capacity of countries to conduct credible data monitoring. New efforts are under way to support and monitor progress on the above strategies. UNICEF used the lessons from the Millennium Development Goals period for measurement, programming and advocacy for the Sustainable Development Goals cycle. They are now solidified as one of five key outcomes for the Data, Research and Policy Division, that all countries establish a baseline for key Sustainable Development Goal child indicators, drawing on new ways to generate data, using multiple	The Board noted that the management has taken steps to implement the recommendation at the planning level. Implementation of the plan will be reviewed in the Board's future audits. Therefore, the recommendation is treated as being under implementation.		X		

No.	Audit Report year	Paragraph reference	Recommendation by the Board	UNICEF response	Board's Assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				indicator cluster surveys more strategically, mobilizing new data partnerships and developing data platforms. In addition, UNICEF will produce a flagship publication on the status of implementation of the Sustainable Development Goals as they relate to children on a biennial basis. The above informed the development of the 2018–2021 Strategic Plan. Specific key performance indicators have been established and will be monitored and reported on annually. Dedicated resources, capacities and plans have been prioritized and provided among the headquarters divisions tasked with harnessing the role of evidence in driving change and contributing to supporting countries in implementing the Sustainable Development Goals agenda.					
44	A/72/5/Add.3 of 2016	Chapter II, paragraph 232	Streamline and integrate the various mechanisms for harnessing inputs and insights from the 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.	UNICEF undertook a highly consultative and effective process for the development of the Strategic Plan 2018–2021. The process was presented to the UNICEF Executive Board as a road map at the second regular session of 2016 and the first regular session of 2017. It included external consultations with Member States, among other partners, and internal consultations with regional/ country offices. Via a structured and transparent process, inputs were sought from regions and countries during the planning cycle culminating in the Strategic Plan 2018–2021.	In view of the response provided regarding the development of the strategic plan, the recommendation is considered as implemented.	X			

						Status after verification			
No.	*Audit Report year*	*Paragraph reference*	*Recommendation by the Board*	*UNICEF response*	*Board's Assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
45	A/72/5/Add.3 of 2016	Chapter II, paragraph 236	Review the charter of the Office of Internal Audit and Investigations to ensure adherence to the International Standards for the Professional Practice of Internal Auditing.	UNICEF reviewed and revised the charter of the Office of Internal Audit and Investigations with the support of the Audit Advisory Committee and in coordination with the other United Nations audit offices. The revised charter will be presented for review and approval by the new Executive Director.	The new charter is yet to be approved. Therefore, this recommendation is considered to be under implementation.		X		
46	A/72/5/Add.3 of 2016	Chapter II, paragraph 243	The Office of Internal Audit and Investigations prepare and implement its annual workplan to adhere to a five-year audit cycle in accordance with the Charter of the Office.	While UNICEF disagreed with the indication that the Office of Internal Audit and Investigations is not in compliance with its charter, it agrees to the need to review its charter, including the five-year audit cycle. The revised charter will be presented for review and approval by the new Executive Director.	The new charter is yet to be approved. Therefore, this recommendation is considered to be under implementation.		X		
47	A/72/5/Add.3 of 2016	Chapter II, paragraph 247	The Office of Internal Audit and Investigations adhere to the timelines fixed for issuing internal audit reports and completing investigations.	UNICEF revised its audit processes and monitoring systems as recommended by the Board. Nine of the 13 draft internal audit reports issued since June 2017 met the 60-day timeline, with three of the remaining four reports being issued in draft form within 66 days. The average time to issue a draft report was 54 days.	In view of the improvement in adherence to timelines for submitting drafts and issuing final reports reported by the Office of Internal Audit and Investigations, the recommendation is treated as implemented.	X			
Total						**17**	**29**	**1**	
Percentage						**36**	**62**	**2**	

Chapter III
Certification of the financial statements

Letter dated 31 March 2018 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 2018

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, the Republic of Korea and Switzerland and at regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

2. 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.

3. This financial statement discussion and analysis should be read in conjunction with the UNICEF audited financial statements for 2017, but does not form part of the statements. The present financial statements were prepared for the calendar year 2017 in accordance with the UNICEF Financial Regulations and Rules and the International Public Sector Accounting Standards (IPSAS) as presented in chapter V of the present document. This discussion and analysis is intended to provide readers of the financial results with a more holistic understanding of the meaning of the numbers and to inform stakeholders with regard to how financial resources are being managed.

Overview of operations and the operating environment

4. The activities of UNICEF are fully financed by voluntary contributions from governments, private organizations and individuals. Some of these contributions are earmarked for specific programmes and projects, while unearmarked resources are granted to UNICEF to allocate according to a formula approved by the Executive Board that favours countries where children are in greatest need.

5. UNICEF's governing body is the Executive Board, providing intergovernmental support and oversight to the organization in accordance with the overall policy guidance of the General Assembly and the Economic and Social Council. The Board comprises representatives from 36 United Nations Member States, elected to three-year terms by the Council. The day to day activities of UNICEF as at 1 January 2018 are led and managed by Henrietta Fore, the UNICEF Executive Director, who is accountable to the Executive Board for all aspects of the Fund's operations.

6. The number and scale of humanitarian crises in 2017 continued at high levels and UNICEF responded to 337 new and ongoing crises in 102 countries, including seven level 3 (organization-wide) responses to protracted conflicts in Iraq, north-eastern Nigeria, South Sudan, the Syrian Arab Republic and neighbouring refugee-hosting countries, and Yemen, the Rohingya refugee crisis in Bangladesh and the escalating crisis in the Democratic Republic of the Congo. There were also four level 2 emergency responses, several smaller or less visible humanitarian situations and a range of health emergencies, including cholera outbreaks in several countries.

7. The Emergency Programme Fund, which is set up to front-load critical funding requirements ahead of donor commitments so as to ensure a rapid response, disbursed

a total of $84.70 million to 21 country offices and three regional offices in 2017. Over 60 per cent of these funds supported country responses to level 2 or level 3 situations.

Objectives and strategies

8. The financial year under review was the last year of the UNICEF Strategic Plan 2014–2017, which had the objective and theme of advancing the rights of every child, especially the most disadvantaged. The Plan also set organizational targets, with a special focus on management strategies to improve efficiency and effectiveness through strengthened business operations and building humanitarian action preparedness, response and resilience.

9. The key development and humanitarian results achieved in the year are as follows:

2017 programmatic results

Development	*Humanitarian*
78.6 million children immunized against measles	18 million children vaccinated against measles
900,000 children (aged 0–14) living with HIV receiving antiretroviral treatment[a]	3 million children treated for severe acute malnutrition
12 million people accessing safe water	32.7 million people provided access to safe water
Over 250 million children received vitamin A supplementation and other nutrition interventions	9 million people accessed adequate sanitation
12.5 million children received learning materials	8.8 million children accessed formal or non-formal education
15.9 million children registered at birth through UNICEF support	3.5 million children received psychosocial support
3 million more children reached by government cash-transfer programmes, in part through UNICEF support	Over 1 million people benefited from cash-based support

Source: Annual report for 2017 of the Executive Director of UNICEF (E/ICEF/2018/9).
[a] 2016 data.

10. UNICEF made important efficiency gains in 2017, demonstrating value for money, exemplified by improved contract and compliance management, operational effectiveness and travel-related decision-making resources, which yielded $1.65 million in savings. In addition, the completion of the transfer of transactional functions to the new UNICEF Global Shared Services Centre resulted in savings of close to $3.00 million.

11. At the second regular session, in September 2017, the UNICEF Executive Board approved the integrated resource plan as the financial framework for the Strategic Plan 2018–2021. The integrated resource plan provides detailed annual projections of: (a) estimated financial resources; (b) estimated costs; and (c) working capital levels required for liquidity (see para. 13). The objective of the Strategic Plan 2018–2021, is to drive measurable results for children, especially the most disadvantaged, including in humanitarian situations, and it defines the change strategies and enablers that support their achievement.

12. Further discussion on the Strategic Plan 2018–2021 is included in the forward-looking statements (see para. 72).

13. UNICEF is subject to an Executive Board approved liquidity requirement. The UNICEF Financial Regulations and Rules indicate that, to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Board. There have been no changes in the way UNICEF manages its capital in 2017.

Financial statements and five-year trend analysis

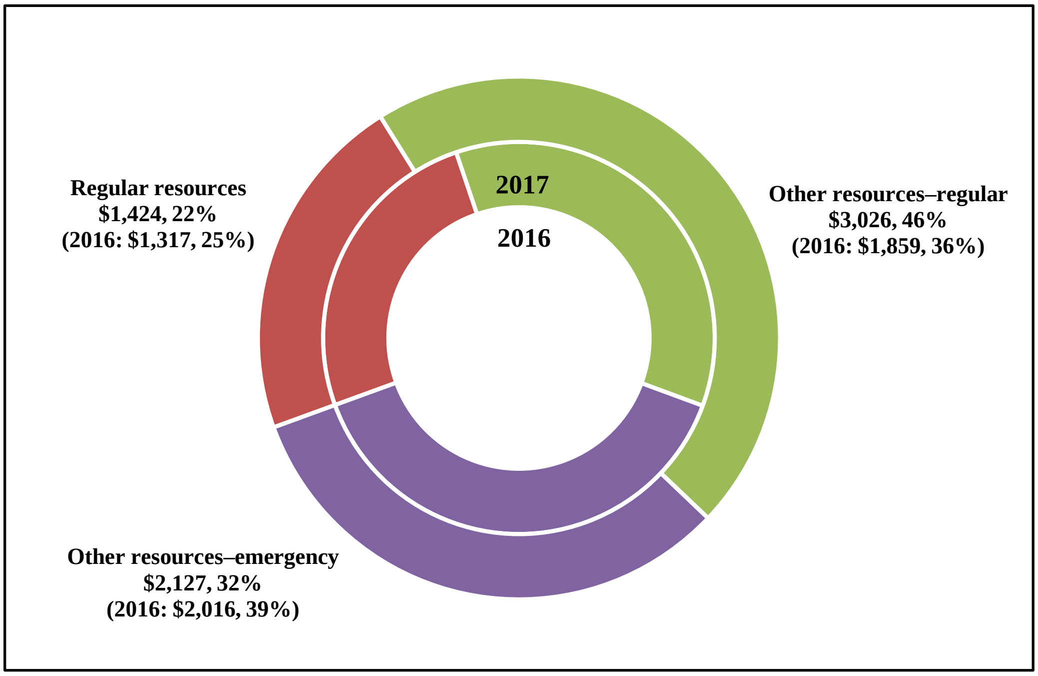
Financial performance: revenue

14. UNICEF mobilizes voluntary contributions from various funding partners to fund its Strategic Plan and its results for children. UNICEF's revenue comprises core (unearmarked) regular resources contributions, non-core contributions (other resources — regular; and other resources — emergency), which are earmarked for specific programmes and projects, other revenue and investment revenue.

15. During 2017, following a recommendation from the external auditors, UNICEF revised its revenue recognition policy to a simplified approach, requiring less judgment to be exercised and hence making it easier to understand by internal and external users of the information, using information it now has available after five years of IPSAS implementation. Prior year information for 2016 has been restated to allow comparison with an increase in revenue of $307.60 million, or 6 per cent, over what was previously reported. The net deficit for 2016 has been reduced by the same amount. Further information on the change in policy and its impact can be found in note 3, section E, Change in accounting policy, in chapter V, Financial statements for the year ended 31 December 2017.

16. Total UNICEF revenue in 2017 was $6.58 billion (2016 restated: $5.19 billion), reflecting an increase of $1.39 billion, or 27 per cent. Revenue by segment (funding type) is shown in figure IV.I and is explained in paragraphs 17–20.

Figure IV.I
Total revenue by segment
(Millions of United States dollars)



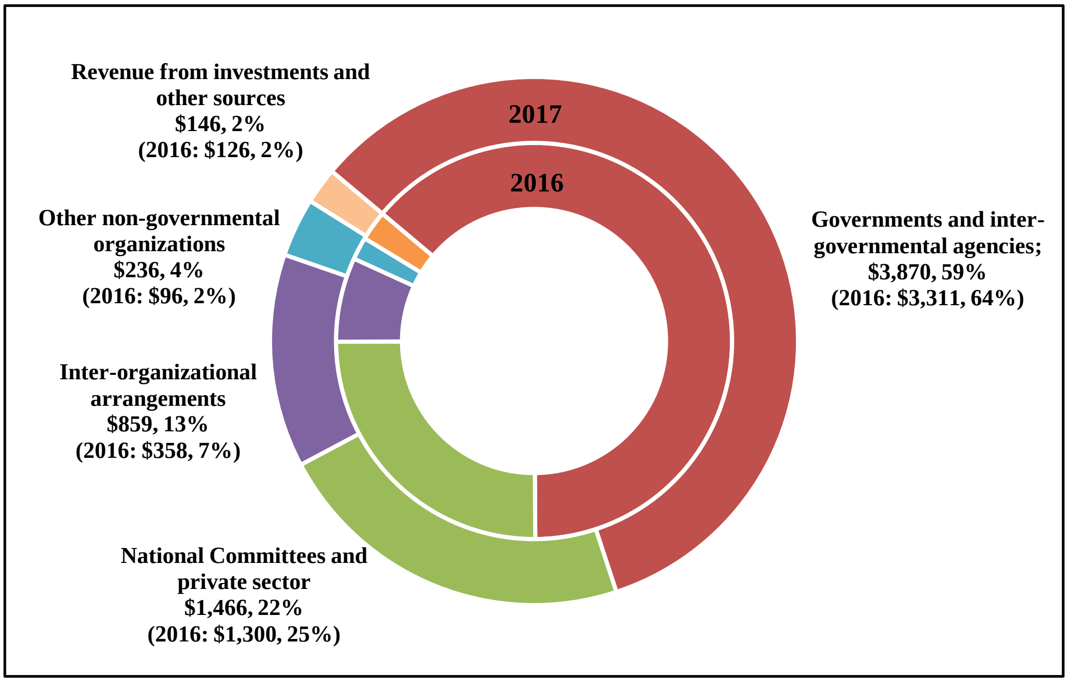
17. Governments, private organizations and individuals continued to be the main sources of UNICEF revenue through voluntary contributions accounting for 98 per cent (2016 restated: 98 per cent) of total revenue.

18. Regular resources revenue, including institutional budget and trust fund allotments as well as voluntary contributions and other revenue, increased by $106.99 million, or 8 per cent, to $1.42 billion (2016 restated: $1.32 billion) and accounted for 22 per cent (2016 restated: 25 per cent) of total revenue.

19. Other resources — regular revenue increased by $1.17 billion, or 63 per cent, to $3.03 billion (2016 restated: $1.86 billion), mainly as a result of a $521.66 million contribution from the World Bank (2016 restated: $0.10 million), and accounted for almost half of total revenue. Other resources — emergency revenue increased by $111.45 million, or 6 per cent, to $2.13 billion (2016 restated: $2.02 billion), representing 32 per cent of total revenue.

20. Following the change in its approach to revenue recognition, UNICEF recorded total earmarked voluntary contributions of $4.04 billion as revenue cumulatively in 2017 and prior years related to grants where programmatic activities are taking place in 2018 and beyond.

Figure IV.II
Revenue by source of funding
(Millions of United States dollars)



21. Revenue by source of funding is shown in figure IV.II. Contributions from governments and inter-governmental agencies made up the largest portion of 2017 revenue, at 59 per cent of the total, or $3.87 billion (2016 restated: $3.31 billion), representing an increase of $558.27 million, or 17 per cent.

22. Revenue from inter-organizational arrangements represented 13 per cent of the total, having risen markedly by $501.63 million to $859.19 million (2016 restated: $357.56 million), mainly as a result of contributions from the World Bank for emergency programmes in Yemen, a country classified at level 3.

23. Revenue from other non-governmental organizations saw a sizable increase of $140.46 million to $236.35 million (2016: $95.88 million), which accounted for the significant increase in total other resources revenue.

24. Revenue from the UNICEF National Committees, which consist of 34 independent non-governmental organizations that promote children's rights in industrialized countries and raise funds for UNICEF programmes worldwide, increased by $165.73 million, or 13 per cent, to $1.47 billion for the year (2016 restated: $1.30 billion). This increase represented the largest part of the improvement in total regular resources revenue.

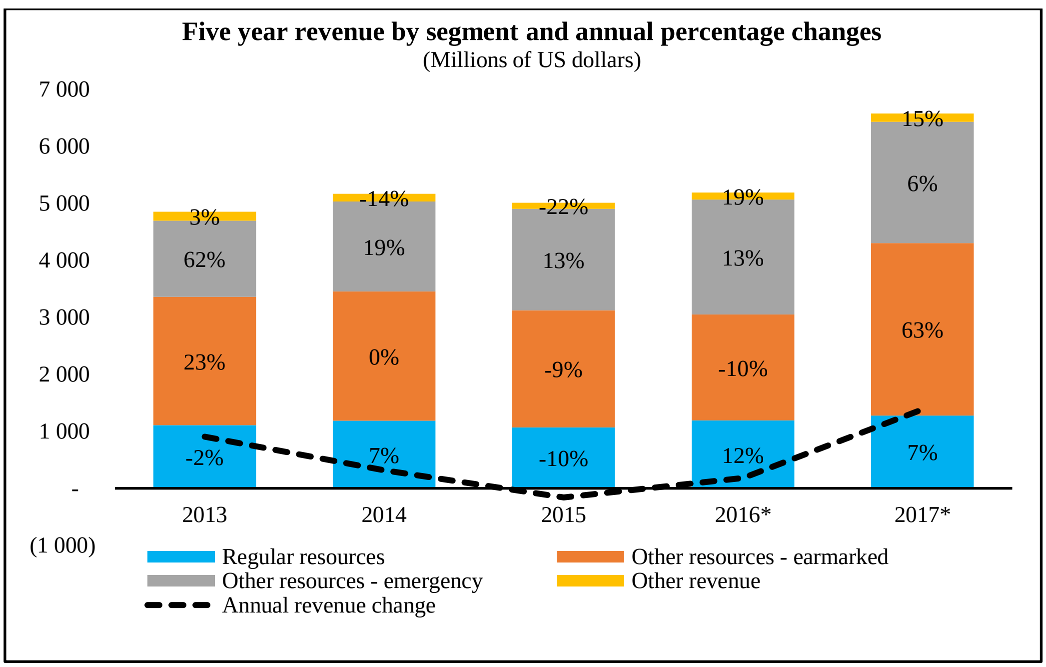
Table IV.I
Five-year trend in revenue
(Thousands of United States dollars)

	2017	*2016[a]*	*2015*	*2014*	*2013*
Revenue					
Regular resources	1 278 100	1 190 642	1 067 461	1 188 990	1 106 378
Other resources — regular	3 026 270	1 859 076	2 055 402	2 263 982	2 255 923
Other resources — emergency	2 126 629	2 015 180	1 780 489	1 579 448	1 332 508
Total voluntary contributions	**6 430 999**	**5 064 898**	**4 903 352**	**5 032 420**	**4 694 809**
Other revenue	74 046	74 486	71 174	107 113	129 115
Investment revenue	71 699	51 911	35 031	29 755	29 244
Total revenue	**6 576 744**	**5 191 295**	**5 009 557**	**5 169 288**	**4 853 168**

[a] 2016 revenue from voluntary contributions was restated owing to a change in accounting policy.

25. With respect to the five-year trend across segments, revenue averaged an 11 per cent increase annually from 2013 through 2017 (see table IV.1). There were modest increases in 2014 and 2016, with sharper increases in 2013 and 2017. Only 2015 saw a slight decline in revenue.

Figure IV.III
Annual revenue movement, by segment, 2013–2017
(Millions of United States dollars and percentage)



[a] 2016 and 2017 revenues from voluntary contributions were recorded under a new recognition policy.

26. Annual movement of revenue by segment is shown in figure IV.III. Regular resources revenue has fluctuated slightly since 2013, with a 7 per cent increase noted

in 2017 compared with an average annual increase of 3 per cent for the five-year period.

27. Investment revenue, although a small contributor to total revenue, has been increasing modestly since 2013 with the largest increases noted in 2016 and 2017, attributable to the continued firming of the interest rate market during the last three years.

28. Other revenue, mostly from handling fees for procurement services, remained stable over the past three years after declining significantly in 2015. The decrease from 2013 and 2014 levels reflected a strategic business to shift from in-house management of gifts and cards to the licensing model now in use.

Foreign exchange impact: revenue

29. With approximately 46 per cent of the voluntary contributions to UNICEF in currencies other than the United States dollar, currency valuations and foreign exchange fluctuations affect the amount of revenue recorded. Depreciation of the United States dollar in 2017 resulted in realized and unrealized foreign exchange gains of $124.71 million (2016 restated: loss of $68.24 million), relating mainly to euro and pound sterling denominated contributions, with gains of $77.12 million and $29.73 million respectively. In accordance with the UNICEF Financial Regulations and Rules, such foreign exchange gains and losses are reflected against revenue.

30. Foreign exchange gains on regular resources revenue increased to $11.92 million (2016 restated: loss of $3.15 million). The foreign exchange gains on other resources revenue, both regular and emergency, were $81.26 million (2016 restated: $47.44 million) and $31.56 million (2016 restated: $23.95 million), respectively for the year.

31. UNICEF also actively managed foreign currency risk through forward contracts and natural hedges resulting in foreign exchange gains of $59.95 million (2016 restated: $51.72 million). These figures are included under net gains of $75.28 million in the financial statements as they are not directly attributable to specific contribution agreements.

Financial performance: expenses

32. UNICEF utilizes resources charged as expenses against revenue in managing and implementing various programmes aligned with the Strategic Plan in order to achieve results for children. The Fund's main expense categories include cash assistance, employee benefits and transfers of programme supplies. The Fund's total expenses of $5.86 billion (2016 restated: $5.45 billion) mainly comprised $2.22 billion (2016 restated: $1.97 billion), or 38 per cent, for cash assistance to implementing partners and beneficiaries; $1.09 billion (2016 restated: $1.14 billion), or 19 per cent, for transfer of programme supplies; and $1.31 billion (2016: $1.21 billion), or 22 per cent, for employee benefits.

33. Cash-based transfers for programme implementation continued to be scaled up, particularly in countries and locations responding to humanitarian crisis. Cash-based assistance increased by $253.02 million in 2017 as compared with 2016 ($422.25 million, restated), based largely on direct transfers to beneficiaries in Yemen and increased transfers to implementing partners in Lebanon and Turkey.

34. Other significant expenses included $473.69 million (2016 restated: $422.25 million) for programme-related professional and expert services and $149.85 million for travel-related expenses related to programme and administrative activities (2016 restated: $140.16 million).

35. The top 10 programmatic countries by expenses (see figure IV.IV) account for $2.31 billion, with most of those funds coming from other resources — regular of $0.82 billion and other resources — emergency of $1.22 billion. This trend reflects the response of UNICEF to humanitarian crises, with other resources — emergency constituting the most resources spent in Iraq of $175.05 million, Jordan of $191.54 million, Lebanon of $298.57 million, Somalia of $95.03 million and the Syrian Arab Republic of $156.47 million.

Figure IV.IV
Top 10 programme country expenses, by funding source
(Millions of United States dollars)

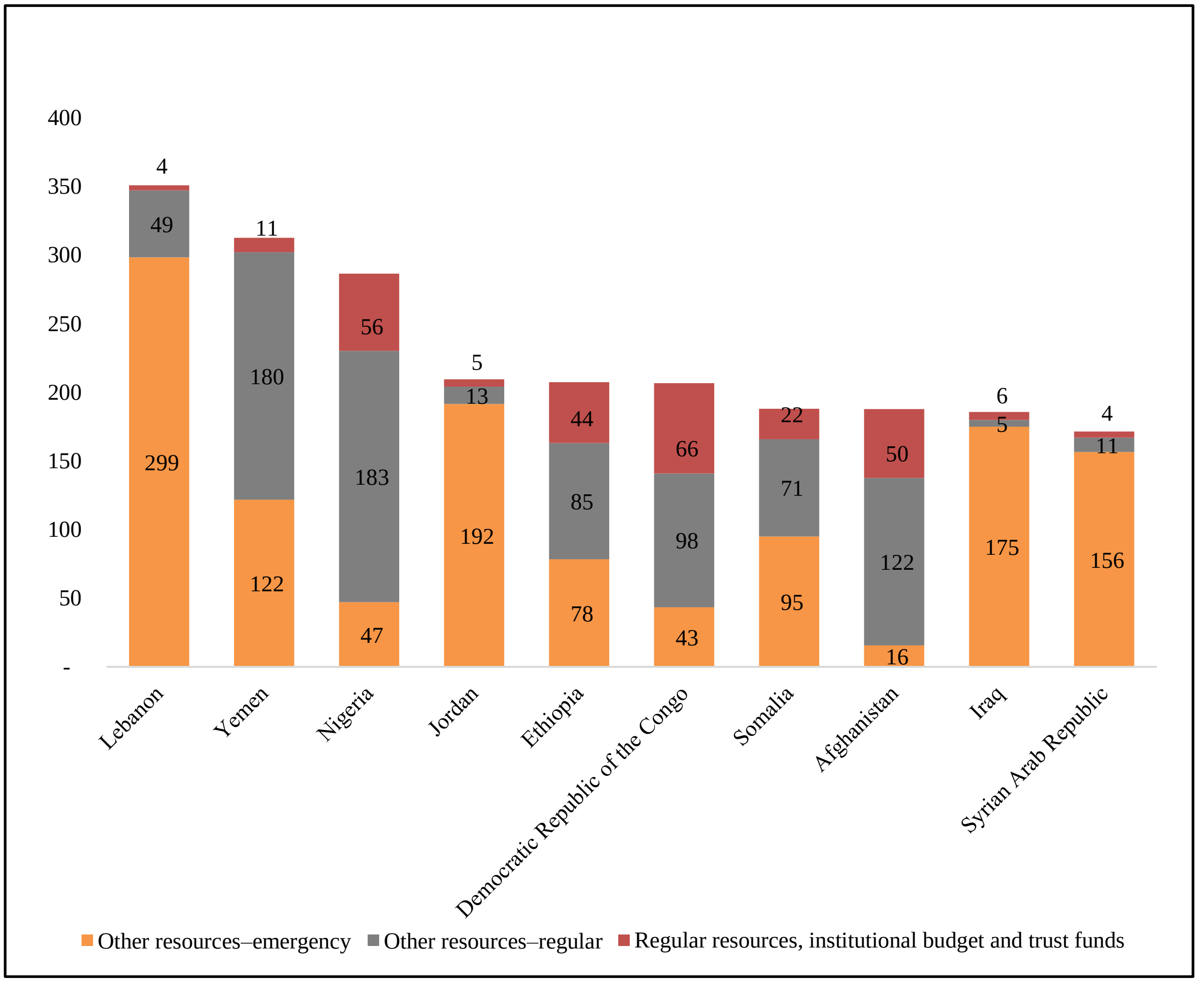


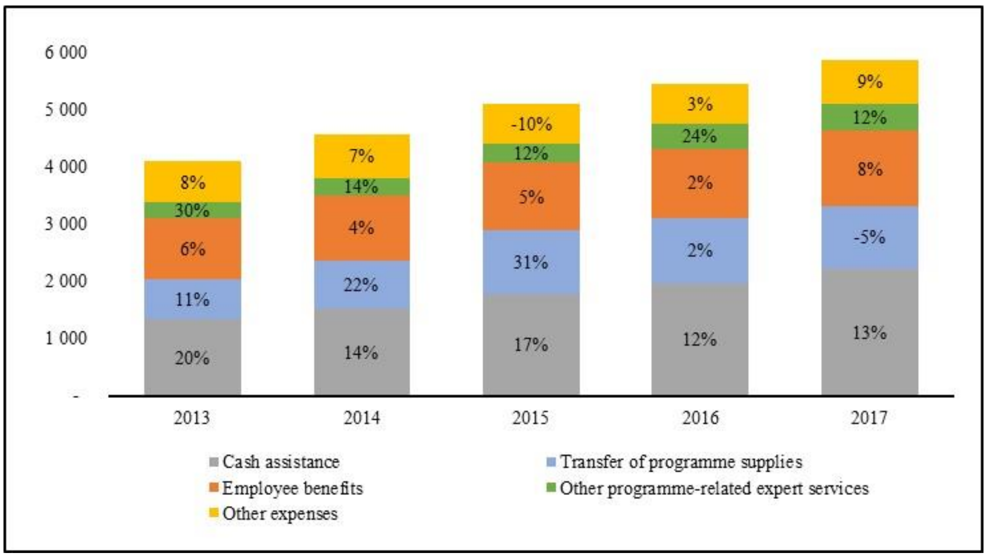
Table IV.2
Five-year trend for expenses
(Thousands of United States dollars)

	2017	*2016*	*2015*	*2014*[a]	*2013*[a]
Expenses					
Cash assistance	2 224 658	1 971 636	1 766 374	1 512 034	1 330 550
Transfer of programme supplies	1 086 237	1 139 096	1 117 930	851 497	695 104
Employee benefits	1 310 272	1 207 855	1 185 784	1 129 549	1 082 795
Depreciation and amortization	18 800	26 623	22 587	18 597	13 491
Other expenses	746 885	677 270	658 029	737 316	695 765
Other programme-related expert services	473 688	422 247	341 603	305 676	267 618
Finance costs	2 893	3 124	3 342	3 547	3 740
Total expenses	**5 863 433**	**5 447 851**	**5 095 649**	**4 558 216**	**4 089 063**

[a] Certain amounts related to this category have been restated or classified to conform to the current presentation.

36. Expenses have increased steadily each year (see table IV.II), by between 7 per cent and 13 per cent, and have tracked revenue closely with an average annual increase of 10 per cent, compared with 11 per cent average growth in revenue.

Figure IV.V
Annual expenses movement
(Millions of United States dollars and percentage)



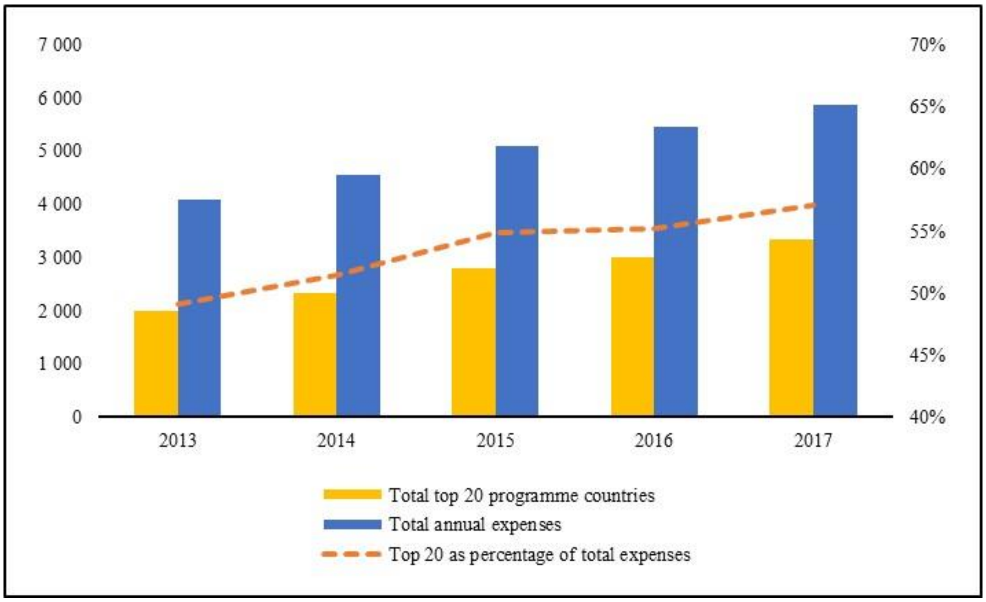
37. The annual movement in expenses is shown in figure IV.V. Cash assistance to implementing partners continued to increase significantly over the period, averaging 15 per cent annually. These implementing partners include governments, local civil society, local and international non-governmental organizations and government partners, particularly in countries that host refugees and border the Syrian Arab Republic and in Nigeria. As mentioned above, UNICEF also increased the distribution of cash distributed directly to beneficiaries of the humanitarian response in Yemen by $72.08 million, funded by the World Bank.

38. Expenses for the transfer of programme supplies, distributed primarily in Afghanistan, Ethiopia, Nigeria, the Syrian Arab Republic and Yemen, has steadied over the last two years and decreased slightly in 2017, after experiencing sharp increases in 2014 and 2015.

39. Employee benefits-related expenses have increased steadily over the last five years, growing between 4 per cent and 6 per cent annually until 2016, when they rose only 2 per cent. Expenses increased by 8 per cent in 2017 as UNICEF programmatic activities expanded. However, employee benefits as a percentage of total expenses have decreased steadily over the last 5 years from 26 per cent in 2013 to 22 per cent in 2017.

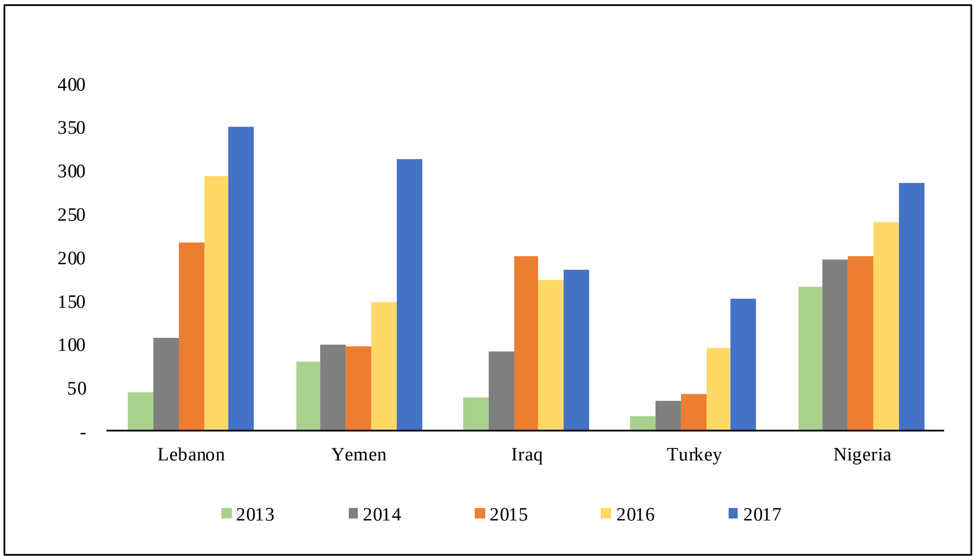
40. Other programme-related expert services expenses have seen a continued increase, averaging 18 per cent annually over the period. These include technical support provided by external consultants to implement programmes, including evaluation services, studies and research survey services, and other services related to programme activities. Countries that recorded the highest increases in other programme expenses over the last five years include Pakistan, India and Nigeria, for the polio eradication programme. Iraq recorded significant increases from 2013 to 2016, but was stable between 2016 and 2017.

Figure IV.VI
Total expenses for the 20 largest programme countries
(Millions of United States dollars and percentage)



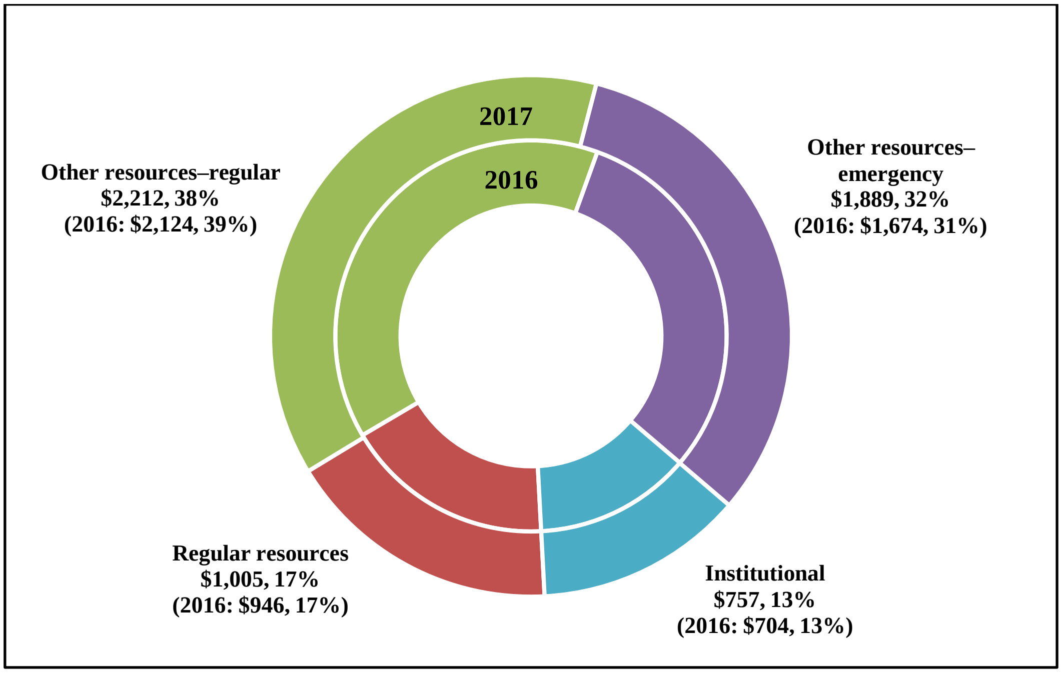
41. The largest 20 programmatic countries accounted for 57 per cent of organizational expenses in 2017, compared with 49 per cent in 2013, reflecting a steady increase over the five-year period (see figure IV.VI). This trend is largely explained by the stronger response in countries surrounding the Syrian Arab Republic as the humanitarian crisis deepened, for example in Lebanon, where expenses rose from $44.55 million in 2013 to $350.87 million in 2017, an increase of almost 700 per cent. Similarly, expenses in Yemen have increased from $79.51 million to $312.70 million, an increase of nearly 300 per cent. The countries with the largest increases in expenses are shown in figure IV.VII.

Figure IV.VII
Countries with largest expenses over five-year period, 2013–2017
(Millions of United States dollars)



42. Expenses by type of funding are illustrated in figure IV.VIII.

Figure IV.VIII
Expenses by segment
(Millions of United States dollars)

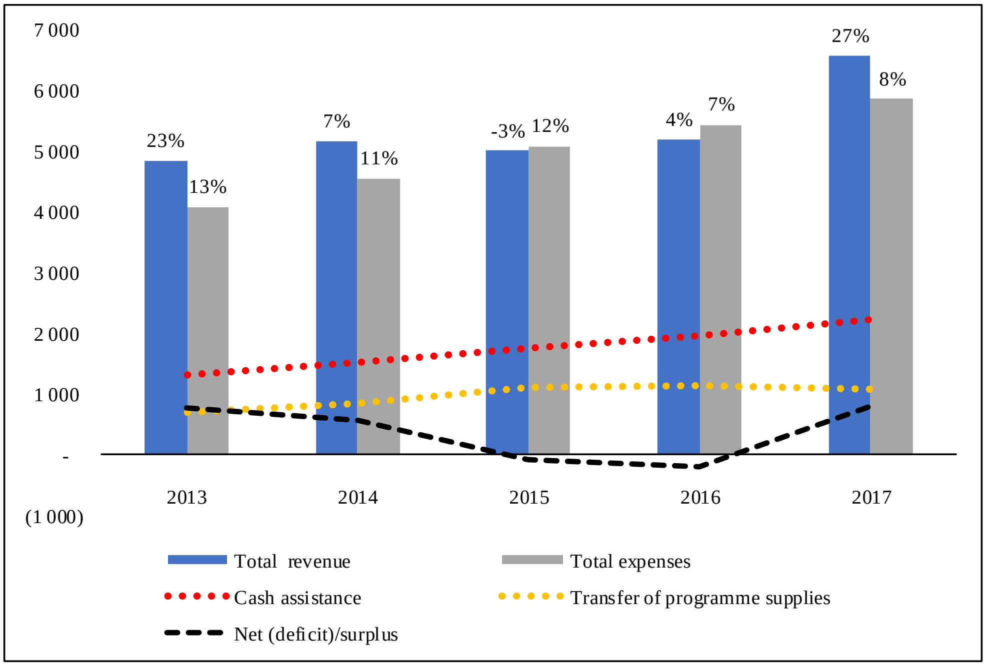


Overview of UNICEF net position as at 31 December 2017

43. After expenses, UNICEF recorded a surplus for its activities of $788.59 million in 2017 (2016 restated: deficit of $199.86 million). The surplus mainly relates to other resources contributions received for programmatic activities that will take place in 2018 and beyond. From 2013 to 2017, UNICEF recorded an average surplus of

$369.06 million annually, although there were net deficits in 2015 and 2016, representing a drawdown of surpluses for programmatic activities. Figure IV.IX reflects UNICEF performance and utilization of resources in meeting humanitarian and development needs over the last five years.

Figure IV.IX
Five-year performance
(Millions of United States dollars and percentage)



Financial position: assets

44. As at the end of 2017, the Fund's total assets were $9.95 billion (2016: $8.65 billion), as shown in table IV.3.

Table IV.3
Statement of financial position: assets
(Thousands of United States dollars and percentage)

			Variance	
	2017	*2016 restated*	*Thousands of United States dollars*	*Percentage*
Assets				
Cash and cash equivalents	883 578	1 133 528	(249 950)	(22)
Receivables (current and non-current)	2 756 843	2 235 232	521 611	23
Advances of cash assistance	732 676	751 257	(18 581)	(2)
Inventories	356 275	368 402	(12 127)	(3)
Investments (current and non-current)	4 217 328	3 457 610	759 718	22
Other assets (current and non-current)	768 660	481 844	286 816	60
Property and equipment	233 177	219 685	13 492	6
Intangible assets	4 159	5 803	(1 644)	(28)
Total assets	**9 952 696**	**8 653 361**	**1 299 335**	**15**

Cash and investments

45. A significant portion of the assets that UNICEF manages in support of its institutional and programmatic activities comprise cash and investments of $5.10 billion (2016: $4.59 billion). Most of the cash and investment assets are low-risk investments in fixed income instruments, such as bonds.

46. UNICEF has a responsibility to ensure that its funds are invested in a way that supports short-term liquidity to meet institutional and programmatic needs and promotes the long-term sustainability of its operations to support the implementation of the Strategic Plan. 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.

47. UNICEF manages its investment portfolio risk using various short- and long-term financial instruments. The short-term investment strategy is designed to focus on safety and liquidity while capturing reasonable rates of return, by investment in highly rated financial assets in cash and cash equivalents, short-term investments and emerging markets.

48. The longer-term strategy is based on investing primarily in traded bonds. In 2016, UNICEF engaged an external investment manager to manage the after-service health insurance funds set aside in the related insurance reserve, with the objective of earning returns that 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 fund manager was $480.06 million (2016: $216.65 million).

49. UNICEF also holds internally and externally managed forward contract positions to mitigate the risk of exchange rate fluctuations. UNICEF held $100.56 million (2016 restated: $64.42 million) in assets related to forward contract derivatives as part of the after-service health insurance investments managed by the external investment manager. All positions in forward contracts in the internal investment portfolio are closed before the reporting date.

Available cash

50. As noted above (paras. 8–13), UNICEF is required to hold a prudent level of liquidity for regular resources, defined as equivalent to expenses covering operations for three to six months, historically about $300.00 million to $600.00 million. In addition, UNICEF holds reserves for long-term employee liabilities such as after-service health insurance and other Board-approved purposes, which totalled $687.62 million (2016 restated: $622.33 million) at the end of the year.

51. The available cash from regular resources after taking into account payables and other commitments as well as cash reserves was $617.15 million. The available cash under other resources — regular after considering commitments was $1.45 billion, and for other resources — emergency available cash amounted to $387.18 million.

Receivables

52. The UNICEF funding partners provide multi-year agreements that are essential for forward planning and demonstrate the long-term commitment by donors to achieve results for children. Receivables of $2.71 billion (2016 restated: $2.19 billion) comprise mainly multi-year contributions for programmatic activities in 2018 and subsequent years. Other assets of $768.66 million (2016 restated: $481.84 million) pertain mainly to procurement services activities as discussed in note 11 of the financial statements.

Cash advances

53. Cash advances to implementing partners for which implementation reports had not been received at year-end declined by $18.58 million to $732.68 million in 2017 (2016 restated: $751.26 million) even though overall cash transfers increased. During the year, a new enterprise resource planning module was introduced for processing cash transfers to implementing partners, delivering significant efficiencies and reducing processing time.

Inventories

54. UNICEF holds inventory for programmatic purposes, to distribute to beneficiaries and implementing partners. The total UNICEF inventory worldwide was valued at $356.28 million (2016 restated: $368.40 million) at year-end. Inventory was held in 193 locations in 62 countries and at the Supply Division hub in Copenhagen. The Fund's inventory, which includes items such as therapeutic food, children's clothing and medical and sanitation supplies, is held for short periods as it is intended to be used for programme activities. However, in 2017, $50.10 million (2016 restated: $43.79 million) was held as "pre-positioned" in the field, to allow a fast response at the time of onset of unexpected emergencies.

55. Much of the inventory is located in the field, ready for distribution, with country office warehouses holding inventory valued at $198.32 million in 2017 (2016 restated: $198.05 million). The inventory held in Supply Division hubs and warehouses was valued at $53.22 million (2016: $39.93 million). Goods in transit were valued at $79.58 million (2016 restated: $100.33 million) and programme construction in progress was valued at $25.15 million (2016 restated: $30.09 million).

Financial position: liabilities

56. Under IPSAS, liabilities are defined as present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. UNICEF had total liabilities of $3.36 billion (2016 restated: $2.56 billion) at year-end, largely relating to after-service employee benefits of $1.64 billion (2016 restated: $1.24 billion) and funds held on behalf of others of $1.17 billion (2016 restated: 817.90 million). Liabilities are detailed in table IV.4 and the subsequent paragraphs.

Table IV.4
Statement of financial position: liabilities
(Thousands of United States dollars and percentage)

			Variance	
	2017	*2016 restated*	*Thousands of United States dollars*	*Percentage*
Liabilities				
Accounts payable	274 262	264 887	9 375	4
Contributions received in advance (current and non-current)	29 401	42 488	(13 087)	(31)
Funds held on behalf of others	1 171 871	817 900	353 971	43
After-service health insurance and other employee benefits (current and non-current)	1 638 022	1 236 273	401 749	32
Other liabilities and provisions (current and non-current)	245 368	198 645	46 723	24
Total liabilities	**3 358 924**	**2 560 193**	**798 731**	**31**

57. After-service health insurance and other employee benefits increased by $401.75 million compared with the prior year owing to the full actuarial valuation performed during the year. Of this amount, $316.63 million relates to actuarial gains and losses, mainly as a result of updated mortality tables reflecting an increase of $103.00 million and assumptions about marital status at the time of retirement reflecting an increase of $32.00 million.

58. UNICEF has accumulated $682.03 million (2016 restated: $614.95 million) in its after-service health insurance and separation reserves towards meeting these obligations and continues to set aside additional funds, primarily through payroll surcharges. Table IV.5 shows the funding status for these liabilities.

Table IV.5
Funding status for after-service health insurance and separation reserves
(Millions of United States dollars and percentage)

	After-service health insurance	*Medical Insurance Plan*	*End-of-service*	*Death benefit*	*Worker's compensation*	*Total*
2016 liability	(664.39)	(361.95)	(100.96)	(2.88)	(2.46)	(1 132.64)
2017 liability	(884.78)	(505.71)	(107.10)	(1.99)	(16.01)	(1 515.59)
Funding position	485.18	113.22	83.63	–	–	682.03
Percentage funded	55	22	78	–	–	45

Budgetary performance

59. The statement of comparison of budget to actual allocated amounts spent 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.

Changes from original to final budget

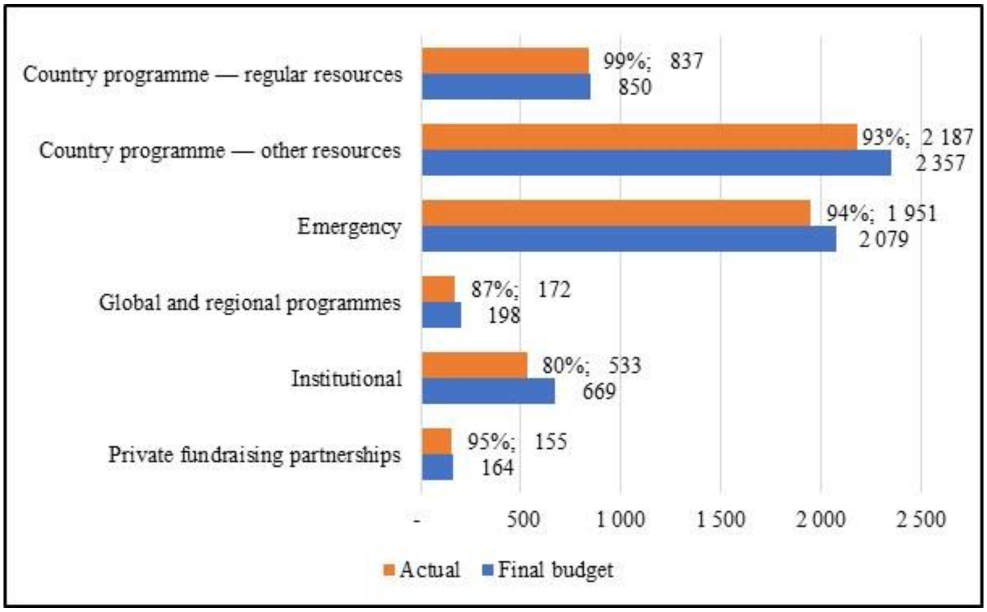
60. UNICEF is voluntarily funded and its budget for the various programmes is approved by the Executive Board, subject to availability of funding. The original budget comprises the amounts for both regular resources and other resources initially allocated for the current year and any residual amounts that are carried forward from prior years. The final budget represents the contributions received against the Board-approved ceiling and planned for the calendar year. In 2017, the total final budget of $6.32 billion was 15 per cent higher than the total original budget of $5.50 billion. The difference resulted primarily from higher funding received for other resources (regular and emergency) compared with the plan.

61. The Executive Board approved the use of the Emergency Programme Fund to pre-finance urgent humanitarian actions when contributions had not yet been made by donors but were expected to be raised through emergency appeals. The Emergency Programme Fund operates as a standing annual authority for UNICEF to allot up to $75.00 million.

Actual budget expenditures

62. The total budget utilized in 2017 was $5.83 billion, or 92 per cent of the final budget (see figure IV.X).

Figure IV.X
Budget to actual performance
(Millions of United States dollars and percentage)



63. The actual budgetary expenditures funded under regular resources were $837.30 million for country programmes and $54.28 million for global and regional programmes, with final budget utilization of 99 per cent and 89 per cent respectively. This indicates that the regular resources budget for programmes was effectively fully utilized at 99 per cent.

64. The actual expenditures were $2.19 billion for country programmes funded under other resources — regular and $118.14 million for global and regional programmes, with final budget utilization of 93 per cent and 86 per cent respectively. The actual expenditure funded from other resources — emergency was $1.90 billion, or 94 per cent of the final budget.

65. Several factors contribute to variances between final and actual budgets. Differences between final and actual budgets for regular and emergency other resources are attributable to the fact that these contributions are largely intended for use over multi-year periods and budgets associated with the related grants are issued throughout the year, as and when contribution agreements are signed with donors.

66. Variances also result from changes in planned activities affected by the programming environment in which UNICEF operates. The areas that recorded a lower actual budget for other resources — regular versus final budget expenditure included Lesotho, Malaysia, Maldives, Nigeria, the Philippines, Saudi Arabia, South Sudan and Tunisia.

67. The Emergency Programme Fund provides a mechanism for the Executive Director to activate the UNICEF response to emergencies in advance of receiving contributions from funding partners. In 2017, the actual budget utilization of the Emergency Programme Fund equalled the final budget allotments advanced from that Fund to support humanitarian actions for which contributions had not yet been made by donors. The utilized 2017 budget of $51.23 million was fully reimbursable in 2017 when contributions became available. In 2017, the Emergency Programme Fund ceiling was increased from $35.00 million to $70.00 million. During the year, monies were issued for $89.00 million, in addition to $11.08 million carried over from the

previous year in the form of residual budgets and commitments. Overall reimbursements from offices in 2017 were $28.09 million, and $17.45 million was re-phased to 2018. The residual budget carried forward to 2018 is $3.31 million.

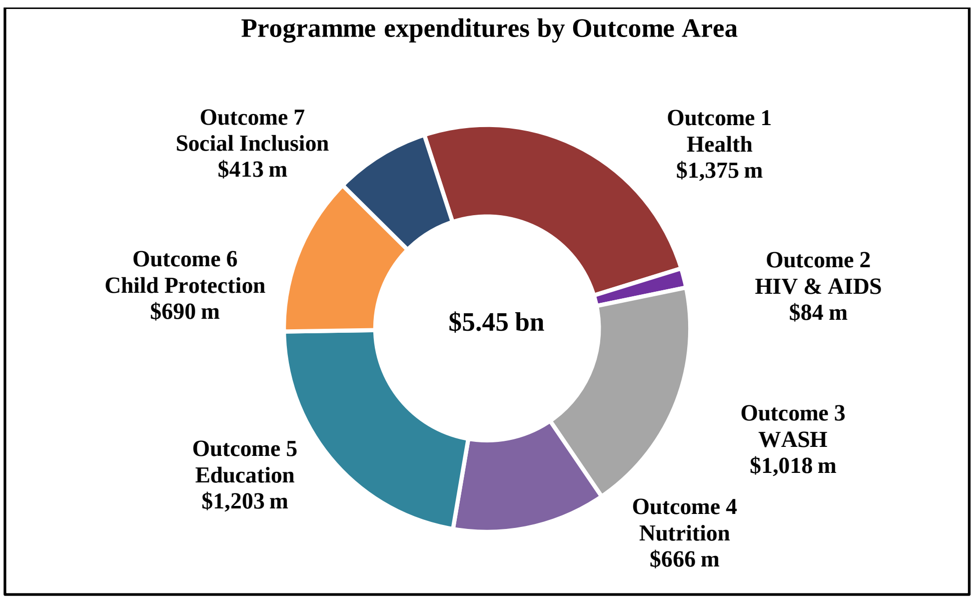
68. The institutional budget represents funds used for development effectiveness activities, management activities, special purpose activities and United Nations development coordination activities. The utilized institutional budget in 2017 was $532.58 million, with final budget utilization of 80 per cent. The variance between the final budget and the actual budget was $136.49 million, of which $70.09 million was attributable to deferred implementation of investment projects and long-term management initiatives. The remaining $66.40 million resulted from the difference between budgeted and actual staff costs as well as a higher-than-planned vacancy factor. Following the closing of the 2014–2017 planning quadrennium, the residual institutional budget in 2017 was not carried forward to 2018.

69. Utilization of the approved budget available for private sector fundraising and partnerships was 95 per cent.

70. In 2017, UNICEF expenditures for the seven outcome areas of the Strategic Plan 2014–2017 totalled $5.45 billion, as detailed in figure IV.XI. The three outcome areas with the highest expenditures for programme implementation in 2017 were outcome 1, on health, at $1.37 billion; outcome 5, on education, at $1.20 billion; and outcome 3, on Water, Sanitation and Hygiene for All (WASH) at $1.02 billion.

71. The outcome areas with the lowest expenditures in 2017 were outcome 2, on HIV and AIDS, at $84.20 million and outcome 7, on social inclusion, at $413.30 million.

Figure IV.XI
Programme expenditures by outcome area, 2017



Forward-looking statements disclosure

72. The management discussion and analysis include forward-looking statements and information about the outlook, direction, operations and future financial results of UNICEF that are subject to risks, uncertainties and assumptions.

Outlook for 2018 and beyond

73. The Strategic Plan 2018–2021 builds on key lessons from the previous Strategic Plan and reflects the principles of the 2030 Agenda for Sustainable Development, including the pledge to leave no child behind and to reach the farthest behind first. For the first time, the Strategic Plan includes a common chapter that specifies how UNICEF will to work together with other United Nations funds and programmes, in particular the United Nations Development Programme, the United Nations Population Fund and the United Nations Entity for Gender Equality and the Empowerment of Women.

74. The Strategic Plan will increase the ability of UNICEF to deliver results for children in four key ways: (a) aligning its resources around common goals and strategies; (b) supporting its ability to make strategic choices; (c) creating more effective communication about its work for every child so as to win more support for the cause of children; and (d) strengthening its accountability framework.

75. Anchored in the Convention on the Rights of the Child, the new Strategic Plan establishes five goal areas and is supported by eight change strategies, tied to 25 results areas. It charts a course towards the attainment of the Sustainable Development Goals and the realization of a future in which every child has a fair chance in life. It sets out measurable results for children, including in humanitarian situations, and defines the change strategies and enablers that support their achievement.

76. Overall, the Strategic Plan seeks to contribute to the realization of the rights of all children, especially the most disadvantaged. This envisaged impact will be achieved through five goal areas:

(a) Every child survives and thrives;

(b) Every child learns;

(c) Every child is protected from violence and exploitation;

(d) Every child lives in a safe and clean environment;

(e) Every child has an equitable chance in life.

77. UNICEF has also identified that while investing in the first years of children's lives is critical, it cannot be assumed this will be sufficient to fully secure their long-term prosperity. Instead, funds must be invested across the early years and adolescence, the crucial second decade of life.

78. The executive summary of the Strategic Plan 2018–2021, provides further information on the Fund's Plan for the four-year period. The document outlines eight supportive change strategies, of which four (programming at-scale results for children; developing and leveraging resources and partnerships for children; harnessing the power of business and markets for children; and the United Nations working together) bring both risks and opportunities to UNICEF financial operations.

Key risks and uncertainties and the risk-management strategy

79. UNICEF continues to enhance its systems and processes for risk management to ensure that results for children and value for money are achieved. The management of key risks is critical for UNICEF to ensure that it delivers on its Strategic Plan to yield results for children. UNICEF manages several risks that are regularly reviewed by management, which prioritizes mitigation strategies.

80. UNICEF applies an enterprise risk management framework as a consistent and systematic process of continuously identifying, assessing, responding to, monitoring

and communicating the top potential adverse risk events for the Fund. The robust internal control framework at UNICEF further integrates risk management to provide a high level of assurance that the organizational Strategic Plan and results for children are achieved based on risk-informed decision-making. There is senior management accountability through the Office of the Comptroller, which is accountable for comprehensive enterprise risk management and the effectiveness of the internal control framework. The effective enterprise risk management and internal control frameworks are integral to providing assurance as to the accuracy and reliability of financial reporting, as well as to the detection and prevention of fraudulent activities. UNICEF management, at all levels, is responsible for ensuring compliance with all applicable regulatory requirements, internal control frameworks and risk management practices.

81. UNICEF continues to maintain and enhance a strong and experienced operations function at the country office, regional office and headquarters levels, where staff continue to implement management controls and risk management practices to optimize the use of resources. The robust operations function is at the forefront of risk mitigation as the first and second lines of defence, especially at the country office level. The Comptroller provides functional leadership of this critical first and second line of defence, to ensure management control. UNICEF continues to mitigate most of the significant risks to an acceptable level by reducing inefficiencies, taking advantage of risk-informed opportunities and developing detailed mitigation action plans which are monitored at the enterprise level.

82. The key risks that UNICEF manages and mitigates are further described in the following paragraphs.

Key organizational risks

83. The risk related to loss resulting from fraud and misuse and misappropriation of funds is a key risk for UNICEF considering its decentralization and the different local contexts in which it implements programmes for children. The risk of loss, if not managed adequately, has the potential negative impact of damaging funding partners' and stakeholders' trust and confidence in the ability of UNICEF to serve as a custodian of resources for children. This loss of trust could further translate into a loss of contributions and limit the ability of UNICEF to deliver on the Strategic Plan and achieve results for children. Funding partners and other stakeholders expect UNICEF to achieve the Strategic Plan goals and mission objectives and need assurance that the resources they provide are managed adequately and that risks against loss and waste are mitigated. Efficient and effective management is therefore a priority so as to ensure that UNICEF retains its reputation as the organization of choice for delivering results that yield the best value for money to benefit the world's most vulnerable and disadvantaged children.

84. UNICEF continues to enhance its strategies to mitigate the risk of fraud and the misuse and misappropriation of funds and is in the process of implementing a comprehensive anti-fraud strategy and transaction-level monitoring tools to prevent, detect and respond to such threats, while continuing to enhance existing risk mitigation and response mechanisms. These activities will address fraud related to staff, vendors and third parties, including implementing partners, which may pose an elevated risk owing to limits on their capacity. UNICEF plans to prioritize training on various components of the anti-fraud strategy and to make compliance compulsory for all staff. In addition, UNICEF will require compliance with its code of ethics, whistle-blower protection policy and investigations. The Office of Internal Audit and Investigation examines cases of suspected fraud and misuse and misappropriation of resources and takes immediate action where fraud is detected. UNICEF is also

enhancing its mechanisms for recovering funds lost as a result of fraud and misuse and misappropriation of funds.

85. Other forms of risk to which UNICEF is exposed include the risks of sexual harassment and abuse of authority by staff, vendors and implementing partners. In addition to affecting the personal lives of the victims, UNICEF could experience damage to its reputation and ability to deliver results for children if the risks are not fully managed, mitigated and addressed. The Executive Director and senior management have expressed strongly and unequivocally that sexual harassment and abuse of authority will not be tolerated at UNICEF. This message has been communicated through the "Not here" campaign, which has seen swift and tangible changes that guarantee a safe environment for all who work at and with UNICEF. Mandatory, organization-wide training has been rolled out on the prevention of sexual exploitation and abuse and on the prevention of sexual harassment and abuse of authority. UNICEF is also enhancing its investigation capacity and capability to ensure that reported issues are thoroughly investigated and addressed in a timely manner.

86. As the use of technology becomes the mainstay of improving efficiency in processes and communications, potential breaches of information technology security and cyber-risks to UNICEF beneficiaries are increasingly becoming threats. Because new programme delivery modalities are heavily reliant on the collection of personal and other data, managing and mitigating this emerging risk is vitally important. UNICEF depends on appropriate, up-to-date, and innovative technology (and the security thereof) to implement some of its high-impact programmes that bring results for children. Privacy breaches and weak governance and integrity of data threaten the confidentiality, integrity and availability of the Fund's financial and programmatic information, which could negatively affect programme implementation and delivery. Through its Information and Communication Technology Division, UNICEF is reviewing new and evolving digital content practices to use the latest tools to mitigate risks. The Division conducts regular information security assessments to stay a step ahead of the risks and it continues to enhance the enforcement of compliance with the information security management system framework. The Division has expanded the security awareness programme and contributed to the refinement of the UNICEF child safeguarding policy to cover possible security vulnerabilities.

87. Finally, UNICEF continues to scale up the cash-based transfer modality of programme implementation, partnering with other United Nations agencies and international financial institutions. This innovative funding approach has exposed UNICEF to a key risk related to cash-based transfer systems, processes and security. UNICEF is exploring best practices to leverage technology to manage this risk and is enhancing its capabilities through the development of an organization-wide strategy for cash-based transfers and through enhancement of existing infrastructure, including data management, information systems and financial policies and procedures.

88. Financial risks are disclosed in note 30 of the financial statements.

Chapter V

Financial statements for the year ended 31 December 2017

United Nations Children's Fund

I. Statement of financial position as at 31 December

(Thousands of United States dollars)

	Note	2017	2016 Restated
Current assets			
Cash and cash equivalents	6	883 578	1 133 528
Contributions receivable	7.A	1 737 309	1 579 176
Other receivables	7.B	47 091	40 131
Advances of cash assistance	8	732 676	751 257
Inventories	9	356 275	368 402
Investments	10	3 716 240	2 681 362
Other assets	11	766 843	479 977
Total current assets		**8 240 012**	**7 033 833**
Non-current assets			
Contributions receivable	7.A	970 971	614 519
Other receivables	7.B	1 472	1 406
Investments	10	501 088	776 248
Property and equipment	12	233 177	219 685
Intangible assets	13	4 159	5 803
Other assets	11	1 817	1 867
Total non-current assets		**1 712 684**	**1 619 528**
Total assets		**9 952 696**	**8 653 361**
Current liabilities			
Accounts payable and accrued liabilities	14	274 262	264 887
Contributions received in advance	15	27 431	41 477
Funds held on behalf of third parties	16	1 171 871	817 900
Other liabilities	17	183 790	122 933
Employee benefits liabilities	18	121 606	102 021
Provisions	19	21 351	22 823
Total current liabilities		**1 800 311**	**1 372 041**
Non-current liabilities			
Contributions received in advance	15	1 970	1 011
Employee benefits liabilities	18	1 516 416	1 134 252
Other liabilities	17	40 227	52 889
Total non-current liabilities		**1 558 613**	**1 188 152**
Total liabilities		**3 358 924**	**2 560 193**
Accumulated surpluses	20	6 076 212	5 352 906
Reserves	20	517 560	740 262
Net assets		**6 593 772**	**6 093 168**

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	*2017*	*2016 Restated*
Revenue			
Voluntary contributions	21	6 430 999	5 064 898
Other revenue	22	74 046	74 486
Investment revenue	23	71 699	51 911
Total revenue		**6 576 744**	**5 191 295**
Expenses			
Cash assistance	25	2 224 658	1 971 636
Transfer of programme supplies	25	1 086 237	1 139 096
Employee benefits	26	1 310 272	1 207 855
Depreciation and amortization	12, 13	18 800	26 623
Other expenses	27	746 885	677 270
Other programme-related expert services	28	473 688	422 247
Finance costs	23	2 893	3 124
Total expenses		**5 863 433**	**5 447 851**
Gains net	24	75 282	56 692
Net surplus/(deficit)		**788 593**	**(199 864)**

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)

	2017	*2016 Restated*
Net assets as at 1 January	**6 093 168**	**4 631 026**
Change in revenue recognition policy	–	1 689 587
Restated net assets as at 1 January	**6 093 168**	**6 320 613**
Actuarial losses recognized directly in net assets	(316 630)	(39 717)
Changes in fair value of available-for-sale financial assets	28 641	9 924
End of transitional provision for property, plant and equipment	–	2 212
Net surplus/(deficit) for the period	788 593	(199 864)
Net assets as at 31 December	**6 593 772**	**6 093 168**

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)

	2017	*2016 Restated*
Cash flows from operating activities		
Net surplus/(deficit)	788 593	(199 864)
Adjustments to reconcile surplus/(deficit) to net cash flows		
Depreciation and amortization	18 800	26 623
Net gain on sale or disposal of property, equipment	(965)	(2 166)
Unrealized (gain)/loss on foreign exchange	(147 612)	19 451
Impairments, write-offs	19 216	12 546
Investment revenue presented as investing activities	(71 699)	(51 911)
Revenue adjustments	–	118 413
Contributions in kind — net	(42 766)	(26 296)
Actuarial loss on employee benefits liabilities	(316 630)	(39 717)
Unrealized gain on investments	28 641	9 924
Other adjustments	170 510	(64 728)
Changes in assets		
Decrease in inventories	12 127	64 308
Increase in contributions receivable	(514 585)	(113 010)
Increase in other receivables	(7 026)	(108)
Decrease in advances from cash assistance	18 581	8 616
(Increase)/decrease in other assets	(286 816)	243 828
Changes in liabilities		
Increase/(decrease) in accounts payable	9 375	(64 919)
Increase/(decrease) in contributions received in advance	(13 087)	170 357
Increase/(decrease) in funds held on behalf of third parties	353 971	(130 240)
Increase in employee benefits liabilities	401 749	100 032
Decrease in provisions	(1 472)	(7 779)
Increase/(decrease) in other liabilities	48 195	(30 973)
Net cash generated by operating activities	**467 100**	**42 387**
Cash flows from investing activities		
Purchases of investments	(5 470 896)	(4 768 976)
Maturities and sale of investments	4 711 178	4 977 045
Interest revenue	67 214	32 830
Dividend revenue	4 485	1 376
Purchases of property and equipment	(32 249)	(28 574)
Proceeds on sale of property and equipment	2 585	2 504
Purchases of intangible assets	(22)	(347)
Disposals of intangible assets	3	(28)
Net cash (used in)/generated by investing activities	**(717 702)**	**215 830**

	2017	2016 Restated
Cash flows used in financing activities		
Central Emergency Response Fund loan	(4 000)	8 000
Payment of finance lease liabilities	(6 728)	(6 729)
Net cash (used in)/generated by financing activities	**(10 728)**	**1 271**
Effect of exchange rate changes on cash and cash equivalents	11 380	6 272
Net (decrease)/increase in cash and cash equivalents	**(249 950)**	**265 760**
Cash and cash equivalents		
Beginning of year	1 133 528	867 768
End of year	883 578	1 133 528

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	812 198	849 806	837 302	12 504
Other resources — regular	5	2 192 579	2 357 261	2 187 400	169 861
Total		**3 004 777**	**3 207 067**	**3 024 702**	**182 365**
Other resources: emergency	**5**	**1 439 400**	**2 027 377**	**1 899 667**	**127 710**
Emergency (regular resources)		**50 000**	**51 233**	**51 233**	**–**
Global and regional programmes					
Regular resources		54 140	60 703	54 283	6 420
Other resources — regular		136 900	137 751	118 140	19 611
Total		**191 040**	**198 454**	**172 423**	**26 031**
Institutional budget					
Development effectiveness		148 592	182 282	149 150	33 132
Management		453 127	435 164	336 856	98 308
Special purpose		44 580	44 692	40 038	4 654
United Nations development coordination		9 204	6 935	6 539	396
Total		**655 503**	**669 073**	**532 583**	**136 490**
Private fundraising and partnerships budget		**161 285**	**163 720**	**154 779**	**8 941**
Grand total		**5 502 005**	**6 316 924**	**5 835 387**	**481 537**

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

United Nations Children's Fund
Notes to the 2017 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.

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, the Republic of Korea 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

4. The financial statements were certified by the Comptroller on 29 March 2018 as required by the UNICEF Financial Regulations and Rules, and transmitted for issue by the Executive Director on 31 May 2018.

Note 3
Basis of preparation

A. Basis of measurement

5. The financial statements have been prepared on a full-accrual method of accounting under the 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.

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

B. Foreign currency translation

Functional and presentation currency

7. 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

8. 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

9. 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.

10. 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: 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.

11. 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 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;

(b) Note 33, Contingencies: legal proceedings covering a wide range of matters are or may be pending or threatened against UNICEF in various jurisdictions. 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

12. As a result of an annual review of the useful lives of assets conducted in 2016, the useful lives of transportation assets and equipment were revised from 5 to 8 years; and the useful lives of communications and technology equipment were revised from 5 to 10 years.

13. Prior to 2017, UNICEF estimated the workers' compensation related liability amount based on a scientific formula derived internally and based on best available data. During the year, UNICEF has changed the basis of the calculation owing to the availability of actuarial valuation data managed centrally by the United Nations on

behalf of United Nations agencies. This change results in the financial statements providing more reliable and complete financial liability. The effect of the change in the estimate is to increase the liabilities and decrease net assets by $13.55 million.

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

E. Change in accounting policy

15. The policy for recognizing revenues from voluntary contributions described in note 4, Significant accounting policies, has been revised during 2017. Under the previous policy, UNICEF recognized revenue based on payment plan due dates included in the donor agreements, which served as a proxy for identifying the period in which programmatic activities were being carried out and conditions met. Under the new policy, revenue is recognized in full, including for multi-year contributions, at the time the agreement is signed as all earmarked agreements are taken to have stipulations and restrictions rather than conditions.

16. This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The new policy provides more reliable and relevant information since it is less complex and less subjective and it simplifies the accounting for contribution revenue as compared with the prior policy. UNICEF has not calculated in detail what the revenue would have been in 2017 under the old policy owing to the complexities and judgement involved. However, the impact of the change in policy in 2017 was estimated to be an increase in revenue and net surplus of $426.11 million.

17. For the following prior-period adjustment, the 2016 comparative balances at the individual financial statement line were restated, as summarized in the table below. The impact on the 2016 financial results includes a $307.60 million increase in revenue from voluntary contributions, of which a $376.62 million increase is related to other resources — emergency, a $73.70 million decrease is related to other resources — regular, and a $4.68 million increase is related to regular resources. In addition, a $1.69 billion increase in accumulated surplus was recorded, which represents the cumulative voluntary contribution revenue adjustment through to the 2015 reporting period. In the statement of financial position, the contributions receivable balance increased by $205.87 million while the contributions received in advance balance decreased by $1.79 billion ($1.18 billion in current and $613.84 million in non-current), with a corresponding net increase in net assets. In the statement of cash flows, the net deficit was reduced by the revenue increase of $307.60 million, which was offset by negative adjustments of $205.87 million and $101.73 million to the changes in contributions receivable and contributions received in advance, respectively.

(Thousands of United States dollars)

Statement of financial position extract	*As reported 31 December 2016*	*Prior-period reclassifications/ adjustments*	*As restated 31 December 2016*
Current assets			
Contributions receivable	1 373 304	205 872	1 579 176
Total current assets	**6 827 961**	**205 872**	**7 033 833**
Total assets	**8 447 489**	**205 872**	**8 653 361**
Current liabilities			
Contributions received in advance	1 218 950	(1 177 473)	41 477
Non-current liabilities			
Contributions received in advance	614 850	(613 839)	1 011
Total liabilities	**4 351 505**	**(1 791 312)**	**2 560 193**
Accumulated surpluses	3 355 722	1 997 184	5 352 906
Net assets	**4 095 984**	**1 997 184**	**6 093 168**

Statement of financial performance extract	*As reported 31 December 2016*	*Prior-period reclassifications/ adjustments*	*As restated 31 December 2016*
Revenue			
Voluntary contributions	4 757 301	307 597	5 064 898
Total revenue	**4 883 698**	**307 597**	**5 191 295**
Net (deficit)	**(507 461)**	**307 597**	**(199 864)**

Statement of changes in net assets extract	*As reported 31 December 2016*	*Prior-period reclassifications/ adjustments*	*As restated 31 December 2016*
Change in revenue recognition policy	–	1 689 587	1 689 587
(Deficit) for the period	(507 461)	307 597	(199 864)
Net assets as at 31 December	**4 095 984**	**1 997 184**	**6 093 168**

Statement of cash flows extract	*As reported 31 December 2016*	*Prior-period reclassifications/ adjustments*	*As restated 31 December 2016*
Net (deficit)	(507 461)	307 597	(199 864)
Decrease/(increase) in contributions receivable	92 862	(205 872)	(113 010)
Increase in contributions received in advance	272 082	(101 725)	170 357

F. Future accounting changes

18. The IPSAS Board has published IPSAS 39: Employee benefits, and has revised the impairment of revalued assets (amendments to IPSAS 21 and IPSAS 26). IPSAS 39: Employee benefits will replace IPSAS 25: Employee benefits. UNICEF will be adopting the new standard as required effective 1 January 2018. 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.

Note 4
Significant accounting policies

Financial assets

19. 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 will 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
Contribution receivables	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)

20. 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

21. 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.

22. 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 to be 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.

23. 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 the immediate requirements of UNICEF.

24. 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

25. 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.

26. 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.

27. 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.

28. 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.

29. UNICEF provides interest-free advances to staff for up to 12 months for specified purposes, in accordance with the Staff Regulations and Rules 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

30. 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 derecognized, the gain or deficit accumulated in net assets is reclassified as surplus or deficit.

31. 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.

32. 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

33. 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.

34. 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.

35. 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.

36. 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.

37. UNICEF contributions receivable relate to contractual amounts agreed to be paid by governments and intergovernmental 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

38. 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 surplus (deficit) and recognized in the statement of financial performance.

Advances of cash assistance to implementing partners

39. 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.

40. Reporting by implementing partners of the utilization of cash assistance is due within six months. Failure by an implementing partner to report on the utilization of cash assistance within nine months, or breach of a performance obligation, triggers

an inquiry by UNICEF. As required, those amounts, as well as any unused funds, are reclassified from advances of cash assistance to other receivables (unused transfers of cash assistance due from implementing partners). The impairment of receivables is disclosed in note 7, Contributions receivable and other receivables.

Inventory

41. 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.

42. The cost of inventory includes costs incurred in acquiring the inventory and other costs incurred in bringing items 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.

43. 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

44. 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 a contribution in kind, the fair value as at the date of acquisition is deemed to be its cost.

45. Property and equipment includes right-to-use arrangements that meet 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.

46. 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.

47. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method over the estimated useful life. 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.

48. Estimated useful lives are as follows:

Property and equipment class	*Useful life*
Permanent buildings	50 years
Temporary and portable buildings	10–25 years
Leasehold building and land improvements	Shorter of the lease term or remaining useful life of the asset
Infrastructure, information technology and communications equipment	10 years
Office information technology and computer equipment	3 years
Transportation equipment	8 years
Furniture and fixtures	10 years
Other equipment	5 years

49. 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 revenue or expenses within surplus or deficit.

50. UNICEF capitalizes costs to upgrade, expand or improve an existing own or leasehold property or to construct a new physical property that is intended to be used by UNICEF. Construction in progress is stated at cost and not depreciated until the works have been completed, eligible costs have been fully accumulated and the new asset is ready for use.

Intangible assets

51. Separately acquired intangible assets (e.g. 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.

52. 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

53. 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.

54. 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

55. 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)

56. 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).

57. 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

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

59. 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.

60. 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

61. 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

62. 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

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

Defined-contribution plan

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

65. 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

66. 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.

67. 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.

68. 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

69. 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.

70. 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

71. 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 operational redundancy. Termination benefits, if settled within 12 months, are reported at the amount expected to be paid; otherwise, they are reported at the present value of the estimated future cash outflows.

Leases

72. 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.

73. 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.

74. 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 finance costs 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 other liabilities (see note 17, Other liabilities).

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

Provisions

76. 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.

77. 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.

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

Revenue recognition

Voluntary contributions

79. Voluntary contributions are non-exchange transactions, which means that resources (such as cash, items of property and equipment and 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.

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

81. 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).

82. With regard to contributions, UNICEF recognizes revenue in full, including for multi-year contributions, at the time the agreement is signed as all earmarked contributions are taken to have stipulations and restrictions.

83. Contributions received in advance of a specified period consist of cash contributions which were received before the formal conclusion of the contribution agreement, and are to be used by UNICEF in future periods specified by donors.

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

Pledges

85. 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

86. UNICEF receives contributions of right-to-use office space and other facilities from Member States. These right-to-use contributions are measured at the fair value of the operating lease payments that would have been paid by UNICEF in a commercial lease arrangement. The in-kind revenue is recorded in the statement of financial performance as part of voluntary contributions; the corresponding expense is recorded based on its nature as part of rent or other premises-related expenses (see note 27, Other expenses).

87. In-kind contributions of goods received or receivable, such as programme supplies for distribution to partners or equipment for use by UNICEF, are initially measured at their fair value at the date of receipt. Fair values of non-monetary assets are determined by reference to observable market values or by independent appraisal.

88. 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 as specialized professional skills or crafts that would otherwise be purchased by the organization.

Revenue from exchange transactions

89. 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.

90. 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 types 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

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

Transfers of cash assistance and programme supplies

92. In fulfilling its mandate, UNICEF transfers cash and programme supplies to governments, non-governmental organizations and other third parties (its "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

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

(a) Capital commitments, which represent 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 liabilities

94. 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

95. Operating segments are reported in a manner consistent with internal reporting on strategic decision-making concerning 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; other resources — emergency; and trust funds.

96. 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

97. 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.

98. 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 or 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.

99. The private fundraising and partnerships budget consists of the annual level of estimated financial resources required for the best achievement of objectives related to fundraising and partnerships. The budget is provided from regular resources.

100. 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 organization); (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.

101. 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 carry-overs of unused budgets form part of the original budget for the subsequent year.

102. The Executive Board has 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 $75.00 million for emergencies.

103. For UNICEF, within the context of statement V, the original annual budget is:

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

(b) Any residual budgets (appropriations) 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.

104. 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.

105. 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.

106. While the UNICEF 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 to expenses in the financial statements which are prepared under the IPSAS full-accrual basis. The difference is presented under "basis differences" under the "operating" category 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 "operating" category in the reconciliation between budget actuals and net cash flows;

(d) Funds held on behalf of third parties: the budget does not include funds held on behalf of third parties, 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 "investing" and "financing" categories in the reconciliation between budget actuals and net cash flows.

Note 5
Comparison to budget

107. Actual amounts on a 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*	*2017*	*2016*
Total actual amount on comparable basis as presented in the budget and actuals comparative statement	(5 835 387)	–	–	–	(5 835 387)	(5 270 304)
Basis differences	(628 228)	(717 702)	(10 728)	–	(1 356 658)	776 334
Exchange rate changes on cash and cash equivalents	–	–	–	11 380	11 380	6 272
Entity differences	353 971	–	–	–	353 971	(130 240)
Presentation differences	6 576 744	–	–	–	6 576 744	4 883 698
Net cash flows from the statement of cash flows	**467 100**	**(717 702)**	**(10 728)**	**11 380**	**(249 950)**	**265 760**

108. Statement V documents the various budget amounts to the actual amounts incurred against them. Both budget and actual amounts (cash and budgetary commitments) are calculated on the same modified cash basis. Explanations of material differences between the original and final budgets as well as between final budgets and actual amounts are presented in the financial overview for the year ended 31 December 2017.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	2017	*2016*
Cash at bank and on hand — convertible	189 162	197 157
Cash at bank and on hand — non-convertible	38 016	32 378
Cash at bank in money market demand accounts	147 697	115 224
Term deposits and other (90 days or less)	508 703	788 769
Total cash and cash equivalents	**883 578**	**1 133 528**

109. 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.

110. Included within the UNICEF cash balances is $16.14 million (2016: $5.69 million) 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*	*2017*	*2016 Restated*
Gross current receivables						
Unearmarked — regular resources	37 542	90	250 994	25	288 651	261 840
Earmarked — other resources	1 267 864	14 792	86 315	79 687	1 448 658	1 317 336
Total current contributions receivable	**1 305 406**	**14 882**	**337 309**	**79 712**	**1 737 309**	**1 579 176**
Gross non-current receivables						
Unearmarked — regular resources	50 950	–	680	–	51 630	6 204
Earmarked — other resources	734 725	173 263	216	11 137	919 341	608 315
Total non-current contributions receivables	**785 675**	**173 263**	**896**	**11 137**	**970 971**	**614 519**
Total contributions receivable	**2 091 081**	**188 145**	**338 205**	**90 849**	**2 708 280**	**2 193 695**

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

B. Other receivables

(Thousands of United States dollars)

	2017	*2016*
Current other receivables		
Receivables from licensing cards and products	4 288	3 214
Value-added tax receivables	32 913	24 371
Receivables from staff members	6 842	6 228
Receivables from other United Nations agencies	8 075	11 825
Unused transfers of cash assistance due from implementing partners	4 939	1 271
Other	1 542	866
Impairment	(11 508)	(7 644)
Total current other receivables	**47 091**	**40 131**
Non-current other receivables	**1 472**	**1 406**
Total other receivables	**48 563**	**41 537**

112. 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)

	2017	*2016*
Advances of cash assistance by region		
East Asia and the Pacific	31 768	33 216
Europe and Central Asia	39 452	45 363
Eastern and Southern Africa	175 814	157 072
Latin America and the Caribbean	31 169	28 742
Middle East and North Africa	206 450	201 743
South Asia	71 601	82 995
Western and Central Africa	176 344	205 049
Transfers to United Nations agencies and other organizations at headquarters	5 326	5 877
Adjustment	(5 248)	(8 800)
Total advances of cash assistance by region	**732 676**	**751 257**

113. The adjustment included in the table above represents an accrual for where implementing partners have incurred valid expenses as at 31 December 2017 and reports had been received but not processed by UNICEF at the reporting date.

Note 9
Inventories
(Thousands of United States dollars)

	2017	*2016*
Programme supplies held in UNICEF-controlled warehouses	251 548	237 985
Programme supplies in transit	79 582	100 332
Programme construction in progress	25 145	30 085
Total inventories	**356 275**	**368 402**

Note 10
Investments
(Thousands of United States dollars)

	2017	*2016*
Current investments		
Term deposits (greater than 90 days)	2 700 564	1 837 921
Traded bonds	588 078	633 932
Structured deposits	28 618	13 478
Forward exchange contracts in gain	98 800	65 087
Equities	300 180	130 944
Total current investments	**3 716 240**	**2 681 362**

	2017	*2016*
Non-current investments		
Traded bonds	501 088	776 248
Total non-current investments	**501 088**	**776 248**
Total investments	**4 217 328**	**3 457 610**

114. 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.

115. UNICEF invests some of its funds held in reserves for after-service health insurance liabilities with external fund managers. Included in the investments are $165.51 million (2016: $78.62 million) in bonds; $300.18 million (2016: $130.94 million) in equities and $98.80 million (2016: $65.09 million) in forward exchange contracts in gain related to these externally managed funds.

Note 11
Other assets

(Thousands of United States dollars)

	2017	*2016*
Current other assets		
Education grant advances to staff members	11 590	12 255
Prepaid expenses and other assets	33 777	31 095
Other procurement services related assets	721 476	435 897
Other assets — externally managed portfolio	–	730
Total current other assets	**766 843**	**479 977**
Non-current other assets		
Other assets	1 817	1 867
Total non-current other assets	**1 817**	**1 867**
Total other assets	**768 660**	**481 844**

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

117. Other procurement services assets of $721.48 million (2016: $435.90 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.A, Other liabilities: Other liabilities, until UNICEF has fulfilled its obligations as the agent of the partner.

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 2016*
Cost								
Balance as at 1 January	81 097	97 762	14 562	10 991	17 697	7 535	40 298	269 942
Capitalization of pre-2012 assets	–	1 787	–	8 324	15 856	6 415	40 942	73 324
Restated balance at 1 January	**81 097**	**99 549**	**14 562**	**19 315**	**33 553**	**13 950**	**81 240**	**343 266**
Additions	–	6 090	3 358	3 014	2 940	1 770	13 902	31 074
Disposals	–	(42)	–	(758)	(749)	(352)	(545)	(2 446)
Balance as at 31 December	**81 097**	**105 597**	**17 920**	**21 571**	**35 744**	**15 368**	**94 597**	**371 894**
Accumulated depreciation and impairment								
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 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	–	144	2	14	5	2	650	817
Disposals	–	(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**

(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 2017*
Cost								
Balance as at 1 January	81 097	105 597	17 920	21 571	35 744	15 368	94 597	371 894
Additions	–	6 979	5 029	3 086	2 326	3 586	11 243	32 249
Disposals	–	(108)	(1 625)	(834)	(2 351)	(1 230)	(4 437)	(10 585)
Balance as at 31 December	**81 097**	**112 468**	**21 324**	**23 823**	**35 719**	**17 724**	**101 403**	**393 558**
Accumulated depreciation and impairment								
Balance as at 1 January	–	25 427	4 750	14 475	28 701	13 213	65 643	152 209
Depreciation	–	4 154	2 191	2 504	1 190	1 558	5 551	17 148
Impairment	–	153	–	140	107	42	685	1 127
Disposals	–	(35)	(1 620)	(711)	(2 202)	(1 226)	(4 309)	(10 103)
Balance as at 31 December	**–**	**29 699**	**5 321**	**16 408**	**27 796**	**13 587**	**67 570**	**160 381**
Carrying value as at 31 December	**81 097**	**82 769**	**16 003**	**7 415**	**7 923**	**4 137**	**33 833**	**233 177**

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

119. Included within buildings are $5.60 million (2016: $4.05 million) in construction, renovation and security enhancement costs in progress.

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

(Thousands of United States dollars)

	2017	*2016*
Land	80 000	80 000
Buildings	55 735	57 903
Total	**135 735**	**137 903**

121. 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.

122. 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 (2016: $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.

123. UNICEF has approximately 700 operating lease agreements for land, office, warehouse and residential space. The majority of lease agreements are under commercial terms. In 2017, approximately 180 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 $21.30 million (2016: $22.25 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 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)	–
Disposal	(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**

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licences and copyrights*	*Intangibles under development*	*Total 2017*
Cost					
Balance as at 1 January	1 695	12 412	16	198	14 321
Additions	22	–	–	–	22
Disposals	(199)	–	–	–	(199)
Balance as at 31 December	**1 518**	**12 412**	**16**	**198**	**14 144**
Amortization					
Balance as at 1 January	922	7 588	8	–	8 518
Amortization	320	1 329	3	–	1 652
Disposals	(185)	–	–	–	(185)
Balance as at 31 December	**1 057**	**8 917**	**11**	**–**	**9 985**
Carrying value as at 31 December	**461**	**3 495**	**5**	**198**	**4 159**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2017	*2016*
Accounts payable	122 134	146 690
Accrued liabilities	152 128	118 197
Total accounts payable and accrued liabilities	**274 262**	**264 887**

124. 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
Contributions received in advance

125. Contributions received in advance are as follows:

(Thousands of United States dollars)

	2017	*2016 Restated*
Current portion	27 431	41 477
Long-term portion	1 970	1 011
Total contributions received in advance	**29 401**	**42 488**

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance as at 1 January 2017	*Funds received*	*Funds disbursed*	*Movement of accruals*	*Balance as at 31 December 2017*
Procurement services					
Governments	326 085	613 360	(504 864)	–	434 581
Inter-organizational arrangements	30 063	74 085	(74 498)	–	29 650
Non-governmental organizations	418 050	1 134 053	(930 435)	–	621 668
National Committees	(1)	59	(59)	–	(1)
Other arrangements					
Others	53 445	232 350	(185 987)	–	99 808
Accruals	(9 742)	–	–	(4 093)	(13 835)
Total funds held on behalf of third parties	**817 900**	**2 053 907**	**(1 695 843)**	**(4 093)**	**1 171 871**

126. 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)

	2017	*2016*
Current other liabilities		
Unearned income	43 382	41 340
Forward exchange contracts	100 565	64 424
Finance lease liabilities	4 082	3 836
Other liabilities	35 761	13 333
Total current other liabilities	**183 790**	**122 933**
Non-current other liabilities		
Finance lease liabilities	40 227	44 309
Other liabilities	–	8 580
Total non-current other liabilities	**40 227**	**52 889**
Total other liabilities	**224 017**	**175 822**

127. Unearned income of $43.38 million (2016: $41.34 million) mainly represents handling fees imposed by UNICEF and received in advance for managing trust fund activities.

128. Forward exchange contracts in loss at year-end of $100.57 million (2016: $64.42 million) relate to externally managed after-service health insurance investments.

129. Current other liabilities include a Central Emergency Response Fund loan of $4.00 million (2016: $8.00 million) granted by the Office for the Coordination of Humanitarian Affairs of the Secretariat to support the crucial response to the cholera outbreak in Haiti.

130. Included in current other liabilities are firm agreements of $25.04 million where UNICEF has committed to procure minimum order quantities for vaccines; in 2016 these comprised $8.58 million and were reported as non-current other liabilities.

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

(Thousands of United States dollars)

	2017	*2016*
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	23 550	30 279
Total undiscounted minimum lease payments	**57 192**	**63 921**
Present value of minimum lease payments		
Not later than one year	4 082	3 836
Later than one year and not later than five years	19 118	17 966
Later than five years	21 109	26 342
Total present value of minimum lease payments	**44 309**	**48 144**
Future finance charges	**12 883**	**15 777**

Note 18
Employee benefits liabilities

(Thousands of United States dollars)

	2017	*2016*
Current employee benefits liabilities		
Home leave	6 545	7 768
Annual leave	101 863	83 990
Workers' compensation	809	8
Other end-of-service entitlements	882	1 339
Other employee benefits	11 507	8 916
Total current employee benefits liabilities	**121 606**	**102 021**
Non-current employee benefits liabilities		
Home leave	1 623	1 626
Workers' compensation	15 202	2 452
Other end-of-service entitlements	109 094	103 838
After-service health insurance[a]	1 390 497	1 026 336
Total non-current employee benefits liabilities	**1 516 416**	**1 134 252**
Total employee benefits liabilities	**1 638 022**	**1 236 273**

[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

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

132. 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.

133. 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 the National 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.

134. 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.

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

136. 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.

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

138. 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.

Table A.1
Movement in the value of the defined-benefit obligation
(Thousands of United States dollars)

	After-service health insurance	*End-of-service entitlements*	*Medical Insurance Plan*	*Death benefit*	*Workers' compensation*	*2017 total*	*2016 total*
Balance as at 1 January	664 388	100 960	361 949	2 878	2 460	1 132 635	1 029 606
Current service cost	25 176	9 102	16 299	201	418	51 196	46 559
Interest cost on benefit obligation	26 888	3 425	14 682	93	144	45 232	42 867
Actuarial losses/(gains) on benefit obligation	182 297	2 544	118 719	(851)	13 921	316 630	39 717
Benefits paid (net of participant contributions)	(13 963)	(8 931)	(5 937)	(328)	(932)	(30 091)	(28 574)
Balance as at 31 December	**884 786**	**107 100**	**505 712**	**1 993**	**16 011**	**1 515 602**	**1 130 175**

Workers' compensation

139. As discussed in note 3.D, Basis of presentation: Change in accounting estimates, UNICEF changed its process for estimating workers' compensation during 2017. This liability was previously included in other end-of-service entitlements. As a result of

this change in the estimate, the liability is also included in table A.1 and represents an increment to the 2017 opening total defined-benefit obligation balance, as shown below:

(Thousands of United States dollars)

Workers' compensation balance in table A.1 as at 31 December 2016	–
Transfer into table A.1 due to change in accounting estimate	2 460
Revised workers' compensation balance as at 1 January 2017	**2 460**

Table 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 entitlements and death benefit*	*Medical Insurance Plan*	*Total*
2017 actual contributions	31 005	29 523	20 320	80 848
2016 actual contributions	29 519	28 438	18 444	76 401

Table 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 entitlements and death benefit*	*Medical Insurance Plan*	*Total*
2017 actual contributions	–	–	4 630	4 630
2016 actual contributions	–	–	4 313	4 313

140. 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 A.6, Funding of reserves, for details).

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

(Thousands of United States dollars)

	After-service health insurance	*End-of-service entitlements*	*Medical Insurance Plan*	*Death benefit*	*Workers' compensation*	*2017*	*2016*
Current service cost	25 176	9 102	16 299	201	418	51 196	46 559
Interest cost on benefit obligation	26 888	3 425	14 682	93	144	45 232	42 867
Total expense included in surplus	**52 064**	**12 527**	**30 981**	**294**	**562**	**96 428**	**89 426**

Table 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 entitlements*	*Medical Insurance Plan*	*Death benefit*	*Workers' compensation*	*2017*	*2016*
Current period	182 297	2 544	118 719	(851)	13 921	316 630	39 717

141. 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 table A.6. 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 benefit) and for other liabilities, including annual leave.

Table A.6
Funding of reserves
(Thousands of United States dollars)

	2017	*2016*
Funding of reserves		
Actuarial liabilities recognized in the statement of financial position	1 515 602	1 130 175
Other liabilities and provisions recognized in the statement of financial position	104 667	89 680
Funding	(682 031)	(614 950)
Funding deficit	**(938 238)**	**(604 905)**

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

B. Actuarial valuation

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

144. An actuarial valuation conducted by UNICEF actuaries for 31 December 2017 was used for the closing balances on 31 December 2017. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

145. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in table A.1 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

146. 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 are based on the same underlying inflation assumption.

147. **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 2.20 per cent (2016: 2.25 per cent) was used for the 31 December 2017 valuation. This inflation assumption rate is used as a proxy for the long-term inflation expectations for 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

148. **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, 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 the yield curves issued by Aon Hewitt for the United States (United States dollars), the Eurozone (euro) and Switzerland (Swiss franc) for determining the discount rate for the actuarially valued defined-benefit plans.

149. Based on the analysis for 2017, the single equivalent discount rate is 3.82 per cent as at 31 December 2017 (2016: 4.04 per cent), and a discount rate, rounding to the nearest 25 basis points, would equal 4 per cent (2016: 4.00 per cent).

150. **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.

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

152. **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 75 per cent of future male retirees and 75 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.

Table B.1
Principal actuarial assumptions

	2017 (percentage)	2016 (percentage)
Discount rate		
Rate at 1 January	4.04	3.96
Rate at 31 December	3.82	4.04
Rate of inflation	2.20	2.25
Expected rate of medical cost increase		
Medical inside the United States[a,b]	5.50	6.40
2032 and onwards medical inside the United States[c]	4.50	4.50
United States dental[b]	4.80	4.90
2032 and onwards United States dental[c]	3.85	4.50
Expected rate of salary increases (declining from age 20 to age 60)	**9.07–3.97**	**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 2017, rate extended to 2032.

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

	2017		2016	
Rate of death: pre-retirement	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00065	0.00906
Female	0.00031	0.00435	0.00034	0.00645

Rate of death: post-retirement	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.00913	0.00072	0.01032
Female	0.00035	0.00561	0.00037	0.00766

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

	2017		2016	
Rate of retirement	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.75	0.25	0.80
Female	0.20	0.75	0.25	0.90

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

(Thousands of United States dollars)

Sensitivity of assumptions (impact on)	After-service health insurance		End-of-service entitlements	Medical Insurance Plan		Death benefit	Workers' compensation
	Obligation	Expense	Obligation	Obligation	Expense	Obligation	Obligation
Discount rate							
Impact of: 1 per cent increase	(154 684)	–	(9 306)	(65 795)	–	(143)	(1 765)
Impact of: 1 per cent decrease	205 052	–	10 819	128 775	–	163	2 206
Health-care cost trend rates							
Impact of: 1 per cent increase	206 627	18 995	–	129 817	13 349	–	–
Impact of: 1 per cent decrease	(158 555)	(13 993)	–	(98 151)	(9 718)	–	–

Sensitivity analysis

153. Table B.4 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 affect the measurement of the obligation and expense as shown in table B.4.

C. Multi-employer pension plans

154. 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.

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

156. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the 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 and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNICEF of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNICEF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25:

Employee benefits. UNICEF's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

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

158. The financial obligation of UNICEF to the Pension Fund consists of its mandated contribution, at the rate established by the United Nations General Assembly (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 only payable 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 must contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

159. During 2017, the Pension Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements. An actuarial valuation as at 31 December 2017 is currently being performed.

160. The roll forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

161. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly has not invoked the provision of article 26.

162. During 2017, contributions paid by UNICEF to the Pension Fund amounted to $163.43 million (2016: $149.69 million). Contributions due in 2018 are expected to amount to approximately $173.78 million.

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

164. Summary information about the pension plan is presented below.

Table 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.

Table C.2
Contributions to the United Nations Joint Staff Pension Fund
(Thousands of United States dollars)

	2017	*2016*
UNICEF contributions	163 434	149 687
Participants' contributions	82 333	75 020
Total contributions	**245 767**	**224 707**

Note 19
Provisions

(Thousands of United States dollars)

	For return of unused funds	*Other provisions*	*Total*
Balance as at 1 January 2017	20 915	1 908	22 823
Increase in provision	3 955	–	3 955
Utilization during the period	(5 427)	–	(5 427)
Balance as at 31 December 2017	**19 443**	**1 908**	**21 351**

165. 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 in which the contribution agreements require the return of unused funds. UNICEF expects to settle the liability within 12 months from the reporting date for those agreements that have financially expired.

166. The estimate for the provision for unused funds was calculated based on the unutilized other resources contribution amounts from agreements containing a return of unused funds clause of $3.22 billion (2016: $2.61 billion).

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 2016	**3 891 773**	**151 174**	**(3 450)**	**2 000**	**115**	**411 410**	**73 128**	**92 788**	**12 088**	**739 253**	**4 631 026**
Change in accounting policy	1 689 587	–	–	–	–	–	–	–	–	–	1 689 587
Restated balance as at 1 January 2016	**5 581 360**	**151 174**	**(3 450)**	**2 000**	**115**	**411 410**	**73 128**	**92 788**	**12 088**	**739 253**	**6 320 613**
End of transitional provision — property, plant and equipment	2 212	–	–	–	–	–	–	–	–	–	2 212
Restated surplus/(deficit)	(202 387)	–	–	–	–	2 523	–	–	–	2 523	(199 864)
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 funds	(76 401)	–	–	–	–	29 519	28 438	18 444	–	76 401	–
Balance as at 31 December 2016	**5 352 906**	**111 457**	**6 474**	**2 000**	**115**	**433 552**	**77 836**	**103 562**	**5 266**	**740 262**	**6 093 168**
Surplus/(deficit)	759 933	–	–	–	–	28 660	–	–	–	28 660	788 593
Actuarial (losses)	–	(316 630)	–	–	–	–	–	–	–	(316 630)	(316 630)
Changes in fair value of available-for-sale financial assets	–	–	28 641	–	–	–	–	–	–	28 641	28 641
Utilization of reserve	44 221	–	–	–	–	(8 033)	(23 734)	(10 660)	(1 794)	(44 221)	–
Transfers to/from the fund	(80 848)	–	–	–	–	31 005	29 523	20 320	–	80 848	–
Balance as at 31 December 2017	**6 076 212**	**(205 173)**	**35 115**	**2 000**	**115**	**485 184**	**83 625**	**113 222**	**3 472**	**517 560**	**6 593 772**

Note: 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.

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

168. Accumulated surpluses represent the accumulated surpluses and deficits from UNICEF operations over the years.

169. UNICEF maintains the following IPSAS reserve and other reserves (see paras. 170–176 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.

170. *Reserve for investment revaluation*. This reserve comprises revaluation transactions of available-for-sale financial assets. When 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. When 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.

171. *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.

172. *Reserve for capital assets*. In 1990, the Executive Board approved the establishment of a capital asset reserve of $22.00 million from regular resources to improve control over future purchases of capital assets such as office buildings and staff housing in the field.

173. *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.

174. *Reserve for procurement services*. In 1993, the Executive Board approved the establishment of a reserve for procurement services of $2.00 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.

175. *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.

176. *Reserve for insurance*. In 1950, the Executive Board approved the establishment of a reserve for insurance of $0.20 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)

	2017	*2016 restated*
Voluntary cash contributions		
Governments and intergovernmental agencies	3 821 523	3 242 327
Inter-organizational arrangements	863 416	359 160
National Committees	1 264 587	1 137 860
Others	435 202	252 702
Total voluntary cash contributions	**6 384 728**	**4 992 049**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	51 882	64 782
National Committees	1 751	2 629
Others	10 436	8 366
Total voluntary in-kind contributions	**64 069**	**75 777**
Total voluntary contributions	**6 448 797**	**5 067 826**
Less: returns to donors of unused contributions	(17 798)	(2 928)
Total voluntary contributions (net)	**6 430 999**	**5 064 898**

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

178. Included within the voluntary contributions recorded up to 2017 is $4.04 billion (2016: $3.17 billion) relating to contributions to other resources that will be used for programmatic implementation in future years.

National Committees

179. The voluntary cash contribution revenue of $1.26 billion (2016: $1.14 billion) 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 $1.65 billion (2016: $1.48 billion). Of that amount, $389.35 million (2016: $336.28 million) was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 34, Related parties, for additional information on the relationship between UNICEF and the National Committees).

In-kind contributions

180. 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 $64.07 million (2016: $75.78 million). In-kind contributions also include right-to-use assets such as land and buildings valued at $21.30 million (2016: $22.25 million).

181. In-kind services are also provided free by other parties to UNICEF offices in fulfilling the organization's mandate. Services in kind received by UNICEF during

2017 include volunteer services; translation services; and free advertising such as airtime and billboards.

B. Classification of voluntary contributions

(Thousands of United States dollars)

	2017	*2016 restated*
Earmarked/unearmarked classification of voluntary contributions		
Regular resources	1 266 178	1 187 499
Foreign exchange gains	11 922	3 144
Total regular resources (net)	**1 278 100**	**1 190 643**
Other resources — regular	2 945 045	1 906 517
Foreign exchange gains/(losses)	81 225	(47 442)
Total other resources — regular (net)	**3 026 270**	**1 859 075**
Other resources — emergency	2 095 071	2 039 126
Foreign exchange gains/(losses)	31 558	(23 946)
Total other resources — emergency (net)	**2 126 629**	**2 015 180**
Total voluntary contributions (net)	**6 430 999**	**5 064 898**

Note 22
Other revenue

(Thousands of United States dollars)

	2017	*2016*
Procurement services	46 367	45 355
Warehouse goods transfers revenue	6 866	10 786
Miscellaneous revenue	13 117	13 369
Licensing income	7 696	4 976
Total other revenue	**74 046**	**74 486**

182. UNICEF undertakes procurement services for governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. UNICEF recognized revenue of $46.37 million (2016: $45.35 million) related to provision of these services.

183. The revenue for warehouse goods transfers of $6.87 million (2016: $10.79 million) is related to reimbursement of direct sales of goods to third parties from the warehouse in Denmark.

184. 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 2017, the total revenue was $7.70 million (2016: $4.98 million).

Note 23
Investment revenue and finance costs

(Thousands of United States dollars)

	2017	2016
Internally managed investment revenue	64 490	49 594
After-service health insurance investment revenue	7 209	2 317
Total investment revenue	**71 699**	**51 911**

185. UNICEF generated $71.70 million (2016: $51.91 million) of investment revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities, equities and bank accounts.

186. Finance costs of $2.89 million (2016: $3.12 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)

	2017	2016
Net foreign exchange gains	59 951	51 724
Net fair value gains and losses on:		
Investments	14 367	2 803
Net gains on sale of property, plant and equipment	975	2 165
Other losses	(11)	–
Total net gains	**75 282**	**56 692**

B. Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	Realized	2017	2016
Gains	25 154	50 079	75 233	75 121
Losses	(3 381)	(11 901)	(15 282)	(23 397)
Total net gains	**21 773**	**38 178**	**59 951**	**51 724**

187. In addition to the above, a realized foreign exchange loss of $3.56 million (2016: loss of $53.97 million) and an unrealized gain of $128.27 million (2016: loss of $14.28 million) mostly related to receivables of other resources, are included within voluntary contributions in note 21, Revenue from voluntary contributions, in accordance with the UNICEF Financial Regulations and Rules.

Note 25
Transfer of programme supplies and cash assistance

(Thousands of United States dollars)

	2017	2016
Cash assistance		
Transfer of cash to implementing partners	2 038 711	1 877 735
Transfer of cash to beneficiaries	106 905	26 211
Co-funding activities	75 345	56 880
Jointly financed activities	7 249	9 056
Subtotal	**2 228 210**	**1 969 882**
Movement in accrual	(3 552)	1 754
Total transfer of cash assistance	**2 224 658**	**1 971 636**
Programme supplies		
Transfer of programme supplies	1 086 237	1 139 096
Total transfer of programme supplies	**1 086 237**	**1 139 096**
Total transfer of cash assistance and programme supplies	**3 310 895**	**3 110 732**

188. Movement in accruals represents accrued expenses at year-end to account for valid expenses incurred by implementing partners for which reports have been submitted by the reporting date but UNICEF has not yet processed the reports.

189. 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)

	2017	2016
Salaries and wages	770 357	736 472
Contribution to the United Nations Joint Staff Pension Fund	163 434	149 687
After-service health insurance expenses	46 134	45 975
Other post-employment employee liabilities	14 386	12 029
Other long-term employee benefits liabilities	33 084	18 573
Other personnel expenses	282 877	245 119
Total employee benefits	**1 310 272**	**1 207 855**

Note 27
Other expenses

(Thousands of United States dollars)

	2017	2016
Media production services	26 038	24 543
Advertising, promotion and public relations	7 389	6 909
Printing, binding, editing and translation	17 796	16 201
Management and operational services	49 937	49 583
Warehousing and logistical services	46 506	39 792
Personnel support	15 429	15 589
External audit	1 156	1 171
Travel	149 847	140 156
Distribution	21 904	25 921
Rental and leasing	84 948	86 232
Retentions commissions and cost of greeting cards and products	323	206
Repairs and other maintenance	39 460	31 832
Supplies and materials	45 584	39 159
Investment funds for market development	56 891	44 017
Communications	20 384	19 499
Other operating expenses	106 407	86 303
Write-offs and inventory shortages	6 669	3 678
Utilities	18 326	17 275
Warehouse goods transfer expenses (note 22)	6 868	10 016
Professional development	8 036	7 030
Insurance	4 423	3 289
Impairment loss	12 564	8 869
Total other expenses	**746 885**	**677 270**

190. Other operating expenses are mainly comprised of information technology development, maintenance and expert service costs of $40.17 million (2016: $29.11 million), headquarters-related United Nations common service costs of $28.63 million (2016: $21.10 million), office operating expenses for hospitality of $12.49 million (2016: $11.77 million), and other office operating expenses of $6.03 million (2016: $19.40 million).

191. Write-offs and losses recorded in 2017 include inventory, receivables and property and equipment totalling $3.21 million (2016: $3.68 million).

Note 28
Other programme-related expert services

(Thousands of United States dollars)

	2017	2016
Other programme-related expert services	473 688	422 247
Total other programme-related expert services	**473 688**	**422 247**

192. This category of expense comprises fees paid to third parties in respect of professional and consultancy services related to programmatic activities, technical support in specific programme areas and other programmatic services.

Note 29
Financial instruments

193. 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

194. 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*	*2017*	*2016*
Cash and cash equivalents	883 578	–	–	–	883 578	883 578	1 133 528
Term deposits	2 700 564	–	–	–	2 700 564	2 700 564	1 837 921
Traded bonds	–	1 089 166	–	–	1 089 166	1 089 166	1 410 180
Structured deposits	–	–	28 618	–	28 618	28 618	13 478
Forward exchange contracts in gain	–	–	–	98 800	98 800	98 800	65 087
Equities	–	300 180	–	–	300 180	300 180	130 944
Contributions receivable	2 708 280	–	–	–	2 708 280	2 708 280	2 193 695
Other receivables	48 563	–	–	–	48 563	48 563	41 537
Total financial assets	**6 340 985**	**1 389 346**	**28 618**	**98 800**	**7 857 749**	**7 857 749**	**6 826 370**

195. 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)

				Total fair value	
Financial liabilities	*Other financial liabilities (amortized cost)*	*Other financial liabilities*	*Total carrying value*	*2017*	*2016*
Financial liabilities					
Accounts payable and accrued liabilities	274 262	–	274 262	274 262	264 887
Funds held on behalf of third parties	1 171 871	–	1 171 871	1 171 871	817 900

Financial liabilities	*Other financial liabilities (amortized cost)*	*Other financial liabilities*	*Total carrying value*	*Total fair value*	
				2017	*2016*
Finance lease liabilities	44 309	–	44 309	44 309	48 144
Other liabilities	79 143	100 565	179 708	179 708	127 678
Total financial liabilities	**1 569 585**	**100 565**	**1 670 150**	**1 670 150**	**1 258 609**

196. 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

197. 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.

198. 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).

199. The majority of financial instruments held by UNICEF have quoted prices in active markets and are classified as level 1. Derivative instruments that are acquired "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, t derivative contracts and fixed income instruments in the externally managed portfolio.

C. Financial instruments by valuation method

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*2017*	*2016*
Assets					
Financial instruments at fair value through surplus or deficit	–	127 418	–	127 418	78 565
Available-for-sale financial assets	1 291 017	98 329	–	1 389 346	1 541 124
Liabilities					
Financial instruments at fair value through surplus or deficit	–	(100 565)	–	(100 565)	(64 424)
Total	**1 291 017**	**125 182**	**–**	**1 416 199**	**1 555 265**

Note 30
Financial risk management

Exposure to credit risk

200. 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.

201. 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 has 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 in its bank accounts.

202. With regard to financial instruments, UNICEF mitigates its exposure to credit risk by imposing certain restrictions, including, but not limited to, a minimum credit rating of the underlying financial instrument or institution. The Treasury and Investment Management Policy includes conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. UNICEF has a Financial Advisory Committee that approves each new counterparty before any investments may be made. In order to minimize counterparty risk, UNICEF enters into transactions with counterparties that are of investment grade as classified by the major rating agencies and preapproved by the Financial Advisory Committee. In addition, credit default swap ratings are also used. Non-rated or lower-rated banks may also be included on the counterparty relationship list with exceptional approval by the Committee.

203. UNICEF utilizes the credit ratings for three leading credit rating agencies, Moody's, Standard and Poor's and Fitch, to categorize and monitor credit risk on its financial instruments. Investments managed by UNICEF were in high-quality financial instruments as shown in the table below.

204. The externally managed investments are governed by the after-service-health insurance investment guidelines, which ensure that funds are invested in instruments and counterparties of investment grade.

205. The exposure of UNICEF to credit risk related to 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.

206. 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)

As at 31 December 2017	*AAA*	*AA*	*A*	*B*	*Non-rated*	*2017*	*2016*
Cash and cash equivalents							
Cash	–	92 933	58 572	8	75 666	227 179	229 535
Term deposits	–	170 737	400 605	85 057	–	656 399	903 993
Subtotal	**-**	**263 670**	**459 177**	**85 065**	**75 666**	**883 578**	**1 133 528**
Investments							
Term deposits	–	1 443 529	1 257 035	–	–	2 700 564	1 837 921
Traded bonds	43 282	529 924	431 698	21 435	62 827	1 089 166	1 410 180
Structured deposits	–	28 618	–	–	–	28 618	13 478
Forward exchange contracts	–	–	–	–	98 800	98 800	65 087
Equities	–	–	–	–	300 180	300 180	130 944
Subtotal	**43 282**	**2 002 071**	**1 688 733**	**21 435**	**461 807**	**4 217 328**	**3 457 610**
Total	**43 282**	**2 265 741**	**2 147 910**	**106 500**	**537 473**	**5 100 906**	**4 591 138**

207. Non-rated funds represent cash and cash equivalents held in various operating accounts in country offices. For externally managed investments, non-rated investment includes cash, exchange traded funds and government bonds whose risk profile and rating is that of the issuing country. Ratings are based on credit ratings by Moody's 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 gains/(losses)*	*2017*	*2016 Restated*
Contributions receivable	2 657 666	4 371	46 243	2 708 280	2 193 695
Other receivables	51 539	–	(2 976)	48 563	41 537
Total	**2 709 205**	**4 371**	**43 267**	**2 756 843**	**2 235 232**

208. 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 2017

(Thousands of United States dollars)

	Gross receivable as at 31 December 2017	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written-off as uncollectible*	*Net receivable as at 31 December 2017*	*Net receivable as at 31 December 2016 (restated)*
Contributions receivable	2 716 386	(7 898)	–	(208)	2 708 280	2 193 695
Other receivables	60 106	(11 508)	–	(35)	48 563	41 537
Total	**2 776 492**	**(19 406)**	**–**	**(243)**	**2 756 843**	**2 235 232**

Exposure to liquidity risk

209. Liquidity risk is the risk that UNICEF will encounter difficulty in meeting its obligations associated with its accounts payable, other liabilities and promised transfers of cash to programmes. The UNICEF Financial Regulations and Rules do not permit UNICEF to borrow funds from external providers except for Central Emergency Response Fund loans from the Office for the Coordination of Humanitarian Affairs.

210. Management believes that UNICEF can meet its obligations as system controls ensure that purchase orders are not raised unless budgeted funds are 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.

211. 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*	*2017 total carrying value*	*2016 total carrying value*
Accounts payable	76 814	–	–	1	36 000	6 087	2 373	859	122 134	146 690
Accrued liabilities	–	–	–	–	–	–	–	–	152 128	118 197
Total	**76 814**	**–**	**–**	**1**	**36 000**	**6 087**	**2 373**	**859**	**274 262**	**264 887**

Note: The maturities for accrued liabilities are not included as they are not known.

212. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or in significantly different amounts.

Exposure to market risk

213. 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.

214. Treasury activities comprise the following four portfolios:

(a) Cash and cash equivalents;

(b) Short-term investments;

(c) Long-term investments;

(d) Emerging markets.

215. Risk in the emerging markets portfolio is mitigated via a limit of $30.00 million in functional emerging market currencies and by transacting only with partners that have been pre-approved by the Financial Advisory Committee. In addition, UNICEF enters into transactions in emerging markets only for investments for currencies where it has large spending needs, thereby reducing foreign exchange risk.

Currency risk

216. 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) For voluntary contributions: euros, Norwegian kroner, Swedish kronor, Canadian dollars, pounds sterling, Australian dollars, New Zealand dollars, Swiss francs, Danish kroner and Japanese yen;

(b) For expenses: all currencies used across all operating UNICEF countries, including Indian rupees, Pakistani rupees, Nigerian naira, Ethiopian birr and Kenyan shillings, among many others;

(c) For assets and liabilities: all currencies used across all operating UNICEF countries, including euros, pounds sterling, Swiss francs, Swedish kronor, Norwegian kroner and Japanese yen, among many others.

217. 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.

218. The following table provides an appropriate context with 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*	*Canadian dollar*	*Swedish krona*	*Japanese yen*	*Australian dollar*	*Other*	*2017*	*2016 Restated*
Cash and cash equivalents	715 376	73 348	19 722	3 428	8	834	87	70 775	883 578	1 133 528
Term deposits	2 700 564	–	–	–	–	–	–	–	2 700 564	1 837 921
Traded bonds	1 035 594	44 487	9 085	–	–	–	–	–	1 089 166	1 410 180
Structured deposits	(78)	28 696	–	–	–	–	–	–	28 618	13 478
Forward exchange contracts in gain	98 800	–	–	–	–	–	–	–	98 800	65 087
Equities	186 254	37 941	13 418	9 923	6 200	18 531	8 218	19 695	300 180	130 944
Receivables from contributions	1 028 686	895 716	389 552	145 408	40 512	43 823	40 202	124 381	2 708 280	2 193 695
Other receivables	(75 810)	59 801	8 361	931	17 924	(43)	4 426	32 973	48 563	41 537
Total financial assets	**5 689 386**	**1 139 989**	**440 138**	**159 690**	**64 644**	**63 145**	**52 933**	**247 824**	**7 857 749**	**6 826 370**
Accounts payable	(232 178)	(10 846)	(115)	(6)	–	(345)	(2)	(30 770)	(274 262)	(264 887)
Funds held on behalf of third parties	(1 177 807)	5 937	–	–	–	–	–	(1)	(1 171 871)	(817 900)
Other liabilities	(215 090)	(5 942)	–	–	–	–	–	(2 985)	(224 017)	(175 822)
Total financial liabilities	**(1 625 075)**	**(10 851)**	**(115)**	**(6)**	**–**	**(345)**	**(2)**	**(33 756)**	**(1 670 150)**	**(1 258 609)**
Net exposure	**4 064 311**	**1 129 138**	**440 023**	**159 684**	**64 644**	**62 800**	**52 931**	**214 068**	**6 187 599**	**5 567 761**

Interest rate risk

219. 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)

	2017	*2016 Restated*
Fixed rate instruments	4 627 230	4 181 292
Other financial instruments	3 230 519	2 645 077
Total financial assets	**7 857 749**	**6 826 369**

Sensitivity analysis: foreign currency

220. The following table shows the sensitivity of net assets and surplus/deficits to the strengthening and weakening of key currencies used by UNICEF. This analysis is based on foreign currency exchange rate variances that UNICEF considered to be reasonably possible as at the reporting date. This analysis assumes that all other

variables, in particular interest rates, remain constant and ignores any impact of forecasted contributions and expenditures.

G. Financial instrument currency position in the statement of financial position

(Thousands of United States dollars)

	Surplus/(deficit)	
As at 31 December 2017	*Strengthening of United States dollar by 10 per cent*	*Weakening of United States dollar by 10 per cent*
Euro	(112 914)	112 914
Pound sterling	(44 002)	44 002
Canadian dollar	(15 968)	15 968
Swedish krona	(6 464)	6 464
Australian dollar	(5 293)	5 293
Japanese yen	(6 280)	6 280
Total	**(190 921)**	**190 921**

221. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2017 only.

Derivatives

222. 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.

223. Losses arising from changes in the fair values of externally managed forward exchange contracts amounted to $2.43 million (2016 gains: $0.66 million).

224. 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 by external investment managers at the end of 2017 that included a call-option feature amounted to $8.78 million (2016: $4.59 million). Bonds managed internally at the end of 2017 amounting to $923.66 million (2016: $1.33 billion) were classified as available-for-sale.

225. UNICEF also invests in structured deposit financial instruments that include an embedded option (that is, an embedded derivative) along with a fixed-term deposit. This financial instrument earns an enhanced yield that is higher than a basic, standard time deposit. While this financial instrument has an underlying element of currency risk, it is limited only to the foreign exchange benefit forgone between the strike price and the current spot if the deposit is repaid in the alternative currency. No risk is involved if the option is not exercised.

Sensitivity analysis: interest rates

226. 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 2017. 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/deficit to changes in interest rates

(Thousands of United States dollars)

	Impact		
	Net assets	*Surplus/deficit*	*Percentage*
Portfolio value	1 087 792	–	–
Plus 100 basis points	1 071 559	(16 233)	1.49
Minus 30 basis points	1 096 035	8 243	0.76

Other price risk

227. 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.

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

Note 31
Capital management

229. 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 for future expenses (see note 20, Net assets).

230. The objectives of UNICEF in managing capital are to:

(a) Safeguard its ability to continue as a going concern;

(b) Fulfil its mission and objectives as established in its Strategic Plan;

(c) Ensure sufficient liquidity to meet its operating cash requirements;

(d) Preserve capital;

(e) Generate a competitive market rate of return on its investments.

231. It should be noted that risk and liquidity management are emphasized over absolute rate of return for the investment portfolio.

232. 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:

(a) Estimated future financial resources for each year of the plan period;

(b) Estimated yearly levels of costs;

(c) Working capital levels required for the liquidity of UNICEF.

Other resources–regular and other resources–emergency

233. 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).

234. The ability of UNICEF to obtain additional capital is subject to:

(a) Its ability to raise financial resources and generate revenue;

(b) Market conditions;

(c) The provisions of its Financial Regulations and Rules and investment guidelines.

Restriction

235. 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 2017.

Note 32
Commitments

236. The following tables present the open purchase orders for which UNICEF had not received the related services or goods as at 31 December 2017. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2017	*2016*
Commitments for purchase of property and equipment (including finance leases)		
Buildings	50	154
Vehicles	3 954	5 332
Furniture and fixtures	225	43
Communications and information technology equipment	1 459	2 026
Other capital commitments		
Intangible assets	37	48
Total capital commitments	**5 725**	**7 603**
Operating commitments		
Contracts for purchase of supplies and other goods	265 641	268 108
Contracts for purchase of services	641 253	417 213

	2017	*2016*
Commitments to transfer cash to implementing partners	63 283	70 533
Commitments to transfer supplies to implementing partners	419 877	424 459
Total operating commitments	**1 390 054**	**1 180 313**
Total commitments	**1 395 779**	**1 187 916**

237. 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

238. 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 2017.

(Thousands of United States dollars)

	2017	*2016*
Long-term agreements for goods	4 298 991	5 110 863
Long-term agreements for services	260 151	274 206
Total long-term agreements	**4 559 142**	**5 385 069**

Note 33
Contingencies

239. In certain cases, prior to concluding contribution agreements, UNICEF receives pledges for future contributions. These pledges are not recorded in the statement of financial position as UNICEF does not yet have control of the resources but the inflow of resources is considered probable. At the reporting date, probable contributions arising from pledges were estimated at $72.35 million (2016 restated: $198.47 million).

Contingent liabilities

240. UNICEF has an irrevocable standby letter of credit of $3.00 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.

241. 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 into the following two main categories: third-party claims and human resources claims.

242. As at 31 December 2017, 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

243. 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.

244. 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)

	2017		*2016 (restated)*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 264 587	335 379	1 137 860	321 207
Voluntary in-kind contributions	1 751	2 826	2 629	545
Total	**1 266 338**	**338 205**	**1 140 489**	**321 752**

245. Of the total voluntary cash contributions received in 2017, $627.36 million was classified as regular resources, $173.29 million was classified as other resources–emergency, and $463.94 million was classified as other resources–regular. The voluntary in-kind contributions of $1.75 million (2016: $2.63 million) were composed of other resources–emergency.

246. According to the revenue and expenditure reports submitted by the National Committees, total contributions received by the National Committees in 2017, excluding proceeds from licensing activities, amounted to $1.65 billion (2016: $1.48 billion). Of that amount, $389.35 million (2016: $336.28 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 $1.26 billion (2016 restated: $1.14 billion) in net cash contributions was either transferred or due to be transferred to UNICEF from the National Committees.

247. 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.

248. In accordance with the terms of the respective cooperation agreements 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 $228.67 million (2016: $208.24 million) as at 31 December 2017.

Supported deliveries

249. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $122.39 million (2016: $134.62 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

250. The leadership structure of UNICEF is stratified into two main tiers:

(a) Executive: collectively, this tier of leadership consists of the first two levels within the hierarchy, an Under-Secretary-General (Executive Director) and Four Assistant Secretaries-General (Deputy Executive Directors);

(b) Management: collectively, this tier of leadership consists of the third level within the hierarchy, the "head of office" of the global headquarters divisions and the regional offices;

(c) Close family members of key management personnel are presumed to be their spouses, domestic partners, children, grandchildren, brothers, sisters, parents, grandparents, or in-laws and relatives living in a common household with 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*	*2017*	*2016*
Key management personnel	34	6 432	3 434	1 157	11 023	7 881
Close family members	2	193	112	69	374	434
Total	**36**	**6 625**	**3 546**	**1 226**	**11 397**	**8 315**

251. 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.

252. 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.

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

254. 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

255. 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

256. The Global Partnership for Education 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 two. UNICEF has influenced the Global Partnership for Education to support inclusion of countries in fragile situations. Funds provided for the Global Partnership for Education, which are recorded in voluntary contributions in support of global and country specific programmes, amount to $46.88 million (2016 restated: $71.93 million).

Global Fund to Fight AIDS, Tuberculosis and Malaria

257. The Global Fund to Fight AIDS, Tuberculosis and Malaria was established in 2002 as a public-private partnership with the goal to raise, manage and disburse additional resources to prevent and treat HIV and AIDS, tuberculosis and malaria. In addition to the Global Fund's disease-specific funding, the Global Fund also provides resources for strengthening health systems. Since the Global Fund's inception in 2002, UNICEF has been an active partner at the global and country level. The funds provided by the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $42.94 million (2016 restated: $30.51 million).

GAVI Alliance

258. The GAVI Alliance was launched in 2000 as a public-private global health partnership committed to increasing access to immunization in low-income countries. UNICEF holds one permanent seat, out of 18, on its Board of Directors, and can also appoint one 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 covered within note 22, Other revenue.

259. In previous years, the GAVI Alliance made funds available to UNICEF through escrow accounts and use of promissory note agreements. The entire balance of the GAVI Alliance's promissory notes agreements was redeemed in 2016. During 2017, UNICEF did not enter into any new promissory note agreements.

260. As also disclosed in note 11, Other assets, UNICEF holds funds of $721.48 million (2016: $435.90 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 an agent of the partner.

261. UNICEF also manages funds provided by the GAVI Alliance, which are recorded in voluntary contributions in support of global and country-specific programmes, and amount to $154.86 million (2016 restated: $59.52 million).

Nutrition International

262. Nutrition International, formerly the Micronutrient Initiative, was incorporated on 4 July 2001, in Canada, with the primary objective of solving the problem of malnutrition. UNICEF is a significant partner of Nutrition International because of shared objectives with regard to malnutrition. UNICEF holds one seat, out of 13, on the Nutrition International Board of Directors. Funds provided by Nutrition International, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $11.77 million (2016 restated: $7.16 million).

C. Revenue realized from other related parties as at 31 December

(Thousands of United States dollars)

	2017	*2016 Restated*
Global Partnership for Education	46 884	71 931
Global Fund to Fight AIDS, Tuberculosis and Malaria	42 943	30 505
GAVI Alliance	154 863	59 524
Nutrition International	11 774	7 162
Total	**256 464**	**169 122**

Note 35
Segment information

263. 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

264. Revenue included in these segments is defined as regular resources in the UNICEF Financial Regulations and Rules. Regular resources include unrestricted contributions, licensing income and proceeds from other revenue-producing activities and miscellaneous revenue.

265. Revenue from regular resources is allocated between the institutional segment and the regular resources segment as follows:

(a) The regular resources segment includes voluntary contributions (non-exchange revenue), licensing income, exchange revenue such as interest, proceeds from sales and procurement services handling fees;

(b) The institutional segment includes internal cost recovery and direct attribution, such as warehouse overhead and centrally managed costs.

Activities

266. 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.

267. 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.

268. The major categories of expenses within the institutional segment include salaries and other employee benefits, depreciation of assets and increases in the after-service health insurance liability.

269. 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 cash, investments and centrally managed land and buildings. Also included is the inventory maintained in the warehouse in Copenhagen. The main liability is for after-service health insurance.

270. 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).

271. The majority of categories of expense within this segment include the utilization of cash assistance transferred to implementing partners, programme supplies delivered to implementing partners, other programme-related expert services, and employee benefits.

272. Major categories of assets are unearmarked contributions receivable and advances of cash assistance which are funded from the country programmes and the advocacy, programme development and intercountry programme.

273. The combined net assets of these two segments represents the regular resources fund balance, as defined by the Financial Regulations and Rules. To determine the portion of the regular resources fund balance available for funding the institutional budget, the private fundraising and partnerships budget, country programmes and the advocacy, programme development and intercountry programme, UNICEF adjusts the fund balance for reserves, capital requirements and relevant assets and liabilities.

Other resources — regular, and other resources — emergency segments

274. 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.

275. The other resources — emergency segment includes those funds earmarked for emergency operations.

276. 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).

277. The majority of categories of expense within these two segments include the utilization of cash assistance transferred to implementing partners, programme supplies delivered to implementing partners, other programme-related expert services, and employee 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.

278. Major categories of assets are earmarked contributions receivable, advances of cash assistance to implementing partners and inventories of programme supplies held for distribution, which are funded from the country programmes and the advocacy, programme development and intercountry programme.

279. 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

280. 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 third parties.

281. 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 they are accounted for as agency arrangements, and 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.

282. Procurement services represent the primary component of activities within the trust fund segment.

283. 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 mentioned guest houses.

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*	*2017*
Segment assets							
Current segment assets							
Cash and cash equivalents[a]	883 578	–	–	–	–	–	883 578
Inter-segment activity[b]	(3 409 891)	–	2 158 230	664 603	587 058	–	–
Investments	3 716 240	–	–	–	–	–	3 716 240
Inventories	31 320	3 065	167 848	154 042	–	–	356 275
Contributions receivable	–	288 650	760 526	688 133	–	–	1 737 309
Other receivables	7 124	18 607	11 180	10 180	–	–	47 091
Advances of cash assistance	–	119 823	306 198	306 655	–	–	732 676
Other assets	8 191	8 751	21 241	5 399	723 261	–	766 843
Non-current segment assets							
Investments	501 088	–	–	–	–	–	501 088
Contributions receivable	–	51 630	736 326	183 015	–	–	970 971
Property and equipment	177 157	32 177	6 463	17 332	48	–	233 177
Intangible assets	1 933	2 139	44	43	–	–	4 159
Other receivables	914	149	23	30	356	–	1 472
Other assets	1 817	–	–	–	–	–	1 817
Total segment assets, 2017	**1 919 471**	**524 991**	**4 168 079**	**2 029 432**	**1 310 723**	**–**	**9 952 696**
Restated total segment assets, 2016	**1 811 671**	**443 749**	**3 523 891**	**1 988 023**	**886 027**	**–**	**8 653 361**

[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.

A. Segment information on assets and liabilities by fund type (continued)

(Thousands of United States dollars)

	Institutional	*Regular resources programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2017*
Segment liabilities							
Current segment liabilities							
Accounts payable and accrued liabilities	24 976	11 319	56 076	34 860	147 031	–	274 262
Contributions received in advance	–	3 853	21 487	2 091	–	–	27 431
Funds held on behalf of third parties	–	–	–	–	1 171 871	–	1 171 871
Other liabilities	114 437	29 877	–	–	39 476	–	183 790
Employee benefits	121 544	27	35	–	–	–	121 606
Provisions	1 908	–	14 806	4 637	–	–	21 351
Non-current segment liabilities							
Contributions received in advance	–	1 970	–	–	–	–	1 970
Employee benefits	1 516 416	–	–	–	–	–	1 516 416
Other liabilities	40 227	–	–	–	–	–	40 227
Total segment liabilities, 2017	**1 819 508**	**47 046**	**92 404**	**41 588**	**1 358 378**	**–**	**3 358 924**
Restated total segment liabilities, 2016	**1 410 779**	**47 993**	**100 268**	**69 850**	**931 303**	**–**	**2 560 193**
Net assets, 1 January 2017	**796 648**	**–**	**3 423 623**	**1 918 173**	**(45 276)**	**–**	**6 093 168**
Surplus/(deficit) for the year	87 438	–	634 699	69 659	(3 203)	–	788 593
Actuarial losses recognized directly in the reserves	(316 630)	–	–	–	–	–	(316 630)
Changes in fair value of available-for-sale financial assets	28 641	–	–	–	–	–	28 641
Utilization of reserves	(18 189)	–	17 353	12	824	–	–
Net assets, 31 December 2017	**577 908**	**–**	**4 075 675**	**1 987 844**	**(47 655)**	**–**	**6 593 772**
Restated net assets, 31 December 2016	**796 648**	**–**	**3 423 623**	**1 918 173**	**(45 276)**	**–**	**6 093 168**

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*	*2017*
Segment revenue							
Voluntary contributions	–	1 278 100	3 026 270	2 126 629	–	–	6 430 999
Investment revenue	–	71 699	–	–	–	–	71 699
Other revenue	–	57 290	123	191	16 442	–	74 046
Internal cost recovery	294 878	–	–	–	–	(294 878)	–
Internal direct attribution	98 734	–	–	–	–	(98 734)	–
Total segment revenue, 2017	**393 612**	**1 407 089**	**3 026 393**	**2 126 820**	**16 442**	**(393 612)**	**6 576 744**
Restated total segment revenue, 2016	**371 200**	**1 299 172**	**1 859 076**	**2 015 676**	**17 371**	**(371 200)**	**5 191 295**
Segment expenses							
Transfers of cash assistance		248 240	1 006 551	969 867	–	–	2 224 658
Transfer of programme supplies	–	90 840	502 718	492 679	–	–	1 086 237
Employee benefits	522 163	312 190	288 988	186 613	318	–	1 310 272
Depreciation and amortization	8 745	5 848	1 377	2 804	26	–	18 800
Other programme-related expert services	–	132 906	256 661	84 121	–	–	473 688
Other expenses	223 174	233 939	344 942	319 166	19 276	(393 612)	746 885
Finance costs	2 893	–	–	–	–	–	2 893
Total segment expenses, 2017	**756 975**	**1 023 963**	**2 401 237**	**2 055 250**	**19 620**	**(393 612)**	**5 863 433**
Total segment expenses, 2016	**704 494**	**961 454**	**2 314 753**	**1 817 754**	**20 596**	**(371 200)**	**5 447 851**
Gains and (losses), net 2017	66 601	1 074	9 543	(1 911)	(25)	–	75 282
Gains and (losses), net 2016	55 507	2 661	(1 048)	(420)	(8)	–	56 692
Net surplus/(deficit), 2017	**(296 762)**	**384 200**	**634 699**	**69 659**	**(3 203)**	**–**	**788 593**
Restated net surplus/(deficit), 2016	**(277 787)**	**340 379**	**(456 725)**	**197 502**	**(3 233)**	**–**	**(199 864)**

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	2017
Transfers of cash assistance							
East Asia and the Pacific	–	10 906	66 790	10 680	–	–	88 376
Europe and Central Asia	–	4 796	38 617	103 769	–	–	147 182
Eastern and Southern Africa	–	77 266	260 337	152 488	–	–	490 091
Headquarters	–	3 202	11 391	1 218	–	–	15 811
Latin American and the Caribbean	–	11 099	32 880	22 976	–	–	66 955
Middle East and North Africa	–	7 640	200 999	554 105	–	–	762 744
South Asia	–	51 651	124 770	30 361	–	–	206 782
Western and Central Africa	–	81 680	270 767	94 270	–	–	446 717
Total transfers of cash assistance	**–**	**248 240**	**1 006 551**	**969 867**	**–**	**–**	**2 224 658**
Transfer of programme supplies							
East Asia and the Pacific	–	5 759	25 257	13 588	–	–	44 604
Europe and Central Asia	–	1 201	12 434	27 032	–	–	40 667
Eastern and Southern Africa	–	20 469	129 818	101 065	–	–	251 352
Headquarters	–	(1 097)	11 063	1 478	–	–	11 444
Latin American and the Caribbean	–	3 177	3 593	8 080	–	–	14 850
Middle East and North Africa	–	5 801	66 568	231 419	–	–	303 788
South Asia	–	18 967	61 446	18 476	–	–	98 889
Western and Central Africa	–	36 563	192 539	91 541	–	–	320 643
Total transfer of programme supplies	**–**	**90 840**	**502 718**	**492 679**	**–**	**–**	**1 086 237**
Employee benefits							
East Asia and the Pacific	26 104	28 763	29 977	4 762	–	–	89 606
Europe and Central Asia	20 195	10 121	8 832	9 969	–	–	49 117
Eastern and Southern Africa	42 032	70 280	64 819	42 433	42	–	219 606
Headquarters	328 643	23 520	39 514	8 464	276	–	400 417
Latin American and the Caribbean	27 263	18 624	18 000	4 449	–	–	68 336
Middle East and North Africa	24 490	19 762	23 642	84 500	–	–	152 394
South Asia	17 572	46 258	41 530	7 608	–	–	112 968
Western and Central Africa	35 864	94 862	62 674	24 428	–	–	217 828
Total employee benefits	**522 163**	**312 190**	**288 988**	**186 613**	**318**	**–**	**1 310 272**

C. Segment information on expenses by region (continued)

(Thousands of United States dollars)

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2017*
Depreciation and amortization							
East Asia and the Pacific	212	452	71	57	–	–	792
Europe and Central Asia	104	58	6	130	–	–	298
Eastern and Southern Africa	1 167	1 334	408	595	1	–	3 505
Headquarters	4 207	608	65	9	24	–	4 913
Latin American and the Caribbean	470	104	29	35	–	–	638
Middle East and North Africa	574	432	175	1 257	–	–	2 438
South Asia	1 113	941	313	189	–	–	2 556
Western and Central Africa	898	1 919	310	532	1	–	3 660
Total depreciation and amortization	**8 745**	**5 848**	**1 377**	**2 804**	**26**	**–**	**18 800**
Other programme-related expert services							
East Asia and the Pacific	–	8 788	12 619	1 881	–	–	23 288
Europe and Central Asia	–	4 954	9 234	3 980	–	–	18 168
Eastern and Southern Africa	–	15 216	78 925	20 694	–	–	114 835
Headquarters	–	42 671	17 718	2 948	–	–	63 337
Latin American and the Caribbean	–	13 132	10 634	3 466	–	–	27 232
Middle East and North Africa	–	2 738	7 088	43 021	–	–	52 847
South Asia	–	30 463	80 041	2 914	–	–	113 418
Western and Central Africa	–	14 944	40 402	5 217	–	–	60 563
Total other programme-related expert services	**–**	**132 906**	**256 661**	**84 121**	**–**	**–**	**473 688**
Other expenses							
East Asia and the Pacific	5 507	19 597	25 913	4 491	–	–	55 508
Europe and Central Asia	5 150	9 711	12 808	19 367	19	–	47 055
Eastern and Southern Africa	10 307	49 111	86 596	73 735	2 955	–	222 704
Headquarters	176 542	21 794	38 033	5 814	13 863	(393 612)	(137 566)
Latin American and the Caribbean	5 042	15 147	17 822	7 936	99	–	46 046
Middle East and North Africa	5 528	16 320	34 461	164 219	153	–	220 681
South Asia	5 978	31 362	49 745	9 555	1 684	–	98 324
Western and Central Africa	9 120	70 897	79 564	34 049	503	–	194 133
Total other expenses	**223 174**	**233 939**	**344 942**	**319 166**	**19 276**	**(393 612)**	**746 885**

C. Segment information on expenses by region (continued)

(Thousands of United States dollars)

	Institutional	*Regular resources — programme*	*Other resources — regular programme*	*Other resources — emergency programme*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2017*
Finance costs							
Headquarters	2 893	–	–	–	–	–	2 893
Total finance costs	**2 893**	**–**	**–**	**–**	**–**	**–**	**2 893**
Total expense by region							
East Asia and the Pacific	31 823	74 265	160 627	35 459	–	–	302 174
Europe and Central Asia	25 449	30 841	81 931	164 247	19	–	302 487
Eastern and Southern Africa	53 506	233 676	620 903	391 010	2 998	–	1 302 093
Headquarters	512 285	90 698	117 784	19 931	14 163	(393 612)	361 249
Latin American and the Caribbean	32 775	61 283	82 958	46 942	99	–	224 057
Middle East and North Africa	30 592	52 693	332 933	1 078 521	153	–	1 494 892
South Asia	24 663	179 642	357 845	69 103	1 684	–	632 937
Western and Central Africa	45 882	300 865	646 256	250 037	504	–	1 243 544
Total segment expenses	**756 975**	**1 023 963**	**2 401 237**	**2 055 250**	**19 620**	**(393 612)**	**5 863 433**

Note 36
Post-balance sheet events

284. There have been no material post balance sheet events requiring disclosure.

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