



United Nations

United Nations Office on Drugs and Crime

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-fourth Session

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United Nations Office on Drugs and Crime

**Financial report and audited
financial statements**

for the year ended 31 December 2018

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Report of the Board of Auditors



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Note

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

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Letters of transmittal

Letter dated 31 March 2019 from the Executive Director of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

In accordance with rule 406.3 of the Financial Rules of the Fund of the United Nations International Drug Control Programme and of the Fund of the United Nations Crime Prevention and Criminal Justice Programme, I have the honour to transmit the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2018, which I hereby approve.

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

(Signed) Yury **Fedotov**
Executive Director
United Nations Office on Drugs and Crime

**Letter dated 24 July 2019 from the Chair of the Board of Auditors
addressed to the President of the General Assembly**

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2018.

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

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 Office on Drugs and Crime (UNODC), which comprise the statement of financial position (statement I) as at 31 December 2018 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 and 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 the Board's opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2018 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 UNODC in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2018, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNODC to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNODC 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 UNODC.

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:

- (a) 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;
- (b) 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 UNODC;
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (d) Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNODC 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 UNODC to cease to continue as a going concern;
- (e) 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 with regard to, 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

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

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

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

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
(Lead Auditor)

(Signed) Rajiv **Mehrishi**
Comptroller and Auditor General of India

24 July 2019

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 Office on Drugs and Crime (UNODC) for the year ended 31 December 2018. The Board examined financial transactions and operations at UNODC headquarters in Vienna and in the Liaison and Partnership Office in Mexico.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNODC as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNODC operations in accordance with financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined five main areas of UNODC activities (treasury, voluntary contributions, project and programme management, full cost recovery and information and communications technology), as well as following up in detail actions taken in response to recommendations made in previous years.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion

The Board did not identify significant errors, omissions or misstatements from the review of the financial records of UNODC for the year ended 31 December 2018. However, the Board identified scope for improvements in areas such as collection management the formulation of programmes and projects and the project monitoring and reporting system.

Key findings

Collection management

When a Member State makes a voluntary contribution, a draft framework agreement is prepared by the Liaison and Partnership Office in Mexico with the general terms and conditions of the donation. The Board noted that the payment clauses included in some agreements had not been fulfilled by the donors. As a result, some expenses were incurred by the Liaison and Partnership Office during the formulation of the project that would imply a loss of resources for the entity.

Delegation of authority

In accordance with rule 401.3 of the Financial Rules of the Fund of the United Nations International Drug Control Programme and of the Fund of the United Nations Crime Prevention and Criminal Justice Programme, the Executive Director of UNODC has the authority and responsibility for the implementation of the financial rules. The Executive Director may delegate such authority as appropriate to other officials, and such delegations of authority will state whether designated officials may further delegate this authority. It was noted that the Liaison and Partnership Office in Mexico did not have the necessary delegation of authority from headquarters that allowed the representative to sign procurement contracts.

Project monitoring and reporting system

According to paragraph 2.4 of the UNODC Programme and Operations Manual, there are several established stages with which every programme and project needs to comply in order to be initiated, approved and implemented. One of the stages is related to the monitoring and reporting process, described in paragraph 8 of the Manual. The monitoring system comprises four components. One of the components is the obligation to prepare semi-annual and annual progress reports, and includes a workflow in that regard. The workflow defines the different steps that must be completed by the persons involved in the preparation of a progress report, which are: (a) to prepare the report; (b) to perform a quality assurance review; and (c) to review and approve the report.

In the revision of compliance in the segregation of duties in 25 projects, it was noted that in five cases the projects did not comply with the segregation of duties, since the person who prepared the report also acted as a quality assurance reviewer for that report. In one case, the person who prepared the report also approved it. Ten projects did not have information in Lotus Notes or the ProFi system about their semi-annual reports for the year 2018. Finally, another two projects did not provide up-to-date information on their semi-annual and annual reports in 2016 and 2017.

Main recommendations

In the light of the findings mentioned above, the main recommendations of the Board of Auditors are that UNODC:

Liaison and Partnership Office in Mexico

(a) **Make the efforts necessary to improve collection management and formalize a procedure that ensures the monitoring of payments for every project of the Liaison and Partnership Office in Mexico;**

(b) **Operate in accordance with the delegation of authority for low-value acquisitions currently in force with regard to procurement agreements. Otherwise, UNODC headquarters should reassess the delegation of authority;**

Headquarters

(c) **Strengthen its internal controls in order to ensure the segregation of duties in every project or, at the very least, implement a compensating control.**

Key facts**Core staff of 634 from 74 locations**

\$416.5 million: original budget for 2018 in the biennium 2018–2019

\$409.1 million: revenue in 2018

\$332.3 million: expenses in 2018

\$251.7 million: net contributions receivable, from donors, under current agreements

\$719.2 million: cash and investments in the United Nations cash pool

A. Mandate, scope and methodology

1. The United Nations Office on Drugs and Crime (UNODC) is mandated to assist Member States in their efforts to combat illicit drugs, crime and terrorism. In this regard, the entity carries out a broad range of initiatives, including alternative development projects, illicit crop monitoring and anti-money-laundering programmes, among others. UNODC has 634 staff members worldwide and operates in 74 locations around the world. Almost all of the activities of UNODC are undertaken through individual projects at the global, regional and country levels.
2. The Board of Auditors audited the financial statements of UNODC and reviewed its activities for the year ended 31 December 2018, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the Financial Rules of the Fund of the United Nations International Drug Control Programme and of the Fund of the United Nations Crime Prevention and Criminal Justice Programme, as well as the International Standards on Auditing. Those standards require the Board to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatements.
3. The audit was conducted to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNODC as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit was carried out at UNODC headquarters in Vienna and in the Liaison and Partnership Office in Mexico.
4. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.
5. The Board also reviewed UNODC operations pursuant to financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, according to which the Board may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations.
6. The Board has taken up two audit topics for UNODC in 2018: the procedure for receiving voluntary contributions; and the management of programmes and projects. The Board also reviewed the follow-up actions taken by UNODC on the recommendations from previous audits.
7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly.
8. The Board's observations and conclusions were discussed with UNODC management, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

9. The Board noted that there were 65 outstanding recommendations up to the year ended 31 December 2017, of which 25 (38 per cent) had been fully implemented and 40 (62 per cent) were under implementation (see table II.1). Details of the status of implementation of the previous years' recommendations are provided in the annex to chapter II.

Table II.1
Status of implementation of recommendations

	<i>Fully implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
Total	25	40	–	–
Percentage	38	62	–	–

Source: Board of Auditors.

10. There has been positive progress across some of the recommendations still marked as under implementation, including in the areas of financial management and reporting; and collecting better data on the volumes and value of field office procurement. Actions must be taken by management to address the 62 per cent of recommendations which have yet to be implemented.

2. Financial overview

11. UNODC is mainly funded through voluntary contributions. In 2018, net voluntary contributions amounted to \$332.3 million (2017: \$341.2 million) of total revenue of \$409.1 million (2017: \$392.1 million). Revenue also included \$34.3 million from the United Nations regular budget (2017: \$30.6 million). Expenses for the year were \$332.3 million (2017: \$308.7 million), resulting in a surplus of \$76.8 million (2017: \$83.4 million). This is due primarily to the increase in expenses; even though revenue increased by 4 per cent, expenses increased by 7 per cent. Additionally, the entity made an adjustment as a result of the review of all pledges that were outstanding and might be considered irrecoverable for \$4.607 million (see note 7 in chap. V below). The Board noted the continued trend towards earmarked resources. It also noted that efficient project control was necessary in order to quickly implement projects when funding was received, in particular when the inflow of funding was uneven throughout the year.

12. The Board's analysis of capital structure ratios demonstrates that, despite the competitive environment for donor funds, the current financial position of UNODC remains sound and has slightly improved compared with 2017, with an assets-to-liabilities ratio of 3.03. The current ratio is even better, with a value of 5.44. The analysis of ratios shows relative consistency over the past financial years (see table II.2).

Table II.2
Ratio analysis

<i>Ratio</i>	<i>31 December 2018</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
Total assets: total liabilities^a			
Assets: liabilities	3.03	2.73	2.72
Current ratio^b			
Current assets: current liabilities	5.44	4.18	4.05
Quick ratio^c			
(Cash + short-term investments + accounts receivable): current liabilities	5.24	4.07	3.86
Cash ratio^d			
(Cash + short-term investments): current liabilities	4.30	2.92	2.64

(Footnotes on following page)

(Footnotes to Table II.2)

Source: UNODC financial statements.

^a A high ratio indicates an entity's ability to meet its overall obligations.

^b A high ratio indicates an entity's ability to pay off its current 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. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

13. The two major components of the UNODC asset base are cash and investment balances, which totalled \$719.2 million (2017: \$624.1 million) and voluntary contributions receivable from donors of \$251.7 million (2017: \$278.4 million). Cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNODC cash balances totalled \$13.5 million (2017: \$6.7 million). Voluntary contributions receivable represent the remaining sums due over the lifetime of the current agreements with donors, of which an amount of \$113.5 million (2017: \$99.3 million) is due in more than one year's time. The level of voluntary contributions receivable decreased by 10 per cent during 2018 (2017: increase of 12 per cent), which represents a decline in the receipt of voluntary contributions, as could be seen already in previous years. The Office's most significant liability is for the advance receipt of conditional voluntary contributions of \$151.2 million (2017: \$154.7 million). The advance receipt stems from current European Union agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. Advance receipts represent, from the perspective of UNODC, commitments to donors for the provision of future services. The scale of these deferred revenues demonstrates the extent to which future revenues, and a good portion of receivables, depend on UNODC continuing to deliver current projects and programmes in line with expectations.

14. The second most significant element of UNODC liabilities results from employee benefits of \$116.6 million (2017: \$120.7 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate for the cost of after-service health insurance of \$90.7 million (2017: \$91.4 million). The effect of an increased discount rate alongside other experience adjustments and updated demographic assumptions resulted in an overall net actuarial valuation gain of \$12 million (2017: loss of \$2 million), as disclosed in note 14 to the financial statements. It remains important to ensure that currently funded projects provide sufficient contributions to meet any associated increases in costs so that past project activities do not require substantive funding from future donors.

3. Management

Physical facilities of the Liaison and Partnership Office in Mexico

15. In 2003, the Government of Mexico and UNODC agreed on a framework for cooperation. On 2 April of that year, they signed an agreement for the establishment of a regional office in Mexico.

16. On 15 October 2012, both parties confirmed that the 2003 agreement should continue, and consented to specify their cooperation on operational and financial matters. In this regard, in article V of the agreement it was stated that the Government of Mexico was to provide UNODC with the support necessary to discharge its functions, in particular:

(a) To provide the annual financial resources to cover all operational costs of the Liaison and Partnership Office in Mexico, including core personnel costs, which the parties deemed necessary for the functioning of the Office;

(b) To provide the physical facilities and related costs for the Liaison and Partnership Office, such as maintenance and public services costs.

17. In March 2014, the Government thought it necessary to modify the 2012 agreement by specifying that the Federal Commission for Protection against Health Risks should be the specific entity mandated to pay the costs of the physical facilities. UNODC was willing to sign the new amendment, which was never formalized.

18. In addition, as a result of the earthquake that occurred on 19 September 2017, the Liaison and Partnership Office in Mexico was forced to change its location. In November 2017, the personnel were installed in a temporary location until the Federal Commission financed the rent of the final premises. Currently, the Liaison and Partnership Office is still located in the temporary offices.

19. The Board of Auditors held a series of meetings with representatives from the Liaison and Partnership Office and reviewed the expenses related to the projects. It was observed that the expenses related to the lease for the temporary offices were assigned to several projects.

20. The above-mentioned situation could represent a risk for the Liaison and Partnership Office, in that the donors could object to the fact that the entity is currently using a large part of its voluntary contributions for matters that are not directly related to the project for which funding was received, and to fund the premises of other projects.

21. The Board recommends that the UNODC Liaison and Partnership Office in Mexico make the efforts necessary to ensure proper observance by the Government of Mexico of the 2003 and 2012 obligations.

22. The Liaison and Partnership Office in Mexico accepted the recommendation and stated that the entity continued to follow up on the fulfilment of the 2003 and 2012 agreements signed with the Government of Mexico. The Board was informed that, in March 2019, a high-level delegation from the Government, which had participated at the sixty-second session of the Commission on Narcotic Drugs, headed by the Permanent Representative of Mexico to the United Nations, met with senior officials of UNODC, including the Executive Director. The Liaison and Partnership Office explained that at that meeting, the Permanent Representative confirmed the commitment of the Government of Mexico to find a solution to the problem of the premises of the Liaison and Partnership Office in Mexico City. Finally, it stated that UNODC would continue negotiations to obtain adequate premises facilitated by the Government.

23. UNODC did not set a target date for implementation, arguing that it was not in a position to provide a target date for full implementation since progress was dependent on the results of ongoing discussions with counterparts in the Government of Mexico.

Delegation of authority in the Liaison and Partnership Office in Mexico

24. Rule 401.3 of the Financial Rules of the Fund of the United Nations International Drug Control Programme and of the Fund of the United Nations Crime Prevention and Criminal Justice Programme (see [ST/SGB/2015/4](#) and [ST/SGB/2015/4/Amend.1](#), annex III) states that the authority and responsibility for the implementation of the financial rules have been assigned to the Executive Director of UNODC. Additionally, the rule states that the Executive Director may delegate

such authority as appropriate to other officials, and such delegations of authority will state whether designated officials may further delegate this authority.

25. The Board held a series of meetings with the concerned sections of the Liaison and Partnership Office in Mexico and reviewed the Office's procurement agreements, mostly with hotels. It was noted that most of the agreements had been signed by the representative of the Liaison and Partnership Office. The Board asked the Office to provide the delegation of authority that allowed the representative to sign procurement contracts, but the entity responded that it had authorization for low-value acquisitions only (less than \$10,000). The sampled contracts far exceeded that amount.

26. Nevertheless, the Liaison and Partnership Office argued that the procurement process was validated by the United Nations Development Programme (UNDP). In fact, on 26 May 2015, the entity signed a service-level agreement with UNDP that stated the conditions for services to be provided by UNDP to the Liaison and Partnership Office. Those services are:

- (a) Human resources services;
- (b) General administrative services;
- (c) Financial services;
- (d) Procurement services;
- (e) Information and communications technology services.

27. Despite the agreement, UNDP is only offering support services to the entity. It informed the Liaison and Partnership Office that it is not able to sign the procurement agreements on its behalf, as the entity is not part of UNDP.

28. However, the Liaison and Partnership Office has been working on a collaboration agreement with the Procurement Officer of the UNODC Regional Office for Central America and the Caribbean in Panama in order to operate under the Procurement Officer's delegation of authority.

29. Recognizing the efforts being made by the Liaison and Partnership Office to resolve the issue, it is now urgent that the Office have the appropriate authorization to interact with service providers on behalf of UNODC.

30. The Board recommends that, with regard to procurement agreements, the Liaison and Partnership Office in Mexico operate in accordance with the delegation of authority for low-value acquisitions currently in force. Otherwise, UNODC headquarters should reassess the delegation of authority.

31. The Liaison and Partnership Office in Mexico considered the recommendation pertinent and provided additional information regarding the measures that the entity was taking to conduct procurement over \$10,000. On 22 May 2019, the Liaison and Partnership Office argued that the recommendation should be considered implemented, since in its opinion the Office already had a procurement strategy in place. The entity ensured that procurement activities were currently carried out under the supervision of the Procurement Officer of the UNODC Regional Office for Central America and the Caribbean in Panama. For any procurement over \$10,000, the Liaison and Partnership Office would receive a delegation of authority. However, no evidence was given in that regard. The delegation of authority needs to be revised.

Collection management of the Liaison and Partnership Office in Mexico

32. As mentioned previously, in accordance with its mandate, UNODC assists Member States in their efforts to combat illicit drugs, crime and terrorism. In this

regard, the entity carries out a broad range of initiatives. The three pillars of the work programme of UNODC are:

(a) Research and analytical work to increase knowledge and understanding of drugs and crime issues and to expand the evidence base for making policy and operational decisions;

(b) Normative work to assist States in the ratification and implementation of international treaties, the development of domestic legislation on drugs, crime and terrorism and the provision of secretariat and substantive services to the treaty-based and governing bodies;

(c) Field-based technical cooperation projects to enhance the capacity of Member States to counteract illicit drugs, crime and terrorism.

33. To achieve its mandate, UNODC relies on voluntary contributions, mainly from Governments, which make up 90 per cent of its budget (100 per cent for the Liaison and Partnership Office in Mexico).

34. When a Member State makes a voluntary contribution, a draft framework agreement is prepared by the UNODC Liaison and Partnership Office in Mexico with the general terms and conditions of the donation.

35. The Board held a series of meetings with the concerned sections of the Liaison and Partnership Office and reviewed some donor agreements. It was noted that the payment clauses included in several agreements had not been fulfilled by the donors.

36. On 1 July 2016, the Liaison and Partnership Office signed an agreement with the Secretariat for Substantive Equality and the Development of Michoacan Women regarding gender and justice. That agreement has a payment clause for 1,900,000 Mexican pesos (\$100,635.59), payable in a single instalment. However, on 27 December 2016, the donor paid only 66 per cent of the total amount due.

37. The agreement signed on 6 September 2016 with the secretariat of the government of the State of Coahuila de Zaragoza, Mexico, for the strengthening of security and justice structures in the State of Coahuila de Zaragoza has a payment clause for \$715,800, payable in three instalments. The donor has not paid any instalment.

38. On 7 November 2017, an agreement was signed with the government of the city of Guadalajara, Mexico, for the institutional strengthening of the municipality of Guadalajara in security matters. The donor committed itself to deposit a voluntary contribution of 2,800,000 Mexican pesos (\$141,129.03), payable in five instalments. However, it has paid only 53 per cent of that amount and the most recent payment was made on 7 February 2018.

39. The Board of Auditors considers that the entity must ensure the fulfilment of the donor's obligations regarding payment. Additionally, non-payment by a donor is a risk that needs to be evaluated and, in the event that it occurs, the entity must take effective measures to mitigate it.

40. Indeed, there are some expenses incurred by the Liaison and Partnership Office in Mexico that can be lost if the donor does not fulfil the terms of the agreement. If a project is expected to require a certain amount of resources and last a certain period of time, it must be assumed that some expenditures could be incurred, in particular with regard to staff working hours. Indeed, when an agreement is being negotiated, in parallel, human resources are used for the project design. In that scenario, the Liaison and Partnership Office would have to assume the expenses incurred, which would entail a loss of resources for the entity.

41. It seems necessary that the Liaison and Partnership Office in Mexico make the efforts necessary to improve collection management and formalize a procedure that ensures the monitoring of the payments for every project.

42. In addition, the Liaison and Partnership Office should evaluate the possibility of pursuing, in advance, a risk management evaluation. Such an evaluation would enable the entity to understand better the extent to which potential events might have an impact on its objectives and could be used by it for the identification, analysis and evaluation of risks, in particular the risk of non-fulfilment of payments, followed by the coordinated and economical allocation of resources to minimize, monitor and control the probability or impact of unforeseen events or to maximize the realization of opportunities.

43. The Board recommends that the Liaison and Partnership Office in Mexico make the efforts necessary to improve collection management and formalize a procedure that ensures the monitoring of payments for every project of the Liaison and Partnership Office in Mexico.

44. The Liaison and Partnership Office in Mexico considered the recommendation pertinent. With regard to the procedure, it was pointed out that the Liaison and Partnership Office would develop a protocol to standardize the required steps to be taken by each project manager when a project did not receive the full contribution. The protocol would include a checklist to assess the possibility of a financial agreement not being fulfilled and to provide standardized steps to follow in case the project concluded before the estimated end date.

45. On 22 May 2019, the Liaison and Partnership Office confirmed that, in order to increase the collection of pledges, the following clause that highlighted the importance of collection had been included in new financial agreements: "The funds will be deposited after the signing of this Agreement within a period of no more than 30 working days. In case the deposit is not made, the Agreement will be cancelled, for which only an informative communication by UNODC is required." The new clause has been added under article II of the agreements, on collaboration, and was cleared by both the Government of Mexico and UNODC.

46. Taking into consideration the above-mentioned clause, UNODC argued that the recommendation had been implemented. However, no supporting documentation was provided.

4. Formulation of programmes and projects

Electronic endorsement of projects

47. The meetings of the Programme Review Committee during the project approval process are an occasion for senior UNODC staff to provide comments on projects. The participation of the Committee in the project approval process was established in the management instruction on the Programme Review Committee, in an inter-office memorandum on the conceptualization, approval and revision of global programmes and in an inter-office memorandum on the conceptualization and approval of country and regional programmes, among other regulations. Topics discussed in the Programme Review Committee meetings are recorded in the minutes of those meetings.

48. Occasionally, projects are endorsed electronically (for example, the Global Programme on Addressing Prison Challenges (project No. GLOZ85), the project for strengthening criminal investigation and criminal justice cooperation along the cocaine route in Latin America, the Caribbean and West Africa (project No. GLOZ83) and the project for gender equality and the empowerment of women (project No. GLOW25)) when meetings in person are not possible. However, the Board did not

find any documents or minutes of meetings that contained the comments of members of the Programme Review Committee when electronic endorsements were performed.

49. In the light of the findings mentioned above, the main recommendations from the Board are that UNODC:

(a) Formalize the electronic endorsement by the Programme Review Committee on the basis of proper justification in a revised management instruction on the Committee;

(b) Keep a record of the documents.

50. The entity partially accepted the recommendation in paragraph 50 (a) above and committed itself to formalizing the modality for electronic endorsement by the Programme Review Committee, on an exceptional basis, in a revised management instruction on the Committee's approval process, in which it would define the situations in which electronic endorsement could be applied. However, the entity disclosed that an exact tabulation of such situations would not be possible as they often arose as a result of specific operational reasons.

51. UNODC accepted the recommendation in paragraph 50 (b) above and stated that it would ensure a formal record of such electronic endorsement in the form of the minutes of meetings of the Programme Review Committee relating to electronic endorsement. The record would be kept on the Committee's ProFi portal in Lotus Notes, along with all other minutes of Committee meetings and supporting documents.

52. The Board was informed that both recommendations would be implemented by December 2019.

5. Implementation and monitoring of programmes and projects

Project monitoring and reporting system

53. UNODC developed the Lotus Notes ProFi portal system in order to support the life cycle of projects and programmes from start to finish. The system includes applications, reports and workflows that help to record, approve, track, monitor and report on financial, substantive and administrative activities and developments in UNODC programmes, projects and offices.

54. The UNODC Programme and Operations Manual, issued in 2005, provides basic information, guides and instructions on substantive and administrative processes that are common to the functioning of UNODC headquarters and field offices. The Manual is designed to be a tool to assist in the planning and implementation of the Office's programme of work and to guide staff through the various stages that need to be followed and the ways in which particular actions should be taken. The Programme section encompasses around two thirds of the Office's framework for the substantive work on programmes and projects for the Division for Operations, the Division for Treaty Affairs and the Division for Policy Analysis and Public Affairs.

55. Since 2011, the Programme and Operations Manual has been accessible as an electronic document in ProFi. It includes a Programme section and an Operations section.

56. With regard to the Programme section, paragraph 2.4 of the Manual establishes several stages for each programme and project to be initiated, approved and implemented. One of these stages is related to the monitoring and reporting process, contained in paragraph 8 of the Manual.

57. Furthermore, it is stated in paragraph 8.1 of the Manual that the purpose of the monitoring system is to demonstrate corporate accountability through transparency and documented records, and thus to assist both headquarters and field offices in the corporate oversight, decision-making and organizational learning of UNODC. The monitoring system comprises four components, one of which is the obligation to elaborate semi-annual and annual progress reports.

58. The provision on progress reports is outlined in paragraph 8.4.2 of the Manual. According to the provision, all UNODC projects, in the field or at headquarters, as well as operational programmes, must provide semi-annual progress reports by 31 August and annual progress reports by 31 January.

59. The provision also includes a workflow for UNODC progress reports. The workflow defines the different steps that must be completed by the persons involved in the preparation of a progress report. According to the workflow, the following segregation of duties must be ensured:

(a) A preparation report, to be prepared in field offices or at headquarters by the programme or project manager, who is the initiator and drafter of the report;

(b) A quality assurance review, to be performed by the field office's quality assurance unit or focal point or the designated headquarters focal point on quality assurance;

(c) Review and approval, to be carried out by the field representative or the director or director designate at headquarters.

60. The Board performed audit procedures in order to verify compliance with the segregation of duties by UNODC. It observed that the segregation of duties had been duly applied by the Liaison and Partnership Office in Mexico.

61. In November 2018, at UNODC headquarters in Vienna, reports of 25 projects were checked, with the following results:

(a) Four projects did not comply with the segregation of duties, since the person who prepared the reports also acted as a quality assurance reviewer;

(b) For the Global Programme for the Implementation of the Doha Declaration (project No. GLOZ 82), the person who prepared the report also approved it;

(c) Eight projects did not have information on the ProFi portal about their semi-annual reports for 2018;

(d) Two projects did not present up-to-date information on their semi-annual and annual reports from 2016 and 2017.

62. The Board considers that the above-mentioned findings are not in line with the procedures in the Programme and Operations Manual and, in particular, it could be said that UNODC headquarters is not ensuring the segregation of duties and therefore the internal controls for the progress and monitoring of projects.

63. The segregation of duties is the assignment of various steps in a process to different people. It is an essential element of a control system, which seeks to eliminate the risk that someone engages in theft or other fraudulent activities by having an excessive amount of control over a process. It is a basic form of internal control that is used as a good practice in order to prevent fraud; its implementation is essential.

64. The Board recommends that UNODC strengthen its internal controls in order to ensure the segregation of duties in every project or, at the very least, implement a compensating control.

65. The entity partially accepted the recommendation. UNODC replied that the workflow for project progress reports in the Programme and Operations Manual indicated the different roles in the approval process, but did not specifically state that the different roles in the process needed to be performed by different persons. There is no explicit mandatory segregation of duties in the current guidelines. It added that, in view of staff constraints, the duplication of roles was sometimes unavoidable, particularly in smaller offices and sections. Nevertheless, it acknowledged that the current project reporting workflow and related guidelines that were launched through a special message on 18 January 2011 required updating and review.

66. The Board was informed that the recommendation would be implemented by December 2019.

Outdated management instruction

67. UNODC developed ProFi in order to support the life cycle of projects and programmes from start to finish. Among other things, ProFi contains two categories of documentation: the UNODC Programme and Operations Manual, and UNODC management instructions.

68. As mentioned above, the Programme and Operations Manual establishes several stages in each programme and project to be initiated, approved and implemented, one of them being the monitoring and reporting process, which has four components. One of the components is the obligation for every UNODC project, as well as operational programmes, of preparing semi-annual progress reports by 31 August and annual progress reports by 31 January.

69. The second category of documentation contained in ProFi portal is the UNODC management instructions, which are approved by the Executive Committee.

70. In the management instruction on field office reporting, dated 23 April 2007, it is stated that project progress reports are prepared so as to inform donors about the progress, achievements and impacts of projects. The management instruction indicates that the semi-annual reports must be provided by 30 July and the annual reports must be provided by 31 January.

71. The Board noted an inconsistency between the due date for the semi-annual progress report in the Programme and Operations Manual of 31 August and the due date of 30 July included in the management instruction.

72. In that regard, the Programme Management Officer of the Strategic Planning and Inter-Agency Affairs Unit stated that the deadline in the Programme and Operations Manual for the semi-annual report had been moved from the end of July to the end of August to mitigate the impact of school holidays.

73. In addition, the Programme Management Officer mentioned that the management instruction would be revised accordingly.

74. The Board considers that different due dates for the same report could increase the risk of its late submission.

75. The Board recommends that UNODC review and update the management instruction on field office reporting in accordance with the Programme and Operations Manual.

76. UNODC accepted the recommendation and added that the management instruction on field office reporting needed to be aligned with the Programme and Operations Manual. It indicated that a reason why the matter had not yet been addressed was the delay in the roll-out of Umoja Extension 2, which contains a reporting component with implications for the UNODC reporting system.

77. The Board was informed that the recommendation would be implemented in December 2019.

Assessment of the External Party Engagement Unit on good value for money

78. The External Party Engagement Unit is part of the Division for Management and was created to support UNODC programmes in an effort to achieve the Office's mandate. In 2014, the Unit developed the Framework on the Engagement of External Parties, which provides a risk-based approach to external relationships for programme implementation and is linked to key objectives in ensuring the best outcomes for the United Nations.

79. The key guiding principles for the selection of external parties, under the Framework, embrace the following aspects: (a) fairness, integrity and transparency; (b) effective competition; (c) value for money; and (d) the interests of the United Nations. In addition to these principles, the engagement of external parties is also guided by accountability, compliance with United Nations rules, a capacity and capability assessment, good value or best value for money, impartial and objective selection and transparency and monitoring of delivery.

80. It is stated in paragraph 22 of the Framework that implementing partners and grantees are required to provide good value for money. Nevertheless, the External Party Engagement Unit is not currently performing a regular management assessment of that principle in order to ensure its fulfilment.

81. The Board recommends that UNODC perform a management assessment to evaluate whether implementing partners and grantees are providing good value for money. This will provide UNODC with organized information for decision-making.

82. UNODC accepted the recommendation and stated that the External Party Engagement Unit would develop an approach on how best to perform management assessments and evaluate the provision of good value for money by implementing partners and grantees, subject to the availability of the resources required to perform such assessments.

83. The Board was informed that the recommendation would be implemented by June 2020.

Approval status workflow in the project monitoring and reporting system

84. On 18 January 2011, a new semi-annual and annual progress report workflow was established by means of a special message in which, among other things, a summary of the three key steps and features of the ProFi workflow was included.

85. In section B of the special message, which provides a detailed overview of the steps and actions of the ProFi workflow, three compulsory steps that are necessary to obtain approval of project progress reports are mentioned:

- (a) Initiation or creation of a semi-annual or annual progress report;
- (b) Conduct of a quality assurance review;
- (c) Approval.

86. It is stated that, once approved, the progress report will be published the following day in the ProFi business intelligence module.

87. In January 2019, the Board examined progress in the monitoring of 16 projects undertaken by UNODC headquarters and 6 projects undertaken by the Liaison and Partnership Office in Mexico in order to review their compliance with the workflow

for UNODC progress reports. It noticed that the third step (approval) of semi-annual progress reports related to a number of UNODC headquarters projects appearing in ProFi as “published”. Therefore, the “approved” status was missing, which would fail to fulfil the mandatory workflow.

88. The Board considers that the above-mentioned finding is not in harmony with the workflow established for new progress reports.

89. The Board recommends that UNODC clearly include in the new ProFi project progress report the “approved” status, as well as the approver, in compliance with the special message of 18 January 2011.

90. The entity stated that the recommendation had been implemented and continued to be implemented on an ongoing basis.

6. Evaluation of programmes and projects

91. In paragraph 26 of the UNODC evaluation policy, developed by the Independent Evaluation Unit (now the Independent Evaluation Section) in 2015, it is stated that evaluation is part of the programme and project cycle and is therefore an institutional responsibility to be taken up by all managers.

92. Subsequently, it is stated in paragraph 36 of the policy that all projects and programmes in UNODC are to be evaluated at least every four years, or six months before the project or programme is finalized.

93. The Board noted that no evaluation had been initiated for the project on improving the implementation of the international drug control conventions through the strengthening of capacity for the control of licit activities related to narcotic drugs, psychotropic substances and precursor chemicals (project No. GLOY04), which, according to ProFi, had a proposed overall budget of \$1,906,649 and 13 March 2019 as its start date when the audit assessment was carried out on 29 November 2018. Nevertheless, on 3 April 2019 it was indicated that the project revision had finally been processed in ProFi in February 2019 when additional funding was confirmed and became available. The project duration is currently until 31 December 2021, and the overall project budget, as approved in ProFi, is \$3,357,236.

94. In addition, the security and anti-corruption project in Chihuahua, Mexico (project No. MEXW05), which, according to ProFi, had a proposed overall budget of \$1,621,800 and ended on 20 October 2018, also did not carry out an evaluation in November 2018 and no information on a possible project extension was found. Nevertheless, on 17 January 2019, the Liaison and Partnership Office in Mexico and the Trust for Competitiveness and the Security of Citizens (FICOSEC) signed an agreement to extend the project until 31 December 2019.

95. In that regard, the Board considers that, notwithstanding the fact that it is difficult for project managers to obtain accurate information on project extensions in advance, the non-provision of such information may result in a lack of mandatory project evaluations required by donors and by the above-mentioned policy on evaluation.

96. In view of the above, the Board recommends that UNODC strengthen consultation and communication on evaluation planning between project managers and the Independent Evaluation Section, in order to ensure that mandatory evaluations are budgeted for and conducted on time.

97. UNODC accepted the recommendation. On 22 May 2019, the entity stated that in 2018, the Independent Evaluation Section implemented a revised text and process, including budget estimation, for the evaluation and review of project approvals and revisions, with the aim of supporting a consultative, timely and useful evaluation

process for UNODC projects and programmes. In addition, it indicated that the Section, in consultation with the substantive divisions, including directors and staff, was undertaking a holistic review of the evaluation processes and procedures to promote strategic and focused evaluations to meet the needs of project managers and the organization as a whole.

7. Fraud cases management

98. The Board received the 2018 report on cases of fraud and presumptive fraud prepared by the Office of Internal Oversight Services (OIOS). A comparison of the cases reported to the Board by UNODC management and the OIOS data revealed a discrepancy. Three cases described in the report of UNODC were not included in the OIOS report (see table II.3).

Table II.3

Summary of the reports of cases of fraud and presumptive fraud for 2018

Case No.	Office/department	Amount involved (estimated)	OIOS	UNODC
	Division for Operations: office in Kenya	\$34,800		X
	Division for Operations: office in Thailand	Unknown		X
0633/16	Division for Operations: office in Egypt	\$20,673	X	X
	Division for Operations: project office in Mozambique	Unknown		X
0304/18	UNODC headquarters	Unknown	X	X
0705/18	UNODC headquarters	Unknown	X	X
0733/18	UNODC office in Egypt	Unknown	X	X
0507/17	UNODC office in Colombia	Unknown	X	X

Source: UNODC management and OIOS.

99. Taking into consideration the above-mentioned finding, the Board estimates that there is a lack of coordination between both entities. That also means that there is a reasonable basis to believe that UNODC cases of fraud and presumptive fraud are different from the ones that OIOS handles. That is an undesirable inconsistency because the lack of accurate information related to fraud may imply a potential risk for the entity, with financial implications.

100. **Regarding the above, the Board recommends that UNODC management devise a suitable mechanism to ensure better coordination between the entity and the Office of Internal Oversight Services for the complete and comprehensive reporting of cases of fraud and presumptive fraud.**

C. Disclosures by management

1. Write-off of cash, receivables and property

101. UNODC stated that it had formally written off accounts receivable balances of \$10.50 million in 2018 (2017: \$4.57 million), which have been charged against the special purpose funds. In addition, \$2.22 million (2017: \$7.83 million) of non-expendable property assets by net book value were written off in 2018, the majority of which related to assets transferred to beneficiaries on completion of projects funded by donors.

2. Ex gratia payments

102. UNODC reported to the Board that there were no ex gratia payments in 2018.

3. Cases of fraud and presumptive fraud

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

104. During the audit, the Board made enquiries of management regarding its oversight responsibility for assessing the risks of material misstatements due to fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management had identified or that had been brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud.

105. In 2018, UNODC notified the Board of eight cases of entitlement fraud. One case was reported on alleged unsatisfactory conduct relating to the overpayment of a vendor in the amount of \$34,800. A second case referred to possible misconduct implicating UNODC personnel. The estimated amount involved was \$20,673. For the remaining six cases, the amount was categorized as “unknown”. It was stated that the cases reported to the Board included only those in which the fraud, or presumptive fraud, affected UNODC directly.

D. Acknowledgement

106. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of UNODC and members of his staff.

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

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
(Lead Auditor)

(Signed) Rajiv **Mehrishi**
Comptroller and Auditor General of India

24 July 2019

Annex

Status of implementation of recommendations up to the year ended 31 December 2017

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
1.	2017	A/73/5/Add.10 , chap. II, para. 20	The Board recommends that UNODC create a checklist with respect to all new pledges or agreements to ensure completeness and the correct classification of revenues.	On 30 April 2019, UNODC responded that the resource mobilization process would be improved with Umoja Extension 2, and explained that in the meantime the process for reviewing and recording contribution agreements had been improved with the use of the checklist by the Co-financing and Partnership Section, which informs the Financial Resources Management Service of any deviation from the standard non-exchange revenue. Furthermore, it was stated that the Financial Resources Management Service had issued closing instructions and had conducted refresher courses in December 2018 and January 2019 (151 users participated in the course).	The checklist for funding agreements and letters made by the Co-financing and Partnership Section, which contains different points to verify that the clauses do not deviate from the United Nations standard template or pre-cleared funding agreements and letters (for example, treatment of unspent balance for potential reprogramming and the situation in the case that UNODC still holds funds after all the expenditures have been incurred), was revised. The checklist will enable UNODC to identify the exchange and non-exchange revenue. Therefore, and taking into consideration the aforementioned checklist, the Board considers that this recommendation has been implemented.	X			
2.	2017	A/73/5/Add.10 , chap. II, para. 21	The Board further recommends that UNODC incorporate the aforementioned checklist of exchange revenues into the clearance process of incoming contributions and treat them as	On 30 April 2019, UNODC responded that the resource mobilization process would be improved with Umoja Extension 2, and explained that in the meantime the process for reviewing and recording contribution agreements had been	The checklist for funding agreements and letters made by the Co-financing and Partnership Section, which contains different points to verify that the clauses do not deviate from the United Nations		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			exchange revenues when applicable.	improved with the use of the checklist by the Co-financing and Partnership Section, which informs the Financial Resources Management Service of any deviation from the standard non-exchange revenue. Furthermore, it was stated that the Financial Resources Management Service had issued closing instructions and had conducted refresher courses in December 2018 and January 2019 (151 users participated in the course).	standard template or pre-cleared funding agreements and letters, was revised. The checklist will enable UNODC to identify the exchange and non-exchange revenue. Nevertheless, considering that the checklist was created in the first quarter of 2019 and the fact that for the current follow-up process there were no cases of revenues treated as exchange transactions, the recommendation is considered under implementation.				
3.	2017	A/73/5/Add.10 , chap. II, para. 26	The Board recommends that UNODC review the monthly distribution of expenses with the aim of further streamlining the full cost-recovery process.	UNODC explained that cost distribution templates had been improved and that worksheets were being developed to enable the review of the available funding.	The Board reviewed the progress made and considers that the recommendation has been implemented.	X			
4.	2017	A/73/5/Add.10 , chap. II, para. 29	The Board recommends that UNODC project owners review their costs and outstanding commitments more frequently by means of, for example, business intelligence reports, which highlight overspent budget lines.	On 30 April 2019, UNODC responded that all commitments were regularly followed up. A sample follow-up sent in December 2018 to field offices was attached to the response. In addition to the follow-up, notification of non-compliance would be sent to the respective directors. Additionally, it was mentioned that various reports were accessible to all users in the Umoja business intelligence and Enterprise Core Component modules. An announcement for the reports and dashboard was attached to the response.	The Board observed the efforts of the Financial Resources Management Service regarding the recommendation. However, no evidence had been provided of a more frequent review by UNODC project owners of their costs and outstanding commitments. In this context, the recommendation is still considered under implementation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
5.	2017	A/73/5/Add.10 , chap. II, para. 30	The Board further recommends that UNODC seek ways to enhance financial management visibility through additional business intelligence reports and corresponding training.	<p>On 15 May, UNODC added that it would continue to monitor the status of outstanding commitments and notify the respective directors in the case of non-compliance.</p> <p>On 30 April 2019, UNODC responded that all commitments were regularly followed up. A sample follow-up sent in December 2018 to UNODC field offices was attached to the response. In addition to the follow-up, notification of non-compliance would be sent to the respective directors. Additionally, it was mentioned that various reports were accessible to all users in the Umoja business intelligence and Enterprise Core Component modules. An announcement for the reports and dashboard was attached to the response.</p> <p>On 15 May, UNODC added that it would continue to monitor the status of outstanding commitments and notify the respective directors in the case of non-compliance.</p>	With regard to the information provided by the entity, the Board noted that the Financial Resources Management Service had created five “budget and expenditure dashboards” in Umoja business intelligence, for each fund type (regular budget, general purpose, programme support, special purpose funds and cost recovery) for use by all staff. Therefore, the Board considers that this recommendation has been implemented.	X			
6.	2017	A/73/5/Add.10 , chap. II, para. 33	The Board recommends that UNODC project owners ensure that electronic inter-office vouchers and commitments are cleared and charged to projects in a timely way.	<p>On 30 April 2019, UNODC responded that all commitments were regularly followed up. A sample follow-up sent in December 2018 to UNODC field offices was attached to the response. In addition to the follow-up, notification of non-compliance would be sent to the respective directors. Additionally, it was mentioned</p>	The Board observed the efforts of the Financial Resources Management Service regarding the recommendation. However, no evidence had been provided to prove that UNODC project owners ensured that electronic inter-office vouchers and commitments were cleared		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				that various reports were accessible to all users in the Umoja business intelligence and Enterprise Core Component modules. An announcement for the reports and dashboard and a sample follow-up sent to all offices were attached to the response. On 15 May, UNODC added that it would continue to monitor the status of outstanding commitments and notify the respective directors in the case of non-compliance.	and charged to projects in a timely way. In this context, the recommendation is still considered under implementation.				
7.	2017	A/73/5/Add.10 , chap. II, para. 38	The Board recommends that UNODC keep the after-service health insurance funding clearly separated from operational cash in future.	On 30 April 2019, UNODC provided two attachments in the file with the details.	UNODC is using the “50ACC” fund for after-service health insurance, and separate internal orders have been assigned for each type of liability and type of funding. Therefore, the Board considers that this recommendation has been implemented.	X			
8.	2017	A/73/5/Add.10 , chap. II, para. 39	The Board further recommends that UNODC analyse the current funding level and assess whether the funding level will be sufficient for all areas in the long term.	On 30 April 2019, UNODC responded that the rate of 9 per cent had been established as the rate necessary to accumulate sufficient funds to cover the liability for UNODC. An inter-office memorandum dated 11 December 2018 from the Acting Controller of the Office of Programme Planning, Budget and Accounts of the Secretariat applicable to the non-regular budget funding was attached to the response. UNODC added that no decision had yet been made	In accordance with the inter-office memorandum issued by the Acting Controller on 11 December 2018, the after-service health insurance rate for staff funded from voluntary contributions and other non-assessed resources has increased to 6 per cent, which is still below the rate of 9 per cent necessary to accumulate sufficient funds to cover the liability. Therefore, and considering that UNODC had	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				regarding the regular budget funding.	established 9 per cent as the rate necessary to accumulate sufficient funds, the recommendation is considered implemented.				
9.	2017	A/73/5/Add.10 , chap. II, para. 45	The Board recommends that UNODC review its currency risk and develop an internal guideline for handling currency exposures.	On 30 April 2019, UNODC responded that guidance had been requested from the United Nations Treasury, but no response had been received at the time of reporting.	The Board observed the efforts of the Financial Resources Management Service regarding the recommendation. Considering, however, that no response had been received from the United Nations Treasury at the time of reporting, the recommendation is still considered under implementation.		X		
10.	2017	A/73/5/Add.10 , chap. II, para. 51	The Board further recommends that UNODC prepare the notes on currency exposure in a systematic approach with a clear trail of changes in cases in which modifications to Umoja data were necessary.	On 30 April 2019, UNODC responded that ways to automate the process of determining the foreign currency exposure had been explored. It argued, however, that Umoja did not allow for the reporting of outstanding receivables by net currency exposure; therefore, a report would not address the issue.	The Board noted that UNODC had improved the working file to provide consistent data for the determination of currency exposure related to voluntary contributions receivable, an issue that was detected in the previous financial report. Therefore, the recommendation is considered implemented.	X			
11.	2017	A/73/5/Add.10 , chap. II, para. 56	The Board recommends that UNODC liaise with the United Nations in New York to enable access to the cash distribution functionality of the pool bank account in Panama.	On 30 April 2019, UNODC responded that the issue had been followed up with the United Nations Treasury. At the time of reporting, the technical issue for the bank account in Panama had yet to be resolved. The latest communication was attached to the response.	The Board observed the efforts of the Financial Resources Management Service regarding the recommendation. However, no evidence was provided that the Panama field office already had access to the cash distribution functionality of the bank		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
12.	2017	A/73/5/Add.10 , chap. II, para. 57	The Board further recommends that UNODC perform a review to ascertain whether there are additional cases where access to the cash pool is restricted.	On 30 April 2019, UNODC responded that regular communication with various offices was taking place to move towards the use of United Nations bank accounts for electronic funds transfers and follow up with the United Nations Treasury on, for example, improvements to the banking input interface. Sample communications and a list of UNDP-related transactions with an indication of possibility of payment through United Nations bank accounts were attached to the response.	account in Panama. In this context, the recommendation is still considered under implementation. UNODC performed a review to identify whether there were other locations with restricted access to the United Nations Secretariat cash pool, and attached a list of UNDP-related transactions with an indication of possibility of payment through United Nations bank accounts. Therefore, and considering the efforts made by the entity, the recommendation is considered implemented.	X			
13.	2017	A/73/5/Add.10 , chap. II, para. 61	The Board reiterates its previous recommendation that UNODC improve the control for petty cash balances, collect cash count statements for each petty cash account and ensure that cash count statements comply with relevant formal rules.	UNODC argued that all petty cash accounts were regularly monitored and reviewed. Any cases of non-compliance by petty cash custodians were reviewed to determine the need for recovery of any cash and/or for the removal of the delegated authority. Cash count statements were provided. UNODC considered that the recommendation had been implemented and requested its closure by the Board.	From the review of the cash count statements provided by UNODC, the Board noted that all of them were performed as at 31 December 2018. It did not find any material misstatements in accordance with the Financial Regulations and Rules of the United Nations. Therefore, the recommendation is considered implemented.	X			
14.	2017	A/73/5/Add.10 , chap. II, para. 65	The Board recommends that UNODC take action to align the handling of petty cash in Colombia with the Financial	In an effort to reduce instances of personnel travelling with cash, UNODC explained that it was looking into a paycard solution in conjunction with the United	The Board acknowledges the progress made by UNODC to align the handling of petty cash in Colombia with the Financial Regulations and		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			Regulations and Rules of the United Nations.	Nations Treasury. Communication with the Treasury was attached.	Rules of the United Nations. However, taking into consideration that the actions being taken by the entity are still in progress, the Board considers that the recommendation is under implementation.				
15.	2017	A/73/5/Add.10 , chap. II, para. 74	The Board recommends that, to the extent possible, UNODC should define payment terms and due dates in every agreement so as to define a clear and easy reference in the ageing process.	On 30 April 2019, UNODC responded that the clearance checklist provided an example of the financial reporting due dates against which pledges and agreements were checked. As a follow-up to the recommendation, the standard funding agreement with donors had been updated and included a schedule of payments.	According to the information provided by UNODC, article I of the template funding agreement with donors contained the schedule of payments. Furthermore, it was stated in article III that UNODC shall commence and continue to conduct operations under the agreement upon the receipt of contributions in accordance with the schedule of payments set out in article II.3. On the other hand, the checklist of the Co-financing and Partnership Section for funding agreements and letters established the financial reporting due dates from 1 July 2018 to 31 January 2020. Therefore, the recommendation is considered implemented.	X			
16.	2017	A/73/5/Add.10 , chap. II, para. 75	The Board further recommends that UNODC improve the ageing process so that there is minimal manual intervention relating to	On 30 April 2019, UNODC responded that the clearance checklist provided an example of the financial reporting due dates against which pledges and agreements were checked. As a	The entity provided evidence that it had improved the ageing process by reviewing all outstanding pledges. During the review process,	X			

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			due dates. UNODC should establish rules to define the dates that refer to the ageing process accordingly.	follow-up to the recommendation, the standard funding agreement with donors had been updated and included a schedule of payments.	offices were contacted to provide information on the collection of those pledges that were outstanding on the basis of the due dates established in the billing document. Moreover, the entity indicated that when there was a clear indication from the offices that the payment from the donor would be delayed owing to a delay in implementation and/or the extension of the project, the due date on the billing document was updated. Therefore, the recommendation is considered implemented.				
17.	2017	A/73/5/Add.10 , chap. II, para. 80	The Board recommends that, as a first step, UNODC should start enhancing its segment reporting by distinguishing expenses not only between drug and crime programmes but also among geographical regions and/or subprogrammes.	On 30 April 2019, UNODC responded that it had included segment reporting both on the basis of geographical regions and subprogrammes for the 2018 statements of income and expenses.	According to note 3 to the financial statements (segment reporting), it was noted that the expenses were reported by geographical region and by subprogramme. Therefore, and considering the improvements made by UNODC, the recommendation is considered implemented.	X			
18.	2017	A/73/5/Add.10 , chap. II, para. 81	The Board recommends that, as a second step, UNODC should determine the feasibility of enhancing segment reporting further by distinguishing revenues, assets and liabilities among geographical regions and/or	On 30 April 2019, UNODC argued that the recommendation had been reviewed and that it had proved to be unattainable.	UNODC evaluated the possibility of preparing reports by geographical region and/or subprogramme. Nevertheless, the entity stated that the recommendation was unattainable, considering that, for example, cash	X			

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			subprogrammes. The aforementioned recommendations should be implemented once the allocations to new segments are compliant with the requirements of IPSAS 18 and can be applied consistently over the years. This would enable readers to compare segment reporting among financial statements.		balances and investments did not have a fund centre or any other distinguishing elements to facilitate segment reporting without substantial manual calculations and mapping, which increased the risk of data manipulation. However, for the current financial period, UNODC presented the expenditures in two segment reports, by geographical region and by subprogramme, in accordance with note 3 to the financial statements. Therefore, this recommendation is considered implemented.				
19.	2017	A/73/5/Add.10 , chap. II, para. 86	The Board recommends that UNODC enhance the overall process of recording all leases in the supplier relationship management database in Umoja.	On 10 May 2019, UNODC responded that 37 per cent of leases were regularized; 15 per cent were donated right-to-use agreements between UNODC and other United Nations entities using Umoja; and 48 per cent of leases were still in the process of being regularized. In addition, it was mentioned that all leases were currently captured in the Excel database maintained by the Procurement Unit at the United Nations Office at Vienna.	The Board observed the efforts made with regard to the regularization of all leases; nevertheless, efforts were still ongoing. Therefore, it is currently not possible to state that the overall process of recording all leases in the supplier relationship management database in Umoja has been enhanced. In that regard, this recommendation is still under implementation.		X		
20.	2017	A/73/5/Add.10 , chap. II, para. 87	The Board further recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to customize the Umoja real	UNODC responded that it was discussing with the United Nations Secretariat the feasibility of customizing the real estate module in the Umoja system. This recommendation is expected	UNODC is evaluating the potential of the Umoja real estate module to see how it can best be matched to organizational needs. Since UNODC did not provide		X		

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			estate module to facilitate the identification of lease-in versus lease-out contracts as well as cancellable versus non-cancellable lease-in contracts. A database outside Umoja would then become redundant in the future.	to be implemented by the fourth quarter of 2020.	evidence, and the full implementation of actions by management is planned for the fourth quarter of 2020, this recommendation is still considered under implementation.				
21.	2017	A/73/5/Add.10 , chap. II, para. 99	The Board recommends that UNODC review the Programme section of the Programme and Operations Manual, update it as soon as possible and keep it up-to-date and accurate.	UNODC responded that a number of outdated links in the Programme section of the Programme and Operations Manual had been updated. UNODC was waiting to review the findings of the ongoing peer review of its results-based management approach before updating the rest of the contents of the Programme section. This recommendation is expected to be implemented by the second quarter of 2020.	The Board recognizes the efforts made by the entity in updating the Programme section of the Programme and Operations Manual. The Administration stated that the information would be uploaded to the ProFi platform by the third quarter of 2019 and the final instructions would be uploaded once the design of Umoja Extension 2 was finalized. In this regard, the recommendation is considered under implementation.		X		
22.	2017	A/73/5/Add.10 , chap. II, para. 101	The Board recommends that UNODC make the knowledge in the Programme and Operations Manual available in such a way that users can easily print a copy.	UNODC stated that the Programme and Operations Manual was currently printable, but agreed that it was not very user-friendly. The printable version was developed upon advice by the Information Technology Service. Further enhancement would require alignment and compatibility with the new Secretariat-wide sharing platform. This recommendation is expected to be implemented by the second quarter of 2020.	Since UNODC did not provide any evidence, and the full implementation of actions by management is planned for the second quarter of 2020, this recommendation is still considered under implementation.		X		

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23.	2017	A/73/5/Add.10 , chap. II, para. 107	The Board recommends that UNODC integrate the Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development and the document “UNODC: The Integrated Programme Approach (IPA): A ‘How To’ Guide” into the Programme and Operations Manual.	As indicated in its comments relating to recommendation No. 21 above, UNODC is waiting to review the findings of the ongoing peer review of its results-based management approach before updating the rest of the contents of the Programme section. This recommendation is expected to be implemented by the second quarter of 2020.	UNODC stated that the instructions contained in these documents would be revised and uploaded to a new standard programme and operations manual. Since UNODC did not provide evidence, and the full implementation of actions by management is planned for the second quarter of 2020, this recommendation is still considered under implementation.		X		
24.	2017	A/73/5/Add.10 , chap. II, para. 114	The Board recommends that UNODC review the Operations section of the Programme and Operations Manual. If UNODC considers the Operations section as no longer helpful even after an update, the Operations section should be abolished.	It was stated that the Operations section of the Programme and Operations Manual was in the process of being updated. The timeline for completing the update may be affected by ongoing reform initiatives such as the global service delivery model and Umoja Extension 2. This recommendation is expected to be implemented by the second quarter of 2020.	The entity mentioned that it had been in internal discussions with concerned offices to find a suitable alternative to ProFi to host a revised programme and operations manual. Since UNODC did not provide any evidence, and the full implementation of actions by management is planned for the second quarter of 2020, this recommendation is still considered under implementation.		X		
25.	2017	A/73/5/Add.10 , chap. II, para. 119	The Board recommends that UNODC assess its specific fraud risks in headquarters and field offices in a timely manner.	UNODC is in the process of assessing its specific fraud risks and will update its enterprise risk management matrix in line with that of the United Nations Secretariat. This recommendation is expected to be implemented by the second quarter of 2020.	Since UNODC did not provide any evidence of a risk management matrix, and the full implementation of actions by management is planned for the second quarter of 2020, this recommendation is still considered under implementation.		X		

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26.	2017	A/73/5/Add.10 , chap. II, para. 121	The Board recommends that UNODC start monitoring completion of the online training course entitled "Preventing Fraud and Corruption at the United Nations" through the Inspira learning management system.	UNODC is now monitoring the compliance rates for all mandatory training courses, including the one on preventing fraud and corruption at the United Nations in the Inspira learning management system. UNODC considers that this recommendation has been implemented and requests its closure by the Board.	The Board examined the documentation provided by the entity and considers that the evidence provided confirms that the course is being promoted. In addition, the Human Resources Management Service monitors completion of the course by UNODC personnel. Therefore, the Board considers that the recommendation has been implemented.	X			
27.	2017	A/73/5/Add.10 , chap. II, para. 122	The Board also recommends that UNODC consider offering additional training on fraud and corruption.	UNODC is exploring the feasibility of promoting additional training courses on fraud and corruption through its e-learning platform. The entity expects to implement this recommendation by the second quarter of 2020.	UNODC stated that it did not have an e-learning platform, but used the Secretariat platform, Inspira. Additionally, it mentioned that the Staff Development Unit at the United Nations Office at Vienna would advertise e-learning courses on fraud and corruption with United Nations Headquarters. Also, UNODC explained that it was liaising with OIOS on the delivery of facilitator-led fraud awareness training. Nevertheless, since UNODC did not provide evidence, and the full implementation of actions by management is planned for the second quarter of 2020, this recommendation is considered under implementation.		X		

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28.	2017	A/73/5/Add.10 , chap. II, para. 124	The Board recommends that UNODC provide information about fraud and corruption in a special section on its Intranet site and that UNODC update its Intranet site regularly.	UNODC is making arrangements to provide information on fraud and corruption in a special section on its Intranet site, which will be updated regularly. The entity expects to implement this recommendation by the first quarter of 2019.	The entity mentioned that the section on fraud and corruption on its Intranet site would be established following the finalization of the work on a dedicated fraud and corruption risk register and the corresponding risk treatment plan. The fraud and corruption risk register would be included in the dedicated Intranet site along with relevant background documents and would be updated regularly. Full implementation was planned for the first quarter of 2019. However, the entity did not provide any information on progress made. Therefore, this recommendation is considered to be under implementation.		X		
29.	2017	A/73/5/Add.10 , chap. II, para. 125	The Board also recommends that UNODC include in the section about fraud and corruption a clear statement by its Executive Director to make the Office's approach to fraud and corruption clear.	The Executive Director of UNODC is preparing a message on fraud and corruption that will be issued to staff and other stakeholders. The entity expects to implement this recommendation by the first quarter of 2019.	The entity indicated that a message from the Executive Director would be issued to all staff and Member States providing information about the Office's approach to fraud and corruption following the finalization of the Fraud and Corruption Risk Register for UNODC. However, the entity did not provide evidence of the message from the Executive Director. Therefore, this		X		

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30.	2017	A/73/5/Add.10 , chap. II, para. 128	The Board recommends that UNODC ensure that all its prospective agreements with implementing partners contain a clause on fraud and corruption prevention.	UNODC is waiting for the completion by the Office of the Controller in the Office of Programme Planning, Finance and Budget of the Secretariat of a standardized, Organization-wide agreement with implementing partners that includes anti-fraud and anti-corruption clauses. Once the standardized agreement becomes available, UNODC will adapt it accordingly. UNODC expects to implement this recommendation by the third quarter of 2019.	recommendation is considered to be under implementation. The Board reviewed the standardized clauses on fraud and corruption prevention in the agreement and concludes that this recommendation has been implemented.	X			
31.	2017	A/73/5/Add.10 , chap. II, para. 130	The Board recommends that UNODC consider appointing focal points on fraud at its headquarters and field offices.	UNODC is in the process of appointing focal points and alternate focal points on fraud and corruption at its headquarters and in its field offices. UNODC expects to implement this recommendation by the first quarter of 2019.	Full implementation was planned for the first quarter of 2019. However, the entity did not provide any information on progress made. Therefore, this recommendation is considered to be under implementation.		X		
32.	2017	A/73/5/Add.10 , chap. II, para. 131	The Board also recommends that UNODC disseminate information about the focal points on its Intranet site and list them in the "Joint Panel, Body and Focal Point Registry".	Once the appointment of the focal points has been finalized, their names will be included in a registry and an announcement will be made to all UNODC staff. UNODC expects to implement this recommendation by the first quarter of 2019.	The entity stated that the appointment of focal points on fraud for its headquarters and field locations remained in process and that it had established a central risk management capacity for the coordination of risk management activities across UNODC. Full implementation was planned for the first quarter		X		

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33.	2017	A/73/5/Add.10 , chap. II, para. 136	The Board recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to train more staff members on fraud investigations to build adequate capacity.	UNODC will build investigative capacity for category II cases and will continue to rely on the services of OIOS for category I cases. OIOS classifies cases of misconduct into two categories, as follows: (a) Category I includes high-risk, complex matters and serious criminal cases, such as serious or complex fraud, other serious criminal acts or activities, abuse of authority or staff, conflicts of interest, gross mismanagement, waste of substantial resources, all cases involving risk of loss of life to staff or to others, including witnesses, substantial violations of United Nations regulations, rules or administrative issuances, and complex proactive investigations aimed at studying and reducing risk to life and/or United Nations property; (b) Category II includes minor cases of lower risk to the Organization, such as personnel matters, traffic-related inquiries, simple thefts, contract disputes, office management disputes, basic misuse of equipment or staff, basic mismanagement issues, infractions of regulations,	of 2019. However, the entity did not provide any information on progress made. Therefore, this recommendation is considered to be under implementation. UNODC indicated that it was liaising with OIOS on fraud awareness training. In addition, it stated that consultations were in progress on the provision of resources by UNODC to OIOS for dealing with fraud cases arising at the entity. Since UNODC did not provide evidence of a risk management matrix, and the full implementation of actions by management is planned for the third quarter of 2019, this recommendation is still considered under implementation.			X	

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				rules or administrative issuances, and simple entitlement fraud. The entity expects to implement this recommendation by the third quarter of 2019.					
34.	2017	A/73/5/Add.10 , chap. II, para. 140	The Board recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to customize the Umoja travel module to facilitate advance travel planning and to pool the overall travel process within Umoja.	UNODC will liaise with the United Nations Secretariat to discuss the feasibility of customizing the travel module in the Umoja system as recommended by the Board. The entity expects to implement this recommendation by the fourth quarter of 2020.	The entity stated that the implementation of the recommendation was in progress and that it was reviewing the need for the inclusion of the additional information found in the local Lotus Notes application in the Umoja travel module. Additionally, it indicated that should there be a need for such information to be included, UNODC would liaise with United Nations Headquarters for its review. Nevertheless, since UNODC did not provide any evidence of a risk management matrix, and the full implementation of actions by management is planned for the fourth quarter of 2020, this recommendation is considered under implementation.		X		
35.	2017	A/73/5/Add.10 , chap. II, para. 144	The Board recommends that UNODC consider requesting a review of the advance purchase policy by the United Nations Secretariat as well as an evaluation on how best prices for travel can be achieved.	UNODC and the United Nations Secretariat are holding discussions on the advance purchase policy in the Secretariat-wide working group on travel. The entity expects to implement the recommendation by the fourth quarter of 2020.	UNODC stated that it would carry out an analysis with its travel management company on ticketing data to determine whether savings were achieved and whether UNODC travel patterns benefited from the advance purchase policy.		X		

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					Additionally, it indicated that should the results show that UNODC travel patterns did not benefit from the advance purchase policy, UNODC would consult with the Department of Management Strategy, Policy and Compliance of the Secretariat on how to proceed. Since UNODC did not provide evidence of a risk management matrix, and the full implementation of actions by management is planned for the fourth quarter of 2020, this recommendation is considered under implementation.				
36.	2017	A/73/5/Add.10 , chap. II, para. 152	The Board recommends that UNODC remind its staff of the current advance purchase policy and their duty to comply with it.	UNODC stated that a special message would be sent to all staff at its headquarters and field offices to remind them of the advance purchase policy and the requirement to comply with it. UNODC expects to implement this recommendation by the fourth quarter of 2019.	The full implementation of actions by management is planned for the fourth quarter of 2019. Therefore, this recommendation is still considered under implementation.		X		
37.	2017	A/73/5/Add.10 , chap. II, para. 153	The Board also recommends that UNODC regularly evaluate its compliance with the advance purchase policy and immediately initiate corrective actions when necessary.	UNODC indicated that quarterly reports would be run, analysed and distributed to UNODC managers, who would then be required to report on the corrective actions taken. UNODC expects to implement this recommendation by the fourth quarter of 2019.	UNODC stated that an initial report covering statistics for 2018 would be circulated in the first quarter of 2019, followed by quarterly reports thereafter. However, the entity did not provide evidence of this report. Therefore, and taking into consideration the fact that		X		

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38.	2017	A/73/5/Add.10 , chap. II, para. 158	The Board recommends that UNODC consider, in liaison with the United Nations Secretariat, implementing an automated control mechanism in Umoja to monitor and review express expense reports.	On 24 June 2019, the entity responded that UNODC had liaised with United Nations Headquarters and confirmed that an automated control mechanism was not envisioned for the monitoring and review of expense reports. Instead, these reports will therefore continue to be based on current business intelligence reports, which are continuously improved to meet user requirements.	full implementation is planned for the fourth quarter of 2019, this recommendation is considered to be under implementation. According to the communications held with the Department of Management Strategy, Policy and Compliance of the Secretariat, a new version of the semantic layer for travel was currently being tested and could be in production by August, after certification by process owners. Nevertheless, no further information was provided to ensure that, in the absence of an automated control mechanism in Umoja, the current business intelligence report contained a mechanism to monitor and review express expense reports. Therefore, the recommendation is considered to be under implementation.		X		
39.	2017	A/73/5/Add.10 , chap. II, para. 164	The Board recommends that UNODC consider, in liaison with the global enterprise resource planning team, improving the process of handling cases with pending expense reports.	On 24 June 2019, UNODC stated that the processing of travel claims had been improved by the enhancement of the express claim modality implemented in August 2018. In addition, it indicated that a housekeeping tool had been launched in February 2019 to unblock travel claims pending in	On 14 August 2018, the entity issued a special message in which it announced that a new icon called "Expense report not needed, close trip" had been developed in the Umoja portal, which was intended for trips that met		X		

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				the workflow. Finally, it mentioned that both changes had been made with a view to streamlining the claim submission process by minimizing the steps needed in Umoja employee self-service and to encourage the submission of claims prior to recovery through payroll.	<p>all the following conditions: traveller completed travel as planned/approved; traveller received an advance for the travel; and traveller is not claiming anything other than the daily subsistence allowance and terminal expenses.</p> <p>Furthermore, on 11 February 2019, the Chief of the General Support Section notified all UNODC staff at the United Nations Office at Vienna that, owing to the increasing number of trips that did not move through the complete workflow process and remained in draft or in pending status for a long period of time, a new automated tool had been developed to assist in cleaning up these travel requests and expense reports in the system.</p> <p>In this regard, the Board acknowledges the efforts made by UNODC. However, the implementation of the actions being taken by UNODC to ensure improvement in the process of handling cases with pending expense reports will be tested in the next audit process. Therefore, the recommendation is still</p>				

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40.	2017	A/73/5/Add.10 , chap. II, para. 167	The Board recommends that UNODC review, in liaison with the United Nations Secretariat, the automatic recovery function of Umoja, especially with regard to initiated expense reports, which should block the system only for a reasonable period of time.	On 24 June 2019, UNODC indicated that a housekeeping tool had been launched in February 2019 to unblock travel documents on the basis of age and status.	considered to be under implementation. As stated above, UNODC declared that an automated tool had been developed to improve the travel management process by considering a trip obsolete on the basis of age and status. Nevertheless, the effective use of the measures indicated by UNODC will be tested in the next audit process. Therefore, the recommendation is still considered to be under implementation.		X		
41.	2017	A/73/5/Add.10 , chap. II, para. 173	The Board recommends that UNODC ensure immediate action to enable the establishment of an overall procurement plan for 2018.	UNODC indicated that the overall procurement plan for 2018 was being finalized.	The Board has reviewed the progress made and considers that the recommendation has been implemented.	X			
42.	2017	A/73/5/Add.10 , chap. II, para. 174	The Board also recommends that UNODC review and refine the established structure to collect the consolidated procurement plans of the subordinate entities in a timely manner.	On 30 April 2019, UNODC responded that procurement plans were requested by email from all UNODC offices at the United Nations Office at Vienna by October of each year, with a deadline in mid-December. A second email and targeted reminders, with an extension to 31 December, were also issued. In 2018, 80 per cent of the procurement plans for 2019 had been received by the deadline, and 20 per cent by February 2019. UNODC indicated that it	With regard to the recommendation, the Board observed the efforts made regarding the structure to collect the consolidated procurement plans of UNODC offices in a timely manner, which had resulted in the improvement in the receipt of the mandatory procurement plans of those offices. Those efforts notwithstanding, it is necessary to take into account the objective of the		X		

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				<p>was aiming to improve this number in 2020 to reach 100 per cent submission of the plans by the end of the year.</p> <p>UNODC also indicated that the Procurement Unit was not in a position to provide a consolidated procurement plan for 2019. It also stated that the Unit did indeed review and refine the structure (spreadsheet) and collect the data in a timely manner. For those reasons, it considered that the recommendation had been implemented. Additionally, it stated that to consolidate all the procurement plans would require more resources and a clear plan on how to proceed with the findings. Currently, UNODC was waiting for a clear instruction on the role of the United Nations Office at Vienna under the new framework for the delegation of procurement authority, hence it was not clear whether this exercise would be required for future periods.</p> <p>On 10 May 2019, UNODC noted the opinion of the Board and added that the Procurement Unit would continue to make improvements in the collection and consolidation of procurement plans when the procurement plans for 2020 were requested at the end of 2019.</p>	<p>recommendation. Its basic aim is the establishment of an overall procurement plan every year, as stated in the United Nations Procurement Manual. That objective is not being fulfilled in a timely manner, since the consolidated procurement plans are not being received as requested. In the light of the above, the established structure for collecting those plans should continue to be reviewed and refined in order to ensure their receipt by the due date and in the required format, which will enable the Procurement Unit to prepare the overall procurement plan accordingly.</p> <p>In that regard, this recommendation is still under implementation.</p>				
43.	2017	A/73/5/Add.10 , chap. II, para. 178	The Board recommends that UNODC improve its request for consolidated procurement plans by	UNODC stated that it had made the relevant modifications to the template that is used to gather information for procurement	The Board noted that the current template for procurement plans contains more detailed information,	X			

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			demanding more detailed information and enhancing data for a useful overall procurement plan.	plans. Therefore, UNODC considered that the recommendation had been implemented and requested its closure by the Board.	such as project number, location at which the goods are required and product categories and identities. Therefore, this recommendation is considered implemented.				
44.	2017	A/73/5/Add.10 , chap. II, para. 183	The Board recommends that UNODC analyse the root causes of the reasons for ex post facto procurement cases and establish specific measures to prevent the recurrence of such cases.	UNODC indicated that the number of ex post facto cases had been reduced following the implementation of some measures to prevent their recurrence. It added that a new analysis of ex post facto cases would be carried out over a period of six months to determine the quantity of cases and investigate their root causes. UNODC expects to implement this recommendation by the second quarter of 2019.	The entity mentioned that the recommendation was in progress, but did not provide any supporting documentation to prove the analysis of ex post facto procurement cases. Therefore, and taking into consideration that full implementation is planned for the second quarter of 2019, this recommendation is considered to be under implementation.		X		
45.	2017	A/73/5/Add.10 , chap. II, para. 188	The Board recommends that UNODC establish a network of field operational focal points on the Sustainable Development Goals and, together with the members of the informal working group at UNODC headquarters, advertise the network internally.	UNODC mentioned that the network of UNODC field operational focal points on the Sustainable Development Goals would be established by the end of 2018.	UNODC stated that the implementation of this recommendation had been delayed and a new approach to mainstreaming the Sustainable Development Goals in UNODC was envisaged for 2019. Therefore, the Board considers that the recommendation is under implementation.		X		
46.	2017	A/73/5/Add.10 , chap. II, para. 194	The Board recommends that UNODC continue providing training activities on the 2030 Agenda for Sustainable Development by applying	UNODC explained that training sessions had been conducted both at UNODC headquarters and in field offices. UNODC considered that this recommendation had been implemented and requested its closure by the Board.	The Board reviewed the evidence provided related to the development of different training activities on the 2030 Agenda and considers that the	X			

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47.	2017	A/73/5/Add.10 , chap. II, para. 195	a results-based management approach. The Board further recommends that UNODC develop a training package to deliver comprehensive guidance and advice on how the Sustainable Development Goals can be best integrated into UNODC work, and make the training package available for UNODC staff as an online training course.	UNODC indicated that the online training module was being developed and was expected to be launched before the end of 2018.	recommendation has been implemented. On 29 March 2019, the Board received the note for the file between the Strategic Planning and Inter-agency Affairs Unit and the global e-learning programme. The note was provided as evidence that UNODC was currently developing the recommended training package and hoped to make it accessible online by the end of August 2019. Therefore, the recommendation remains under implementation.		X		
48.	2017	A/73/5/Add.10 , chap. II, para. 199	The Board recommends that UNODC develop a knowledge platform to enable and support the internal information on the Sustainable Development Goals across UNODC.	UNODC explained that the Sustainable Development Goals information pages on the UNODC website were being updated. In addition, all materials relating to the Goals would be collated on the UNODC Intranet website. The entity expects to implement this recommendation by the second quarter of 2019.	The Board reviewed the progress made and considers that the recommendation has been implemented.	X			
49.	2017	A/73/5/Add.10 , chap. II, para. 204	The Board recommends that UNODC thoroughly analyse all its projects and programmes, and consider enhancing future strategic frameworks with all the Sustainable Development Goals and targets to which UNODC can contribute.	The entity argued that all UNODC programmes were aligned with its current strategic framework and the Sustainable Development Goals. Also, it stated that UNODC continued to ensure that its field offices and headquarters units aligned projects and programmes with its strategic framework. Finally, it	UNODC stated that the draft programme plan and performance information had been submitted for consideration by the Committee for Programme and Coordination, and now contained links between each subprogramme of UNODC and the 2030		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
50.	2016	A/72/5/Add.10 , chap. II, para. 16	The Board recommends that UNODC use a systems-integrated approach to incorporate inter-organizational eliminations within the Business Planning and Consolidation module, including any additional actions necessary to reach this goal, for example, an alignment of the funds structure.	<p>added that, given the proposed redesign of the strategic framework, UNODC would ensure that its contribution to attaining the Sustainable Development Goals was fully reflected, subject to approval by the Committee for Programme and Coordination.</p> <p>UNODC expects to implement this recommendation by the second quarter of 2019.</p> <p>On 30 April 2019, UNODC responded that it had determined that a new fund would not be possible to record exchange transactions, and so different fund centres were used for different types of transaction. Inter-organizational elimination within the Business Planning and Consolidation module was not possible, since the elimination entries related to transactions regarding both crime and drugs, mainly cost recovery. Since cost recovery was in one fund, the amounts could only be determined at year-end as a percentage value. The manual elimination entries had been improved as the correct use of</p>	<p>Agenda. It also mentioned that a videoconference had been conducted with staff at UNODC headquarters and in the field to ensure that programmes could report more precisely on the targets of the Sustainable Development Goals that they are assisting Member States in achieving.</p> <p>Despite the efforts made by the entity, the Board noted that the document remains in draft and there is no evidence of its formal approval. Therefore, the recommendation remains under implementation.</p> <p>UNODC has reviewed the structure for its sources of income in order to improve its reporting requirements, and has created five different fund centres that will enhance the distinction between exchange and non-exchange transactions. Therefore, the recommendation is considered implemented.</p>	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				general ledger accounts had been monitored throughout the year.					
51.	2016	A/72/5/Add.10 , chap. II, para. 25	The Board recommends that UNODC set up a clear structure for its sources of income in order to better meet its accounting and reporting requirements.	On 30 April 2019, UNODC sent a file on the creation of fund centres for different types of transaction within existing funds, as a new fund would not be possible.	UNODC has reviewed the structure for its sources of income in order to improve its reporting requirements, and has created five different fund centres that will enhance the distinction between exchange and non-exchange transactions. Therefore, the recommendation is considered implemented.	X			
52.	2016	A/72/5/Add.10 , chap. II, para. 30	The Board recommends that UNODC improve its control over petty cash balances, collect cash count statements for each petty cash account and ensure that statements and general ledger accounts match.	UNODC argued that all petty cash accounts were regularly monitored and reviewed. Any cases of non-compliance by petty cash custodians were reviewed to determine the need for recovery of any cash and/or for the removal of the delegated authority. Cash count statements were provided. UNODC considered that this recommendation had been implemented and requested its closure by the Board.	From the review of the cash count statements provided by UNODC, the Board noted that all of them were performed as at 31 December 2018. It did not find any material misstatements in accordance with the Financial Regulations and Rules of the United Nations. Therefore, the recommendation is considered implemented.	X			
53.	2016	A/72/5/Add.10 , chap. II, para. 42	The Board recommends that UNODC strengthen its controls over concluded pledge agreements to ensure that the financial statements reflect all contribution agreements.	UNODC stated that the Umoja Extension 2 enhancements would reflect the closure of grants and all related contribution agreements. This recommendation is expected to be implemented by the first quarter of 2020.	The full implementation of actions by management is planned for the first quarter of 2020. Therefore, this recommendation is still considered under implementation.		X		
54.	2016	A/72/5/Add.10 , chap. II, para. 56	The Board recommends that UNODC headquarters develop pragmatic ICT standard	UNODC explained that a UNODC field office computing guide was currently being reviewed and was expected to be	The UNODC field office computing guide has now been issued and was announced by means of an	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			operating procedures and templates that field offices can use for the main ICT areas to ensure that compliance can be monitored.	finalized and issued by the end of 2018.	article on iSeek. Therefore, the Board considers that the recommendation has been implemented.				
55.	2016	A/72/5/Add.10 , chap. II, para. 62	The Board recommends that UNODC set up standards for accessibility of field office premises.	UNODC argued that it was reviewing UNDP policies and standards regarding accessibility in the field offices. In addition, the entity explained that it would assess, in consultation with its Division for Management, whether separate UNODC policies and standards should be developed.	Considering that the review process with UNDP is still ongoing, and supporting documentation that could suggest otherwise was not provided, the Board considers that the recommendation is under implementation.		X		
56.	2016	A/72/5/Add.10 , chap. II, para. 63	The Board also recommends that UNODC consider cooperating with UNDP to implement standards for accessibility in UNDP-administered premises.	As indicated above, UNODC is reviewing UNDP policies and standards regarding accessibility in the field offices and will cooperate with UNDP accordingly.	The Board acknowledges the progress made; nevertheless, it considers that the recommendation is still under implementation.		X		
57.	2016	A/72/5/Add.10 , chap. II, para. 68	The Board recommends that UNODC, in cooperation with the United Nations Office at Vienna, establish regular monitoring of procurement activities at UNODC headquarters and field offices and assign clear responsibilities for the monitoring process.	UNODC stated that the policy and methodology for the monitoring and oversight of procurement were now part of the Secretary-General's planned management reform and were being addressed centrally for the United Nations Secretariat. As of August 2018, on-site training and site visits in three geographical regions of UNODC had been conducted with a view to improving and monitoring procurement practices.	Secretary-General's bulletin ST/SGB/2019/2 on the delegation of authority in the administration of the Staff Regulations and Rules and the Financial Regulations and Rules entered into force on 1 January 2019. Furthermore, the accountability framework for monitoring the exercise of delegated decision-making authority was issued by the Secretariat on 1 January 2019; it indicates how delegated authority for	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
58.	2016	A/72/5/Add.10 , chap. II, para. 76	The Board recommends that UNODC consider the document “UNODC and the Sustainable Development Goals” to be a “living” document and update it as necessary.	UNODC indicated that the document entitled “UNODC and the Sustainable Development Goals” was being updated.	procurement will be monitored. The Board reviewed those documents and considers that the recommendation has been implemented.	X			
59.	2016	A/72/5/Add.10 , chap. II, para. 83	The Board recommends that UNODC adapt its strategic planning in order to establish a long-term strategy for effective and coherent support with regard to implementing the Sustainable Development Goals.	The entity argued that the long-term strategy for effective and coherent support with regard to implementing the Sustainable Development Goals had been established in the UNODC strategic plan. UNODC considered that the recommendation had been implemented and requested its closure by the Board.	The Board reviewed the document entitled “UNODC and the Sustainable Development Goals” and considers that the recommendation has been implemented.		X		
60.	2016	A/72/5/Add.10 , chap. II, para. 84	The Board also recommends that UNODC align all programmes and activities to the Sustainable Development Goals and, where applicable, to concrete targets, so that its work on the Goals becomes more visible and its actions receive more recognition.	The entity explained that all UNODC programmes were now aligned with the Sustainable Development Goals. UNODC considered that the recommendation had been implemented and requested its closure by the Board.	The Board acknowledges the progress made. Nevertheless, parts of the documents provided, and the resulting actions, are still in draft stage. Furthermore, no evidence was received that addressed the status of implementation of the work of the steering committee on the Goals. Therefore, the Board considers that the recommendation is still under implementation.		X		
					The Board acknowledges the progress made. Nevertheless, parts of the documents provided, and the resulting actions, are still in draft stage. Furthermore, no evidence was received that addressed the status of implementation of the work of the steering committee on the Goals. Therefore, the Board considers that the				

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
61.	2015	A/71/5/Add.10 , chap. II, para. 33	The Board recommends that UNODC make better use of existing risk material collated to inform management decisions, and that risks and their mitigations be regularly reviewed by senior management and reassessed to inform the corporate risk register.	UNODC explained that regular reviews by senior management continued to take place through reporting to the Executive Committee on the action taken with regard to enterprise risk management, including suggested decisions to address key risks. UNODC considered that the recommendation had been implemented and requested its closure by the Board.	recommendation is still under implementation. For the current follow-up process, UNODC declared that the task was tentatively foreseen for 2019, as UNODC was awaiting developments at the United Nations Secretariat level with regard to the planned institutional risk assessment for the United Nations system, which might result in guidance that UNODC offices at the United Nations Office at Vienna could benefit from for the upcoming risk assessment. The Board acknowledges the progress made; however, it considers that the recommendation is under implementation.		X		
62.	2015	A/71/5/Add.10 , chap. II, para. 86	The Board recommends that UNODC consider the scope for simplifying the reporting structure, for example, by only reporting changes from the previous submissions, through better use of graphics to show progress against targets, and through the inclusion of key expenditure data to identify departures from the agreed forecasts and to highlight reasons for variances in spend and activity.	UNODC is exploring the possibilities for further integrating Umoja and the donor reporting dashboard in the context of the Umoja Extension 2 enhancements. This recommendation is expected to be implemented by the fourth quarter of 2020.	The full implementation of actions by management is planned for the fourth quarter of 2020. Therefore, this recommendation is still considered under implementation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
63.	2014	A/70/5/Add.10 and A/70/5/Add.10/Corr.1 , chap. II, para. 18	The Board recommends that UNODC develop fraud risk assessments to identify areas where it is most susceptible to fraud within its operations. These should be used to inform the development of risk mitigation plans to focus training and targeted exception reporting to detect cases of fraud.	UNODC indicated that it was in the process of assessing its specific fraud risks and would update its enterprise risk management matrix in line with that of the United Nations Secretariat.	No evidence has been provided to demonstrate that progress has been made. The Board considers that the recommendation is under implementation.		X		
64.	2014	A/70/5/Add.10 and A/70/5/Add.10/Corr.1 , chap. II, para. 44	The Board recommends that, to embed an evaluation culture, individual project managers should take responsibility for their projects to be evaluated. Compliance with this activity should be included in the performance appraisal system. Furthermore, the implementation rates of evaluation recommendations should be monitored by senior management.	The entity explained that project managers were held accountable for planning and conducting evaluations in line with the UNODC evaluation policy in the project and programme documents and revisions. The Independent Evaluation Section of UNODC reviewed all project and programme documents and revisions for compliance with the evaluation policy and reported any non-compliance to senior management. UNODC considered that the recommendation had been implemented and requested its closure by the Board.	The Board reviewed the progress made and considers that the recommendation has been implemented.	X			
65.	2012–2013	A/69/5/Add.10 , chap. II, para. 75	The United Nations Office on Drugs and Crime agreed with the Board's recommendation that it enhance its framework on the engagement of external parties.	The entity stated that the UNODC framework on the engagement of external parties had been enhanced. However, it anticipated that more changes would emanate from the implementation of the Umoja Extension 2 solution and the Secretariat-wide policy for implementing partners and end beneficiaries, which it would	The Board was informed that UNODC was awaiting the draft policy from the Office of Programme Planning, Finance and Budget of the Secretariat emanating from the workshop on the development of policy for implementing partners and		X		

No.	<i>Audit report year/biennium</i>	<i>Report reference</i>	<i>Recommendation of the Board</i>	<i>UNODC response</i>	<i>Board's assessment</i>	<i>Status after verification</i>			
						<i>Implemented</i>	<i>Under implementation</i>	<i>Overtaken by events</i>	<i>Not implemented</i>
				need to take into consideration in further revising its framework.	end beneficiaries held in April 2018, in which UNODC participated. Additionally, it was notified that the implementation of the Umoja Extension 2 grantor management module had been delayed and its implementation might require further alignment of the framework to take into account system requirements and processes. The aforementioned external events thus affected final enhancements. The Board was also informed that final revisions and changes were expected to be completed in mid-2019, resulting in the publication of an updated framework on the engagement of external parties.				

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
					Finally, on 25 June 2019, the Umoja office in the Department of Management Strategy, Policy and Compliance of the Secretariat requested the Board to note the fact that the first release of the solution was implemented on 31 December 2018, in line with the planned timeline. It also stated that further planned cluster and functionality deployments were under implementation. Therefore, this recommendation is still considered under implementation.				
Total						25	40	–	–
Percentage						38	62	–	–

Abbreviations: ICT, information and communications technology; OIOS, Office of Internal Oversight Services; UNDP, United Nations Development Programme.

Chapter III

Certification of the financial statements

Letter dated 31 March 2019 from the Chief of the Financial Resources Management Service of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2018 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations.

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

I certify that the appended financial statements of UNODC are correct on the basis of our records and reports from executing agencies.

(Signed) Polinikis **Sophocleous**
Chief, Financial Resources Management Service
United Nations Office on Drugs and Crime

Chapter IV

Financial report for the year ended 31 December 2018

A. Introduction

1. In accordance with General Assembly resolutions [46/185 C](#) and [61/252](#), the Executive Director of the United Nations Office on Drugs and Crime (UNODC) is herewith submitting the financial report and financial statements for the year ended 31 December 2018 for UNODC.
2. The financial report and financial statements provide the consolidated results related to the acquisition and utilization of voluntary contributions and the administration of regular budget resources entrusted to UNODC. The voluntary funds include the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund. The regular budget resources for UNODC have been approved by the General Assembly.
3. Information on the financial results for the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund is provided under note 3 to the financial statements, Segment reporting.

B. Operational context

4. UNODC is mandated to work with Member States to enhance their responses to the interconnected problems of drug use, transnational organized crime, illicit trafficking in drugs, human beings and firearms, corruption, cybercrime, piracy, terrorism, environmental crime and trafficking in cultural property. To achieve this, UNODC helps Member States to establish and strengthen legislative, regulatory, criminal justice and health systems to better safeguard their populations, especially the most vulnerable persons.
5. In order to enhance the effectiveness and accountability of the Office, as well as to strengthen results-based management, UNODC is organized into six thematic subprogrammes: Countering transnational organized crime; A comprehensive and balanced approach to counter the world drug problem; Countering corruption; Terrorism prevention; Justice; and Research, trend analysis and forensics. The Office also has three cross-cutting subprogrammes that provide services to Member States: Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the United Nations intergovernmental bodies, the International Narcotics Control Board and the United Nations Congress on Crime Prevention and Criminal Justice.
6. The programme of work is delivered by the three substantive divisions, namely, the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. A fourth division, the Division for Management, is accountable for the delivery of administrative services and oversight. Through the Division for Operations, UNODC operates in all regions of the world through an extensive field network comprising regional offices (8), country offices (7), programme and project offices (87) and liaison and partnership offices (2).
7. UNODC continues to be supported by a broad donor base, which in 2018 comprised 124 entities from a wide range of Member States, international financial institutions and international organizations, multi-partner trust funds, United Nations agencies and non-governmental entities (private sector entities and individuals).

8. The Office is responding to the growing demand for its services by adhering to an integrated mode of programme planning, implementation and reporting. Essential to this approach is the development of global, regional and country programmes that enable the Office to respond to the priorities of Member States in a more sustainable manner and to provide assistance for policy coherence and institutional reforms. Notably, the approach deepens the Office's engagement with a wide cross section of stakeholders, such as regional entities, partner countries, multilateral bodies, civil society organizations, research institutes and the media.

9. UNODC also carries out its activities through cooperation or implementing partnership arrangements with other departments and offices of the Secretariat and entities of the United Nations system, in particular the Joint United Nations Programme on HIV/AIDS (UNAIDS), the World Bank, the International Labour Organization, the United Nations Development Programme (UNDP), the International Fund for Agricultural Development, the United Nations Human Settlements Programme (UN-Habitat), the United Nations Children's Fund, the Office of the United Nations High Commissioner for Human Rights, the World Health Organization and the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The Office also cooperates with entities external to the United Nations, such as the World Customs Organization, the Organization for Security and Cooperation in Europe, the African Union, the Organization of American States, the Economic Community of West African States, the European Union, the Southern African Development Community and the International Criminal Police Organization (INTERPOL).

10. To enhance transparency in the delivery of its mandate, UNODC is an active member of the United Nations Evaluation Group, which sets standards and norms for evaluation within the United Nations system.

C. Activity overview

11. In the year under review, UNODC continued to support the Commission on Narcotic Drugs in the follow-up to the special session of the General Assembly on the world drug problem held in 2016. UNODC facilitated the practical implementation of the commitments made by the international community by using a comprehensive and inclusive approach and by fostering the exchange of good practices, challenges and lessons learned.

12. At its ninth session, held in Vienna in October 2018, the Conference of the Parties to the United Nations Convention against Transnational Organized Crime adopted the procedures and rules for the functioning of the Mechanism for the Review of the Implementation of the United Nations Convention against Transnational Organized Crime and the Protocols thereto and decided to launch the preparatory phase of the review process, which is expected to be completed by October 2020.

13. Throughout 2018, UNODC continued to ensure strong linkages between its technical assistance programmes and the 2030 Agenda for Sustainable Development. The Office issued its "Handbook on results-based management and the 2030 Agenda for Sustainable Development", which aids staff in planning, monitoring and reporting on programme outcomes effectively.

14. Furthermore, in 2018, three notable initiatives were developed:

(a) The trilateral cooperation established between UNODC, Japan and the Russian Federation in support of the counter-narcotics efforts of Afghanistan, through which capacity-building support was provided to Afghanistan and neighbouring countries in Central Asia in the field of law enforcement;

(b) The expansion by UNODC of its engagement in Central Africa with the Economic Community of Central African States by assisting in the development of victim and witness protection policies and the establishment of the Special Criminal Court;

(c) A large-scale initiative of UNODC to effectively dismantle criminal networks operating in North Africa in the smuggling of migrants and trafficking in persons.

15. In 2018, UNODC also launched its strategy for gender equality and the empowerment of women (2018–2021) and commenced its implementation with clear accountability frameworks, targets and goals. The strategy is fully aligned with system-wide policies and will assist the Office in achieving measurable progress by its target date of 2021.

Highlights by region

Latin America and the Caribbean

16. In Colombia, UNODC supported the national Government and the 2016 peace agreement. Within this context, the nationally funded alternative development project for the substitution of illicit crops helped over 99,000 families to commit to voluntary substitution agreements and reinforced the participation of over 1,000 former coca collectors in social work, with a direct impact on local communities. In Panama, UNODC continued to implement the adversarial legal system with national counterparts and further expanded its work through projects addressing trafficking in persons, firearms control and organized crime.

Africa and the Middle East

17. In the Horn of Africa, the countering of maritime crime continued to be a cornerstone of UNODC activities. In the Middle East and North Africa, the Office expanded its focus on countering trafficking and organized crime and their linkage to terrorist groups. In West Africa, the Office further expanded its project reach to Member States covered by the United Nations integrated strategy for the Sahel. Moreover, UNODC delivered regional projects aimed at strengthening border control and intelligence-based investigations and at dismantling criminal networks engaged in migrant smuggling.

West and Central Asia

18. UNODC continued to implement an interregional drug control approach, with Afghanistan at its core, in line with a road map entitled “One UNODC concerted approach interconnecting Europe with West and Central Asia”. Furthermore, UNODC launched initiatives in response to the threats of increasing opiate production.

South Asia, East Asia and the Pacific

19. Through the subregional cooperation on drug control in the Greater Mekong subregion, UNODC assisted six countries in addressing the threat of illicit drugs. In South Asia, UNODC strengthened its presence in Bangladesh and redeployed its Global Maritime Crime Programme management team to Sri Lanka with the aim of increased regional cooperation.

Eastern and South-Eastern Europe

20. UNODC launched a strategic partnership and programmatic actions in Eastern Europe and contributed to capacity-building to combat money-laundering and the

financing of terrorism under the European Union-led Integrative Internal Security Governance initiative in the Western Balkans.

Global programmes

21. UNODC global programmes continued to expand in several thematic areas and in field-based components. In particular, the global programme on strengthening the legal regime against terrorism assisted over 50 Member States and trained over 2,800 officials on criminal justice aspects related to terrorism. In the Middle East and North Africa, the programme also helped to establish a multi-agency task force to strengthen cooperation in cases related to foreign terrorist fighters. The Global Programme for the Implementation of the Doha Declaration provided direct capacity-building support to around 10,000 individuals and raised the awareness of practitioners, including educators, students, sport coaches, judges, prison reform experts and youth from over 190 countries. The UNODC-World Customs Organization Container Control Programme trained approximately 2,900 officers, with activities in 91 seaports, dry ports, railways, land borders and airports in 54 Member States; notably, this aided the seizure of 765 shipments of illicit drugs and precursor chemicals for drugs and weapons and of 32 containers of strategic and dual-use goods, and the identification of 25 cases of environmental crime. The Global Maritime Crime Programme convened the first annual UNODC Maritime Law Expert Conference in Colombo, which was attended by academics and legal practitioners from over 20 countries.

D. Budget performance highlights

22. While the financial statements have been prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS), the programme budget of UNODC continues to be formulated, managed and presented on a modified cash basis using the United Nations system accounting standards. A summary of the comparison of budget and actual amounts is shown in statement V.

23. All figures quoted in the present section as income and expenditures refer to modified cash basis figures, comparable with budgets (United Nations system accounting standards).

24. The consolidated budget of UNODC is formulated on a biennial basis. The budget of general purpose funds (unearmarked contributions) is approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice, while the budget for special purpose funds (earmarked contributions) and the budget for programme support cost funds (administrative and programme support cost budget) is presented to the Commissions for their endorsement. Together, the unearmarked and earmarked contributions and administrative and programme support funds constitute the Office's extrabudgetary resources. The consolidated budget also includes information on the regular budget of UNODC, which is approved by the General Assembly.

25. Subsequent to the approval of the consolidated budget, UNODC allocates funds for the implementation of programmes and projects on the basis of fund availability. At the end of the first year of the biennium, the budget is revised to adjust to evolving needs. Such adjustments are approved/endorsed by the Commissions within the context of the implementation report on the first year of the biennium. The revised budget for 2018–2019 was presented to the Commissions at the end of 2018.

26. Table IV.1 shows the 2017 and 2018 performance comparatives in aggregate.

Table IV.1

United Nations Office on Drugs and Crime: income, budget, expenditure and implementation rate overview (including regular budget), 2017–2018 (United Nations system accounting standards basis)

(Millions of United States dollars)

	2018	2017
Income	382.3	373.7
Budget (revised) (A)	349.2	317.9
Expenditure (B)	333.0	286.9
Implementation rate (B over A)	95.3%	90.2%

27. The initial budget approved/endorsed by the Commissions at their sessions in 2018 amounted to \$395.6 million in extrabudgetary resources (2017: \$284.1 million). In December 2018, the Commissions approved/endorsed a revised 2018 budget of \$327.8 million (2017: \$299.6 million), reflecting more prudent delivery estimates for the implementation of voluntary funded programmes. Including the regular budget, the consolidated revised budget for UNODC for 2018 amounted to \$349.2 million (2017: \$317.9 million). The implementation rate for 2018 was 95.3 per cent (2017: 90.2 per cent) against the revised budget.

28. Table IV.1 depicts that, year-on-year, UNODC achieved an increase in income of \$8.6 million and an increase in implementation (expenditure) of \$46.1 million (16.1 per cent)

29. Table IV.2 shows 2017 and 2018 expenditures, broken down by funding source in terms of special purpose funds (earmarked contributions), programme support cost funds (administrative and programme support cost budget), general purpose funds (unearmarked voluntary contributions) and the regular budget.

Table IV.2

United Nations Office on Drugs and Crime: expenditure by funding source, 2017–2018 (United Nations system accounting standards basis)

(Millions of United States dollars; regular budget includes sections 16 and 23)

	2018		2017	
	Amount	Percentage	Amount	Percentage
<i>Extrabudgetary resources</i>				
Special purpose funds	284.5	86	240.7	84
Programme support cost funds	21.4	6	20.2	7
General purpose funds	4.7	1	3.6	1
Subtotal	310.6	92	264.5	92
Regular budget	22.4	7	22.4	8
Total	333.0	100	286.9	100

30. The increase in expenditure for UNODC in 2018 is attributable to the increased delivery of technical cooperation projects, in particular the start of the new government-funded alternative development project in Colombia. Other significant growth is also reported in the delivery of the Global Programme for the Implementation of the Doha Declaration, the programmes on countering transnational

organized crime in Eastern Africa and in Central Asia and projects on research and data collection in Mexico. Year-on-year, the Office increased its technical assistance programmes (special purpose funds) by 18.2 per cent (see table IV.2).

31. Figures IV.I and IV.II show expenditures by subprogramme and by region, respectively. As in 2017, the two largest subprogrammes in terms of volume were subprogramme 1, Countering transnational organized crime, and subprogramme 2, A comprehensive and balanced approach to counter the world drug problem. Together, in 2018, these two subprogrammes accounted for 54.1 per cent of expenditures (2017: 54.6 per cent). Leaving aside the global programmes (34.0 per cent), the largest region in terms of expenditure was Latin America and the Caribbean. Together, in 2018, the two accounted for 60.2 per cent of expenditure (2017: 67.1 per cent).

Figure IV.I

United Nations Office on Drugs and Crime: expenditure by subprogramme (including regular budget), 2018 (United Nations system accounting standards basis)

(Millions of United States dollars)

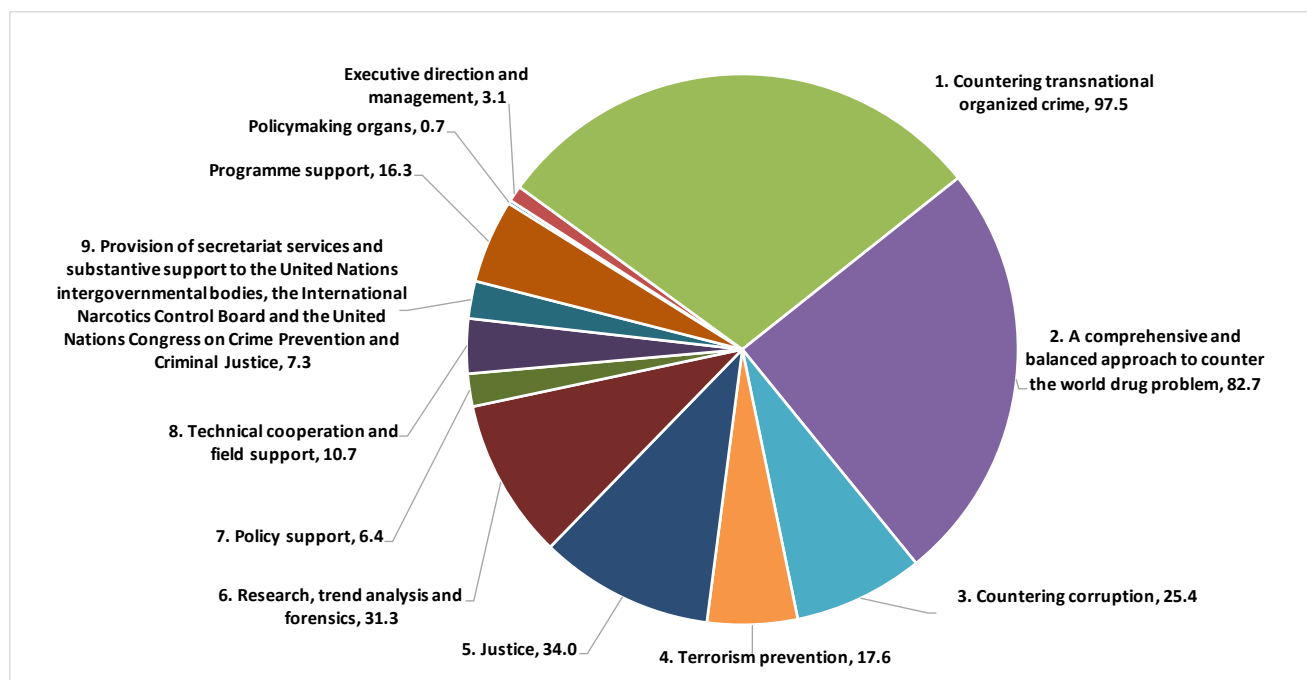
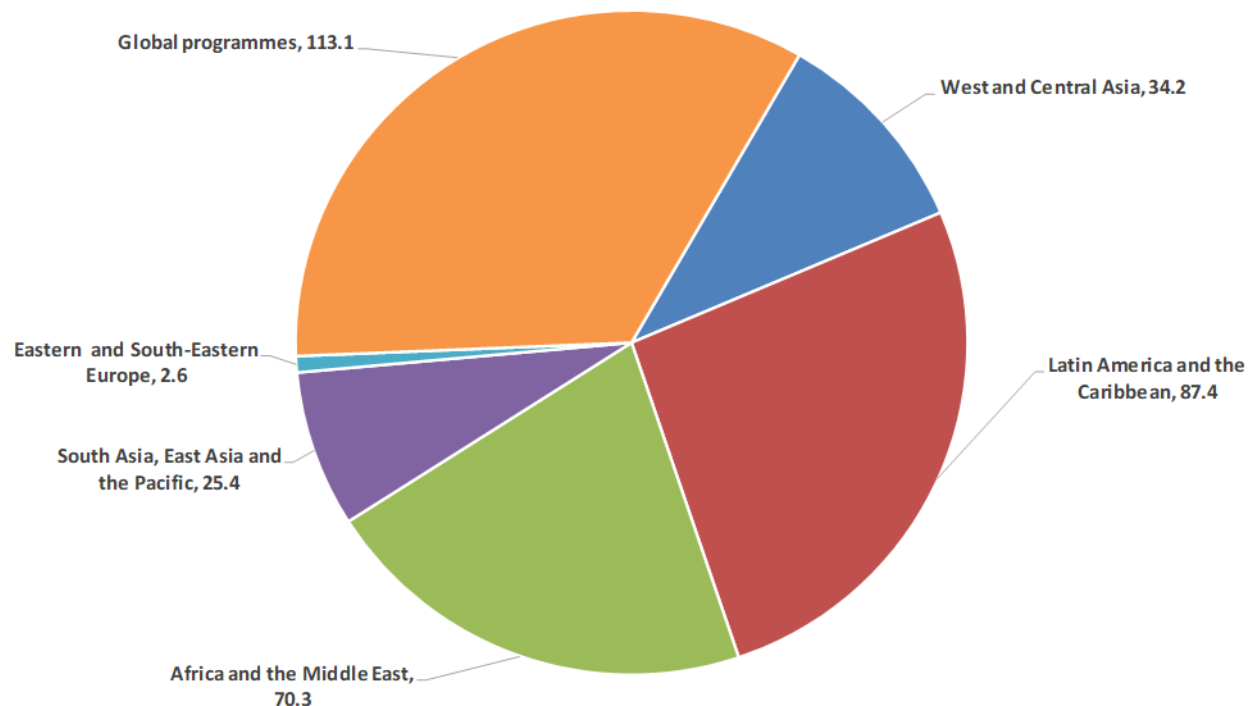


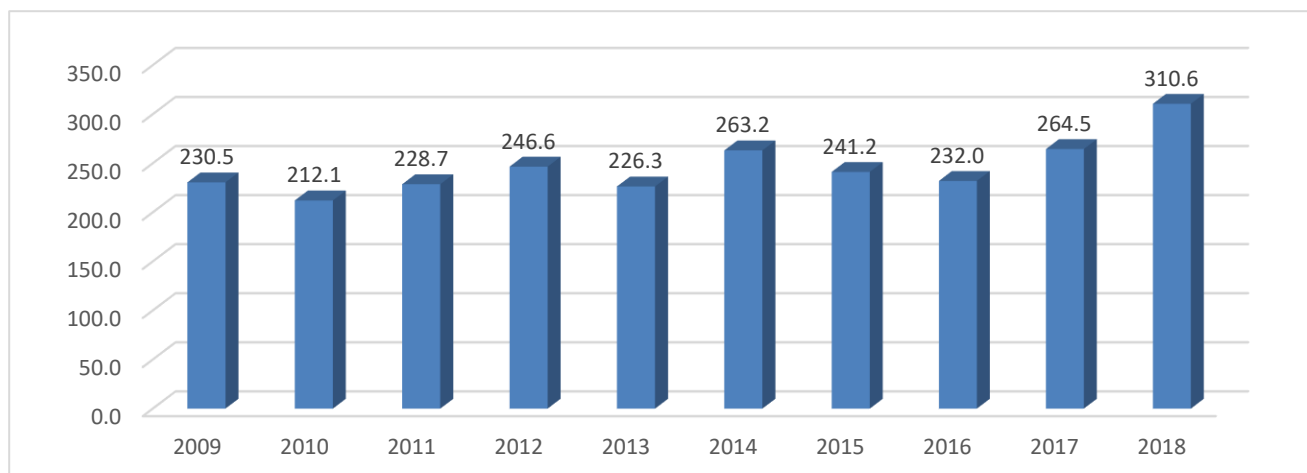
Figure IV.II
United Nations Office on Drugs and Crime: expenditure by region (including regular budget), 2018
(United Nations system accounting standards basis)
 (Millions of United States dollars)



Note: Based on country/region of implementation.

32. Figures IV.III and IV.IV show the 10-year trends in technical assistance expenditure on the basis of the United Nations system accounting standards.

Figure IV.III
United Nations Office on Drugs and Crime: technical assistance expenditure trend (excluding regular budget), 2009–2018 (United Nations system accounting standards basis)
 (Millions of United States dollars)

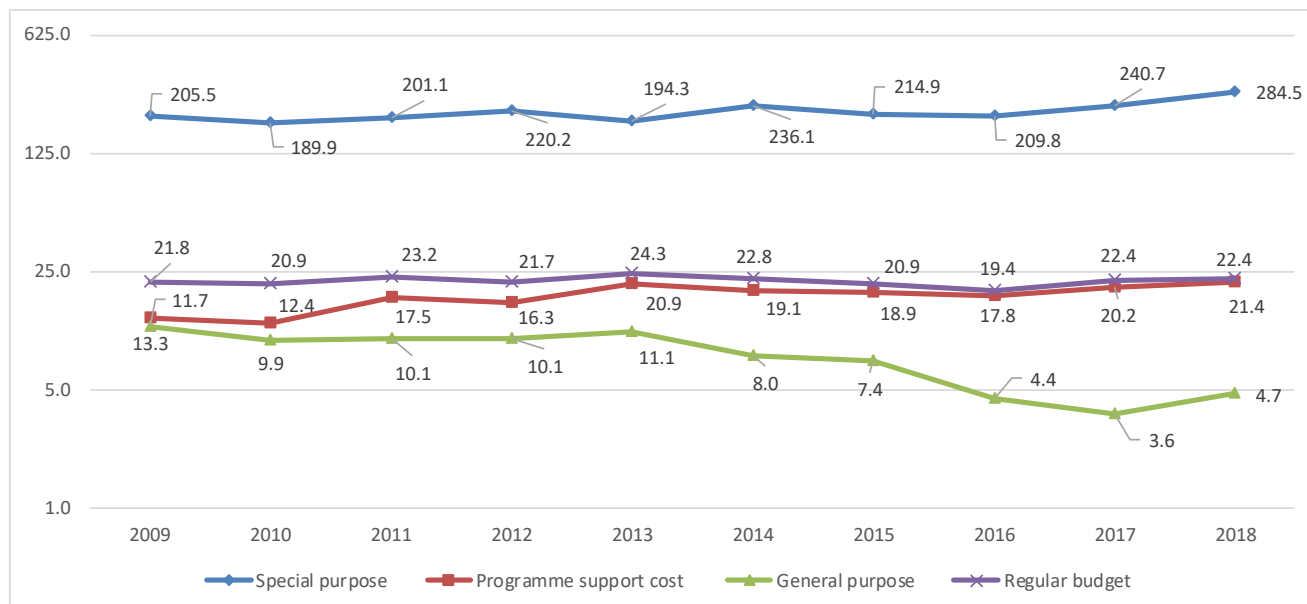


33. Notwithstanding year-on-year fluctuations, UNODC has seen an upward trend in the delivery of technical assistance (extrabudgetary implementation) over the decade. The 2018 expenditure of \$310.6 million is 34.8 per cent higher than the 2009 level of \$230.5 million. This trend is a testament of strong donor confidence in UNODC programmes and the Office's commitment to the effective delivery of technical assistance.

Figure IV.IV

United Nations Office on Drugs and Crime: expenditure by funding source, 2009–2018 (United Nations system accounting standards basis)

(Millions of United States dollars)



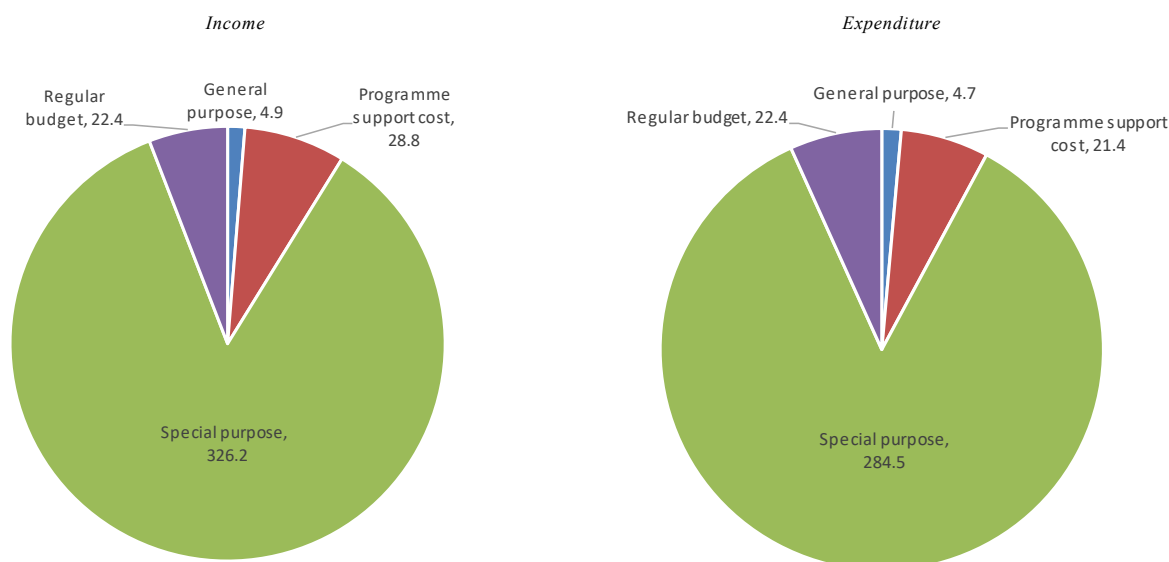
34. Contrary to the positive trend in the implementation of programme activities, figure IV.IV highlights the continuous deterioration of the funding mix between earmarked and unearmarked contributions over the years. In 2009, the ratio of general purpose (unearmarked) funding to special purpose (earmarked) was 6:94, compared with 1:99 in 2018. General purpose funding (expenditure) amounted to \$13.3 million in 2009 but declined by 64.6 per cent to \$4.7 million in 2018, whereas earmarked funding (expenditure) amounted to \$205.5 million in 2009 and increased by 38.4 per cent to \$284.5 million in 2018.

35. Figure IV.V presents 2018 income and expenditure by source of funding (general purpose funds, programme support cost funds and special purpose funds).

Figure IV.V

United Nations Office on Drugs and Crime: income and expenditure by funding source, 2018
(United Nations system accounting standards basis)

(Millions of United States dollars)



36. Figure IV.V indicates that in 2018 the general purpose (unarmarked) income contributed to a mere 1.3 per cent of the total income and funded a mere 1.4 per cent of the yearly delivery (expenditure).

37. Without a doubt, the continuous decline, in absolute and percentage terms, of general purpose income hinders the ability of UNODC to execute its mandates, manage programmatic shortfalls, exert strategic direction and oversight and implement improvements, including United Nations reform initiatives. While UNODC responded to this trend by implementing stricter financial discipline through full cost recovery (see sect. F below), the Office continues to call upon donors to increase unarmarked contributions to ensure the solvency of the general purpose fund.

E. Financial analysis

38. The present section reflects on the results presented in the IPSAS-based financial statements and accompanying notes, unless otherwise stated.

39. As at 31 December 2018, the net assets amounted to \$687.0 million (statement I), which represented an increase of \$88.7 million (or 14.8 per cent) compared with \$598.3 million as at 31 December 2017. This increase was a result of a net surplus in 2018 of \$76.9 million (statement II), together with a gain arising from the actuarial valuation of employee benefits of \$11.8 million (statement III).

40. Cash and cash equivalents and investments amounted to \$719.2 million (70.1 per cent of total assets as at 31 December 2018), an increase of \$95.1 million over the 2017 amount of \$624.1 million (see notes 5 and 6).

41. At the end of 31 December 2018, voluntary contributions receivable represented uncollected earmarked pledges totalling \$251.7 million (2017: \$278.4 million), net of an allowance for doubtful receivables of \$2.1 million (2017: \$5.5 million) (see note 7).

42. Implementing programmatic activities in partnership with other United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations is an important element of the UNODC business model. Under the UNODC framework of engagement with external parties, the Office transfers advances to its implementing partners and subsequently measures their utilization through partner reporting in a timely manner. As at the end of December 2018, a balance of \$18.1 million (2017: \$6.4 million) of advances remained outstanding. Of this amount, \$11.9 million (2017: \$2.6 million) related to advances made to support the implementation and monitoring of an integrated and sustainable strategy to reduce illicit crops and promote alternative development and a culture of legality in Colombia (see note 8).

43. As at 31 December 2018, UNODC held property, plant and equipment in the amount of \$14.6 million (2017: \$11.2 million). At the end of 2018, ongoing construction projects amounted to \$8.0 million (see note 10).

44. As at 31 December 2018, UNODC reported advance receipts of \$27.7 million (2017: \$28.3 million). This amount represented funds received from exchange transactions for services that had not been delivered by year-end (see note 13).

45. The liability of UNODC for employee benefits amounted to \$116.6 million as at 31 December 2018 (2017: \$120.7 million), of which \$110.2 million (2017: \$114.5 million) represented liabilities under defined benefit plans (see note 14).

46. The total revenue of \$409.2 million during 2018 (2017: \$392.1 million) consisted primarily of \$332.3 million (2017: \$341.2 million) of non-exchange transactions (81.2 per cent of total revenue) (see note 19); and \$34.3 million (2017: \$30.6 million) of allocations from the United Nations regular budget (see note 18). Within other revenue of \$6.5 million (2017: \$7.8 million) existed \$6.4 million (2017: \$6.3 million) of income derived from exchange transactions such as services rendered on software support and training to Member States and other international organizations (see note 20).

47. The total expenditures for the period amounted to \$332.3 million (2017: \$308.7 million), comprising mainly staff-related costs of \$120.0 million (2017: \$107.4 million) (36.1 per cent of total expenses), and non-employee compensation and allowances of \$58.8 million (2017: \$48.7 million) (17.7 per cent of total expenses). Furthermore, \$33.2 million (2017: \$47.5 million) of expenditures represented work delivered by implementing partners and grants to end beneficiaries under authorized small-grants schemes.

F. Challenges and improvements in 2018 and beyond

Roll-out of full cost recovery

48. In the light of the predicament of UNODC, in which the Office fundamentally relies on tightly earmarked contributions, in 2018, the Office continued to ensure a systematic and consistent application of full cost recovery to all programmes and projects funded from voluntary contributions by linking core and programmatic functions to direct and indirect costing classifications. Throughout the years of implementation of its activities, UNODC has monitored its cost structures against programme needs and improved its guidelines and procedures relating to cost recovery and the use of funding sources.

49. Furthermore, in the first quarter of 2018, UNODC developed an early warning risk management tool on full cost recovery (the full cost recovery barometer), which was rolled out in all field offices. The barometer provides enhanced visibility of the financial results of field offices and the means to conduct more factual reviews and

identify potential medium-term solutions that maintain the integrity of the field office network.

50. Nonetheless, UNODC continues to make pleas to Member States and other donors for unearmarked and softly earmarked contributions to improve its ability to implement its strategy, programmes and reform initiatives.

United Nations management and United Nations system-wide reforms

51. In its resolution [72/279](#), the General Assembly requested the Secretary-General to lead the efforts of the United Nations development system to collaboratively implement a new generation of United Nations country teams. In response, and in order to participate fully in this reform, UNODC developed surge capacity on a one-off basis to strengthen its presence in the field and in key thematic areas and to reinforce its capacity in negotiation, partnering and programme development.

52. UNODC is fully committed to the United Nations management reforms approved by the General Assembly in its resolution [72/266 B](#) on shifting the management paradigm in the United Nations and its resolution [72/303](#) on progress towards an accountability system in the United Nations Secretariat. Accordingly, in 2018, UNODC took an active role in preparation for the Secretariat-wide reform initiative for the strengthening of the accountability process and delegations of authority, which is planned to be launched in 2019. Furthermore, UNODC launched its human resources operational strategy for the period 2018–2021 and contributed actively to the development of the new Secretariat-wide human resources strategy submitted for consideration by the Assembly at its seventy-third session.

53. In its resolution [72/262 C](#), the General Assembly requested the Secretary-General to submit a proposal on how a global service delivery model can support the delivery of fit-for-purpose administrative support services to clients across the Secretariat, including through the establishment of global shared services. UNODC is positioned to embrace the implementation of the global service delivery model if approved by the Assembly. Field offices will also be transformed by the planned creation of common United Nations-wide country team operation platforms and back-office support functions currently being considered in the context of the reform of the United Nations development system.

54. Finally, with regard to the budget reform, UNODC presented to Member States the programme implementation plan for 2020 in the new format, which is directly aligned with the Sustainable Development Goals and the Charter of the United Nations.

Enterprise risk management initiative

55. Further to the already fully rolled out risk management framework, in 2018 UNODC took steps to incorporate in its risk management scope the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat. Accordingly, the Office performed preliminary assessments on related risks with the aim of conducting detailed fraud and corruption risk assessments and responses in 2019.

Umoja roll-out

56. During 2018, UNODC actively engaged with the Secretariat-wide Umoja team in the scope expansion initiative (Umoja Extension 2) of the planning capabilities of the existing Umoja enterprise resource planning solution in the areas of strategic management, project and portfolio management, implementing partnership management and fundraising and donor relationship management. In particular, the Office participated in the design and testing of the upgraded functionality and in the

development of training materials so as to ensure that business requirements for entities funded from extrabudgetary resources were fully considered. The successful delivery of Umoja Extension 2 functionality, commencing in 2019, including monitoring and reporting capabilities, will be essential for UNODC operations as Umoja Extension 2 is expected to introduce end-to-end planning and management capabilities for the Office's programmes and projects.

57. The challenge for UNODC in 2019 and beyond will be to ensure that Umoja Extension 2 functionality both meets the business requirements and is deployed seamlessly within the Office's operations in order to take advantage of the expected improvements from the outset. To that effect, UNODC formed a cross-divisional team to cover all aspects of Umoja Extension 2 roll-out, including support for field offices. In parallel, UNODC is focusing on further process improvements to the existing Umoja functionality.

Results-based management

58. UNODC strengthened its culture of results-based management in the context of the 2030 Agenda for Sustainable Development, as requested by the General Assembly in its resolution [71/243](#) on the quadrennial comprehensive policy review of operational activities for development of the United Nations system. The Office also underwent a peer review of its results-based management approach. The results were expected in May 2019.

59. In addition, UNODC stepped up its efforts to integrate the 2030 Agenda into ongoing and new programmes through a series of capacity-building measures and training of UNODC staff. The alignment of UNODC interventions with the Sustainable Development Goals is aimed at fostering results-based delivery and allows for systematic planning, monitoring and reporting.

Chapter V

Financial statements for the year ended 31 December 2018

United Nations Office on Drugs and Crime

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Reference	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	Note 5	70 276	53 995
Investments	Note 6	602 265	433 904
Voluntary contributions receivable	Note 7	138 148	179 167
Other receivables	Note 7	8 891	12 359
Advance transfers	Note 8	18 054	6 437
Advances to UNDP and other assets	Note 9	13 287	11 250
Total current assets		850 921	697 112
Non-current assets			
Investments	Note 6	46 648	136 195
Voluntary contributions receivable	Note 7	113 513	99 258
Property, plant and equipment	Note 10	14 573	11 204
Intangible assets	Note 11	471	631
Total non-current assets		175 205	247 288
Total assets		1 026 126	944 400
Current liabilities			
Accounts payable and accrued liabilities	Note 12	43 676	42 357
Advance receipts	Note 13	27 653	28 320
Employee benefits liabilities	Note 14	3 584	3 497
Provisions	Note 15	—	—
Conditional liabilities	Note 16	81 390	92 637
Total current liabilities		156 303	166 811
Non-current liabilities			
Employee benefits liabilities	Note 14	113 013	117 160
Conditional liabilities	Note 16	69 772	62 045
Total non-current liabilities		182 785	179 205
Total liabilities		339 088	346 016
Total assets and liabilities		687 038	598 384
Accumulated surpluses/(deficits), unrestricted	Note 17	26 941	11 701
Accumulated surpluses/(deficits), restricted	Note 17	660 097	586 683
Total net assets		687 038	598 384

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

United Nations Office on Drugs and Crime

II. Statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Revenue			
United Nations regular budget allocation	Note 18	34 294	30 638
Voluntary contributions	Note 19	332 302	341 218
Other transfers and allocations	Note 19	22 572	5 719
Other revenue	Note 20	6 482	7 778
Investment revenue	Note 21	13 495	6 732
Total revenue		409 145	392 085
Expenses			
Employee salaries, allowances and benefits	Note 22	120 018	107 403
Non-employee compensation and allowances	Note 23	58 757	48 679
Grants and other transfers	Note 24	33 230	47 534
Supplies and consumables	Note 25	5 934	5 500
Depreciation	Note 10	630	1 042
Amortization	Note 11	214	180
Travel		38 403	29 505
Other operating expenses	Note 26	73 767	66 905
Other expenses	Note 27	1 317	1 955
Total expenses		332 270	308 703
Surplus/(deficit) for the year	Note 17	76 875	83 382

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

United Nations Office on Drugs and Crime

III. Statement of changes in net assets for the year ended 31 December 2018

(Thousands of United States dollars)

	<i>Reference</i>	<i>Accumulated surpluses/(deficits), unrestricted</i>	<i>Accumulated surpluses/(deficits), restricted</i>	<i>Total</i>
Net assets as at 1 January 2017		6 229	510 770	516 999
Change in net assets				
Transfers to/from unrestricted/restricted		139	(139)	–
Actuarial gain/(loss)		(1 353)	(644)	(1 997)
Surplus/(deficit) for the year		6 686	76 696	83 382
Net assets as at 31 December 2017		11 701	586 683	598 384
Net assets as at 1 January 2018	Statement I	11 701	586 683	598 384
Change in net assets				
Transfers to/from unrestricted/restricted	Note 17	(8 818)	8 818	–
Actuarial gain/(loss)	Note 14	11 779	–	11 779
Surplus/(deficit) for the year	Statement II	12 279	64 596	76 875
Net assets as at 31 December 2018	Statement I	26 941	660 097	687 038

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

United Nations Office on Drugs and Crime

IV. Statement of cash flows for the year ended 31 December 2018

(Thousands of United States dollars)

	Reference	31 December 2018	31 December 2017
Cash flow from operating activities			
Surplus/(deficit) for the year	Statement II	76 875	83 382
<i>Non-cash movements</i>			
Depreciation and amortization	Notes 10, 11	844	1 222
Actuarial gain/loss on employee benefits liabilities	Note 14	11 779	(1 997)
Transfers and donated property, plant and equipment and intangibles	Notes 10, 11	–	(276)
Net gain/loss on disposal of property, plant and equipment	Note 10	2 220	7 828
<i>Changes in assets</i>			
(Increase)/decrease in voluntary contributions receivable	Note 7	26 764	(29 473)
(Increase)/decrease in other receivables	Note 7	3 468	5 004
(Increase)/decrease in advance transfers	Note 8	(11 617)	9 110
(Increase)/decrease in other assets	Note 9	(2 037)	1 606
<i>Changes in liabilities</i>			
Increase/(decrease) in accounts payable, Member States	Note 12	(140)	(5 891)
Increase/(decrease) in accounts payable, other	Note 12	1 459	1 911
Increase/(decrease) in advance receipts	Note 13	(667)	4 653
Increase/(decrease) in employee benefits payable	Note 14	(4 060)	10 134
Increase/(decrease) in provisions	Note 15	–	(478)
Increase/(decrease) in other liabilities	Note 16	(3 520)	34 643
Investment revenue presented as investing activities	Note 21	(13 495)	(6 732)
Net cash flows from/(used in) operating activities	Note 4	87 873	114 646
Cash flows from investing activities			
Pro rata share of net increases in the cash pool	Note 6	(78 814)	(204 985)
Investment revenue presented as investing activities	Note 21	13 495	6 732
Acquisitions of property, plant and equipment	Note 10	(6 219)	(5 894)
Acquisitions of intangibles	Note 11	(54)	(149)
Net cash flows from/(used in) investing activities	Note 4	(71 592)	(204 296)
Cash flows from financing activities			
Other inflows/(outflows) of cash		–	(251)
Net cash flows from/(used in) financing activities	Note 4	–	(251)
Net increase/(decrease) in cash and cash equivalents	Note 4	16 281	(89 901)
Cash and cash equivalents, beginning of year	Note 5	53 995	143 896
Cash and cash equivalents, end of year	Statement I	70 276	53 995

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

United Nations Office on Drugs and Crime

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2018

(Thousands of United States dollars)

	Publicly available budget ^a		Actual 2018 (budget basis)	Difference ^d (percentage)
	Original 2018 annual ^b	Revised 2018 annual ^c		
Revenue				
United Nations regular budget allocation	20 930	21 407	22 346	4
Voluntary contributions	361 439	361 758	359 989	0
Total revenue	382 369	383 165	382 335	0
Expenses				
A. Policymaking organs	841	841	684	(19)
B. Executive direction and management	3 662	3 745	3 108	(17)
C. Programme of work				
1. Countering transnational organized crime	112 146	104 212	97 517	(6)
2. A comprehensive and balanced approach to counter the world drug problem	154 427	89 649	82 710	(8)
3. Countering corruption	24 538	24 567	25 346	3
4. Terrorism prevention	14 250	14 304	17 603	23
5. Justice	34 997	36 279	33 993	(6)
6. Research, trend analysis and forensics	30 468	33 520	31 298	(7)
7. Policy support	6 015	7 001	6 435	(8)
8. Technical cooperation and field support	11 613	11 707	10 719	(8)
9. Provision of secretariat services and substantive support to the United Nations intergovernmental bodies, the International Narcotics Control Board and the United Nations Congress on Crime Prevention and Criminal Justice	6 426	6 835	7 260	6
D. Programme support	17 102	16 579	16 283	(2)
Total expenses (note 4)	416 485	349 239	332 956	(5)
Net surplus/(deficit)	(34 116)	33 926	49 379	

^a Statement V is reported on an annual basis for reporting purposes. See note 4 for detailed information concerning the 2018–2019 biennial budget.

^b Original approved budget for 2018 of \$416.5 million covers extrabudgetary resources of \$395.6 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (E/CN.7/2018/12-E/CN.15/2018/14). It also includes the 2018 initial appropriation for regular budget section 16 (\$20.0 million) and section 23 (\$0.9 million). The amount for extrabudgetary resources includes the United Nations Interregional Crime and Justice Research Institute.

^c Revised budget for 2018 of \$349.2 million covers extrabudgetary resources of \$327.8 million (see E/CN.7/2018/14-E/CN.15/2018/16). It also includes the revised appropriation for 2018 for regular budget section 16 (\$20.5 million) and section 23 (\$0.9 million) reflected in General Assembly resolutions 73/280 A-C. The amount for extrabudgetary resources includes the United Nations Interregional Crime and Justice Research Institute.

^d Actual expenditure (budget basis) less revised budget, divided by revised budget. Further details and explanations of material differences of 10 per cent or more are provided in note 4, Comparison to budget.

United Nations Office on Drugs and Crime

Notes to the financial statements

Note 1

Reporting entity

United Nations Office on Drugs and Crime and its objectives and activities

1. The United Nations Office on Drugs and Crime (UNODC) was established in 1997¹ through a merger between the United Nations International Drug Control Programme² and the Centre for International Crime Prevention.³ UNODC works with Member States to enhance their efforts to combat the intertwined problems of drug use, trafficking, transnational organized crime, corruption and terrorism by helping to create and strengthen legislative, judicial and health systems to safeguard some of the most vulnerable persons in society.

2. The policy directions of UNODC are grounded in: (a) the Political Declaration and Plan of Action on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem; (b) the outcomes of the twentieth and thirtieth special sessions of the General Assembly, on countering the world drug problem; (c) the United Nations Millennium Declaration; (d) the recommendations resulting from the 2005 World Summit Outcome; (e) Economic and Social Council resolutions 2007/12 and 2007/19; and (f) the 2030 Agenda for Sustainable Development. The Office's work flows logically from these mandates and is reflected in its mission, which is to contribute to the achievement of security and justice for all by making the world safer from drugs, crime and terrorism.

3. In order to enhance the Office's effectiveness and accountability, as well as to strengthen results-based management in line with General Assembly resolution [64/259](#), the programme of work for the biennium 2018–2019 has been organized into six thematic subprogrammes (countering transnational organized crime; a comprehensive and balanced approach to counter the world drug problem; countering corruption; terrorism prevention; justice; and research, trend analysis and forensics) and three cross-cutting subprogrammes that provide services to Member States (policy support; technical cooperation and field support; and provision of secretariat services and substantive support to the United Nations intergovernmental bodies, the International Narcotics Control Board and the United Nations Congress on Crime Prevention and Criminal Justice).

4. The programme of work is delivered by the three substantive divisions of UNODC, namely, the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing for the leveraging of complementarities and synergies among divisions and the Office's extensive field office network. Thematic experts of the Office perform both normative and operational work and also facilitate the development and delivery of technical cooperation programmes at the global, regional and country levels. A fourth division, the Division for Management, is accountable for global administrative support

¹ See [A/51/950](#), paras. 143–145.

² The United Nations International Drug Control Programme was established pursuant to General Assembly resolution [45/179](#) of 21 December 1990 as the body responsible for coordinated international action in the field of drug abuse control. Authority for the Fund of the Programme was conferred on the Executive Director by the General Assembly in its resolution [46/185 C](#) of 20 December 1991.

³ The Crime Prevention and Criminal Justice Programme was established by the General Assembly in its resolution [46/152](#) of 18 December 1991. Since 1997, the Programme has been implemented by the Centre for International Crime Prevention, which was established in accordance with the Secretary-General's reform programme (see [A/51/950](#), sect. V).

through the provision of guidance, oversight and delivery of financial planning, human resources, procurement and conference management services.

5. The governing bodies of the Office are the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and its subsidiary bodies and the Commission on Crime Prevention and Criminal Justice. UNODC also supports the International Narcotics Control Board, the United Nations Congress on Crime Prevention and Criminal Justice, the Conference of the Parties to the United Nations Convention against Transnational Organized Crime and the Conference of the States Parties to the United Nations Convention against Corruption.

6. Headquartered in Vienna, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (7), programme and project offices (87) and liaison and partnership offices (2).

7. UNODC is primarily funded by voluntary contributions to the Fund of the United Nations International Drug Control Programme and to the United Nations Crime Prevention and Criminal Justice Fund. A small portion of UNODC funding is financed from the regular budget of the United Nations approved by the General Assembly.

8. The UNODC financial statements fully incorporate the financial transactions and results of the United Nations Interregional Crime and Justice Research Institute, based in Turin, Italy. The Institute was established in 1967 by the Economic and Social Council following its resolution 1086 B (XXXIX), in which the Council urged an expansion of United Nations activities in crime prevention and criminal justice. The Institute is governed by a board of trustees. The Institute is ruled by a statute adopted by the Council in its resolution 1989/56 and reports to the Secretary-General and the Economic and Social Council through the Commission on Crime Prevention and Criminal Justice.

Note 2

Accounting policies

Basis of preparation

9. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements and accompanying notes are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS).

10. These financial statements have been prepared on a going-concern basis. The assertion is based on the approval by the Commissions and the General Assembly of the budget requirements for 2018–2019 and the historical trend of collection of assessed and voluntary contributions over the past years.

11. These financial statements cover the calendar year ended 31 December 2018. The reporting period coincides with the calendar year.

Authorization for issue

12. These financial statements are certified by the Chief of the Financial Resources Management Service of UNODC and approved by the UNODC Executive Director.

Functional and presentation currency

13. The functional currency of UNODC is the United States dollar, which is also the presentation currency. The statement and notes are presented in thousands of United States dollars unless otherwise indicated. The amounts in the statements and note tables are rounded to the nearest thousand dollars and in text narrative notes. As a result of such rounding, totals may not add up.

14. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. This rate approximates the spot rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the United Nations operational rate of exchange year-end rate. Non-monetary foreign currency items are carried at historical cost or fair value at exchange rates prevailing at the date of the transaction or when the fair value was determined. Resulting exchange gains and losses are presented in the statement of financial performance.

Materiality and use of judgment and estimates

15. The preparation of financial statements in accordance with IPSAS requires use of estimates, judgments and assumptions. Materiality is central to the UNODC decision-making process and guides accounting treatment related to the presentation, disclosure, aggregation, offsetting and timing of application of changes in accounting policies.

16. Accounting estimates and underlying assumptions include, but are not limited to, actuarial measurements, asset useful lives, impairment, inflation and discount rates. These are reviewed on an ongoing basis; revisions to estimates are recognized in the year in which the changes in estimates take place.

Cash flow convention

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

Revenue

Regular budget allocation

18. In its consolidated biennial budget, UNODC includes the regular budget resources that directly finance its programmatic delivery. The relevant sections of the regular budget of the United Nations are sections 16 and 23, which are also included in statement V, on the comparison between budgeted and actual amounts. With the exception of statement V, the IPSAS financial statements take a strict UNODC entity view and include only the regular budget resources directly attributable to the programme delivery and support of UNODC. Consequently, the IPSAS financial statements account for the portion of section 29G of the regular budget of the United Nations, which covers the support to UNODC.

19. Upon approval, the total regular budget of the United Nations is assessed to the Member States in accordance with the scale of assessments determined by the General Assembly. The management and collection of the regular budget assessments is performed centrally by the Secretariat. As a result, UNODC does not control the individual assessment receivables and does not therefore recognize them in its financial statements and instead recognizes in its financial statements the yearly allocation utilized as revenue in the statement of financial performance.

Voluntary contributions

20. Voluntary contributions and other transfers with probable inflow of resources supported by firm enforceable pledges and that are not subject to restrictions are recognized as revenue in full, irrespective of the duration of the agreement. Contributions subject to specific restrictions are recorded as liabilities and the revenue is recognized only when the conditions are met. Contributions and other transfers not supported by enforceable agreements are recognized as revenue only upon receipt of cash.

21. Voluntary contributions receivable balances represent uncollected revenue from enforceable agreements and are stated at nominal value, less specific impairments. An allowance for doubtful receivables is applied on the basis of historical collection experience.

In-kind contributions

22. Outright in-kind contributions and donated rights to use of goods over \$5,000 are recognized as revenue to the extent that future economic benefits or service potential to the Office is probable and reliably measurable. Contributions in kind are initially measured at their fair value at the date of receipt, determined by reference to observable market values or by independent appraisals. In-kind contributions of services are not recognized as revenue but rather disclosed in the notes to the financial statements to the extent that they exceed \$20,000.

Exchange revenue

23. Exchange transactions are those in which the Office provides goods or services, such as training, software and conference management support, to governments, United Nations entities and other partners. Revenue is recognized at fair value when the goods are delivered or the services rendered. Related amounts billed but not collected are included within other receivables, and amounts collected but not yet utilized are included within advance receipts.

Investment revenue

24. The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. The investment revenue includes the Office's share of net cash pool revenue and other interest revenue. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue. Net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. Cash pool revenue also includes unrealized market gains and losses on securities. These are distributed proportionately to all participants on the basis of year-end balances.

25. The Office's share of United Nations investment in the cash pools is reported under cash and cash equivalents, short-term investments and long-term investments, depending on the maturity period. The Office's share of investment cash pool revenue, realized gains on the sale of cash pool securities and realized and unrealized gains and losses are reported in the statement of financial performance.

Expenses

26. UNODC delivers technical assistance programmes through projects in Vienna and its global network of field offices. Projects are executed through direct project delivery or through implementing partners.

27. In accordance with IPSAS, expenses are reported according to the delivery principle. Expenses are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

Leases

28. UNODC enters into lease arrangements for property, plant and equipment where all of the risks and rewards of ownership are not substantially transferred to UNODC.

Such arrangements are classified as operating leases. Payments made under operating leases are expensed over the term of the lease.

29. Leases of tangible assets, where UNODC has substantially all the risks and rewards incidental to ownership of an asset, are classified as finance leases.

30. Assets leased under finance leases are capitalized and included in property, plant and equipment, and the corresponding liability to the lessor is included under other liabilities. A finance lease and the corresponding liability are recognized initially at the lower of the fair value of the asset or present value of the minimum lease payments. Finance charges payable are recognized over the term of the lease on the basis of the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

Donated rights to use

31. Depending on the nature of the agreement, donated-rights-to-use arrangements can be treated as operating or finance leases. Long-term donated-rights-to-use building and land arrangements where UNODC does not have exclusive control over the building and title to the land is not granted are accounted for as operating leases. The threshold for the recognition of revenue and expense for an operating lease is \$20,000. UNODC normally estimates such donated rights by reference to market values for similar properties.

Assets

Classification

32. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. All financial assets are initially measured at fair value. UNODC initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which UNODC becomes party to the contractual provisions of the instrument.

33. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Financial assets at fair value through the surplus or deficit are those that have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the year in which they arise.

34. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recorded at nominal value.

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

36. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with all substantial risks and rewards. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Investment in cash pools

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

38. Investments of UNODC in the cash pools are included as part of cash and cash equivalents, current investments with maturities of between 3 and 12 months and non-current investments with maturities of more than 12 months in the statement of financial position.

Cash and cash equivalents

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

Voluntary contributions receivable

40. Contributions receivable represent uncollected revenue from voluntary contributions committed to UNODC by Governments and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables. Voluntary contributions receivable are subject to an allowance for doubtful receivables on the same basis as other receivables.

Other receivables

41. Other receivables include primarily amounts receivable for goods or services provided to other United Nations entities, amounts receivable for leased-out assets and receivables from staff. Material balances of other receivables and voluntary contributions receivable are subject to specific review; allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Advances to the United Nations Development Programme and other assets

42. Advances include advances to UNDP for administrative and treasury services, education grant advances and prepayments that are recorded as an asset until the goods are delivered or the services are rendered by the other party, at which point the expense is recognized.

Heritage assets

43. Heritage assets are not recognized in the financial statements; significant heritage asset transactions are disclosed in the notes thereto.

Property, plant and equipment

44. Property, plant and equipment items are stated at historical cost less accumulated depreciation and impairment. For donated assets, the fair value at the date of acquisition is utilized as a proxy for historical cost.

45. Assets utilized in the delivery of UNODC programmes or projects are categorized as project assets, whereas those used for non-project specific activities are categorized as management assets. Project assets that are not controlled by UNODC are expensed upon purchase.

46. Property, plant and equipment items are fully depreciated over their estimated useful life using the straight-line method. Land, assets under construction and project assets in transit are not subject to depreciation. The estimated useful lives and capitalization thresholds for the various classes of property, plant and equipment are as follows:

<i>Asset class and subclass</i>	<i>Capitalization threshold (United States dollars)</i>	<i>Estimated useful life (years)</i>
Buildings ^a	20 000	7–50
Communications and information technology equipment ^a	20 000	4–7
Vehicles	5 000	6–12
Furniture and fixtures	20 000	3–10
Machinery and equipment ^a	20 000	5–20
Self-constructed assets	100 000	–
Leasehold improvements	100 000	Shorter of lease term or 5 years

^a Lower threshold of \$5,000 applies to prefabricated buildings, satellite communication systems, generators and network equipment.

47. UNODC enters into construction works, such as building prisons and courthouses for the benefit of Member States. Upon completion, these assets are delivered to end beneficiaries. Work completion is measured on the basis of engineering reports submitted by the implementing partner/subcontractor and the UNODC site engineering team. As these assets are not used by UNODC but rather are delivered to end beneficiaries, no depreciation charge is recognized in the financial statements.

48. Gains or losses resulting from the disposal or transfer of assets are reported in the statement of financial performance under other revenue or other expenses.

49. Impairment reviews for property, plant and equipment are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Intangible assets

50. Intangible assets developed for use by UNODC are carried at cost less accumulated amortization and impairment. Capitalized costs may include acquired computer software licences, direct development costs (for example, employee costs, costs for consultants and applicable overheads) and other costs incurred to acquire and bring the specific software to use. For donated intangible assets, the fair value at the date of acquisition is utilized as a proxy for historical cost.

51. Intangible assets with definite useful lives are fully amortized using the straight-line method over their estimated useful lives. The useful lives and thresholds of major classes of intangible assets have been estimated as follows:

<i>Class</i>	<i>Capitalization threshold (United States dollars)</i>	<i>Estimated useful life (years)</i>
Externally acquired software	20 000	3–10
Internally developed software	100 000	3–10
Licences and rights	20 000	2–6 (period of licence/right)
Assets under development	100 000	Not amortized

52. Impairment reviews for intangibles are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Advance transfers (to implementing partners) and grants

53. UNODC often implements programmatic activities through implementing partners, such as United Nations entities, international and regional organizations, government institutions and non-governmental organizations. Partner deliverables are agreed in joint project and programme cooperation agreements. Advance cash transfers are amounts provided up front to partners to deliver the agreed programme; these are initially recognized as assets and subsequently expensed based on submitted financial reports. In the absence of such financial reports, an informed assessment is made to accrue expenses on the basis of estimates of work completion after close consultation with the UNODC office responsible for managing the partner activities. Binding agreements to fund implementing partners not paid out by the end of the reporting period are shown as commitments under accounts payable and other accrued expenses.

54. UNODC operates outright grant schemes to end beneficiaries provided conditions in project and donor covenants so permit. Individual grant awards are limited to \$60,000. Outright grants are fully expensed upon disbursement, which normally coincides with the signing of the grant award.

Liabilities

Classification

55. Financial liabilities include accounts payable, transfers payable, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations entities. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Office re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Accounts payable and accrued liabilities

56. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for at the reporting date. Payables are recognized and subsequently measured at their nominal value since they are generally due within 12 months.

Advance receipts

57. Advance receipts consist of payments received in advance relating to exchange transactions.

Employee benefits liabilities

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

59. Employee benefits consist of short-term, long-term, post-employment and termination benefits.

60. UNODC recognizes liabilities and accruals for:

- (a) Short-term employee benefits, measured at nominal value;

(b) Post-employment benefits and termination benefits, calculated by independent actuaries using the projected unit credit method. Unfunded actuarial gains and losses arising from changes in actuarial assumptions are recognized in the statement of changes in net assets;

(c) Other long-term employee benefits, measured at nominal value;

(d) The United Nations Joint Staff Pension Fund: in line with the requirements of IPSAS 39: Employee benefits, UNODC has treated this plan as if it were a defined contribution plan. Accordingly, the Office's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. Liabilities to the fund are recognized only to the extent the contributions payable as at the statement date have not been settled.

Short-term employee benefits

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

Other long-term employee benefits

62. Other long-term employee benefits are those not falling due within 12 months and comprise home leave and annual leave.

Post-employment benefits

63. Post-employment benefits comprise payments for end-of-service benefits, including the United Nations Joint Staff Pension Fund, after-service health insurance, repatriation benefits and other end-of-service allowances.

Termination benefits

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

Defined benefit plans

65. The following benefits are accounted for as defined benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated annual leave that is commuted to cash upon separation from the Office (other long-term benefits). Defined benefit plans are those where the Office's obligation is to provide agreed benefits and therefore UNODC bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. UNODC has chosen to recognize changes in the

liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, UNODC held no plan assets as defined by IPSAS 39.

Pension plan: United Nations Joint Staff Pension Fund

66. UNODC participates in the United Nations Joint Staff Pension Fund, which is a funded, multi-employer defined benefit plan, established by the General Assembly to provide retirement, death and disability benefits. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be 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.

67. 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. UNODC and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Office's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNODC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39. The Office's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Non-employee compensation

68. Non-employee compensation and allowances consist of expenses incurred with respect to consultants and contractors, ad hoc experts and United Nations Volunteers. Contracts are held directly with third parties or through other United Nations agency service providers. Non-employees do not earn key allowances and benefits provided to United Nations employees, such as assignment and education grants, a pension, health insurance, leave and severance pay.

Provisions and contingent liabilities

69. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

70. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Office are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

71. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in

which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

Commitments

72. Commitments are future expenses to be incurred by UNODC with respect to open contracts for which the Office has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (the amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that are not delivered as at end of the reporting period, non-cancellable minimum lease payments and other non-cancellable commitments.

Recent and future requirements of the International Public Sector Accounting Standards accounting pronouncements

73. The IPSAS Board has issued the following standards: IPSAS 39 in 2016 effective 1 January 2018, IPSAS 40 in 2017 effective 1 January 2019 and IPSAS 41 in August 2018 effective 1 January 2022. The impact of these standards on the Office's financial statements and the comparative period therein has been evaluated to be as follows:

<i>Standard</i>	<i>Anticipated impact in the year of adoption</i>
IPSAS 39	IPSAS 39: Employee benefits, which replaces IPSAS 25, was effective from 1 January 2018; it will have no impact on UNODC since the option to defer recognition of changes in the net defined liability using the "corridor method", which is being eliminated, has not been applied since the adoption of IPSAS in 2014. In addition, UNODC does not have any plan assets and there is therefore no impact from the application of the net interest approach prescribed by the standard. The applicability of this standard will be reassessed should the Office procure plan assets.
IPSAS 40	IPSAS 40: Public sector combinations, is a new accounting standard effective from 1 January 2019. It will have no impact on UNODC since there are no public sector combinations that fall under the UNODC statements to date. The application of IPSAS 40 will be evaluated should such combinations occur.
IPSAS 41	IPSAS 41: Financial instruments, will replace IPSAS 29: Financial instruments: recognition and measurement, and will substantially improve the relevance of information for financial assets and financial liabilities. The standard will be effective from 1 January 2022 and its impact on the financial statements will be assessed prior to that date.

Note 3

Segment reporting

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

75. In segment reporting, the Office's revenue, expenses, assets and liabilities are presented by reference to two major pillars of its mandate: the United Nations

International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Programme, which includes the United Nations Interregional Crime and Justice Research Institute. Activities that are not earmarked for specific programmes are reported on the basis of the performance ratio of the drug and crime programmes for the purpose of segment reporting.

76. To enhance the financial statements, UNODC also presents expenditures by subprogramme and by geographical region.

Segment reporting by pillar

Statement of financial position

(Thousands of United States dollars)

	31 December 2018			31 December 2017		
	Drug programme	Crime programme	Total	Drug programme	Crime programme	Total
Assets						
Current assets						
Cash and cash equivalents	33 963	36 313	70 276	14 852	39 143	53 995
Investments	291 064	311 201	602 265	225 594	208 310	433 904
Voluntary contributions receivable	36 493	101 655	138 148	75 812	103 355	179 167
Advance transfers and other receivables	12 468	14 477	26 945	3 866	14 930	18 796
Advances to UNDP and other assets	12 651	636	13 287	5 343	5 907	11 250
Total current assets	386 639	464 282	850 921	325 467	371 645	697 112
Assets						
Non-current assets						
Investments (non-current)	22 544	24 104	46 648	70 810	65 385	136 195
Voluntary contributions receivable (non-current)	19 115	94 398	113 513	15 371	83 887	99 258
Property, plant and equipment and intangibles	5 384	9 660	15 044	4 598	7 237	11 835
Total non-current assets	47 043	128 162	175 205	90 779	156 509	247 288
Total assets	433 682	592 444	1 026 126	416 246	528 154	944 400
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	10 548	33 128	43 676	15 097	27 260	42 357
Advance receipts	13	27 640	27 653	714	27 606	28 320
Employee benefits liabilities	1 317	2 267	3 584	1 613	1 884	3 497
Conditional liabilities	18 600	62 790	81 390	25 632	67 005	92 637
Total current liabilities	30 478	125 825	156 303	43 056	123 755	166 811

	31 December 2018			31 December 2017		
	<i>Drug programme</i>	<i>Crime programme</i>	<i>Total</i>	<i>Drug programme</i>	<i>Crime programme</i>	<i>Total</i>
Non-current liabilities						
Employee benefits liabilities	45 729	67 284	113 013	56 109	61 051	117 160
Conditional liabilities	4 527	65 245	69 772	9 328	52 717	62 045
Total non-current liabilities	50 256	132 529	182 785	65 437	113 768	179 205
Total liabilities	80 734	258 354	339 088	108 493	237 523	346 016
Total assets and liabilities	352 948	334 090	687 038	307 753	290 631	598 384
Net assets						
Accumulated surpluses/(deficits), unrestricted	37 736	(10 795)	26 941	16 926	(5 225)	11 701
Accumulated surpluses/(deficits), restricted	315 212	344 885	660 097	290 827	295 856	586 683
Total net assets	352 948	334 090	687 038	307 753	290 631	598 384

Segment reporting by pillar

Statement of financial performance for the year ended

(Thousands of United States dollars)

	31 December 2018			31 December 2017		
	Drug programme	Crime programme	Total	Drug programme	Crime programme	Total
Segment revenue						
United Nations regular budget allocation	18 224	16 070	34 294	13 186	17 452	30 638
Voluntary contributions	142 659	189 643	332 302	182 146	159 072	341 218
Other transfers and allocations	6 967	15 605	22 572	87	5 632	5 719
Other revenue	478	6 004	6 482	2 316	5 462	7 778
Investment revenue	6 620	6 875	13 495	3 388	3 344	6 732
Total revenue	174 948	234 197	409 145	201 123	190 962	392 085
Expenses						
Employee salaries, allowances and benefits	49 127	70 891	120 018	45 410	61 993	107 403
Non-employee compensation and allowances	27 429	31 328	58 757	23 794	24 885	48 679
Grants and other transfers	23 942	9 288	33 230	37 871	9 663	47 534
Depreciation, amortization and impairment	428	416	844	656	566	1 222
Travel	16 072	22 331	38 403	11 878	17 627	29 505
Other operating expenses	31 486	42 281	73 767	31 162	35 743	66 905
Other miscellaneous expenses	4 033	3 218	7 251	4 534	2 921	7 455
Total expenses	152 517	179 753	332 270	155 305	153 398	308 703
Surplus/(deficit) for the year	22 431	54 444	76 875	45 818	37 564	83 382

Segment reporting by geographical region for the year ended

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Africa and the Middle East	66 863	61 987
Eastern and South-Eastern Europe	771	1 134
Global programmes	128 534	118 012
Latin America and the Caribbean	74 385	76 473
South Asia, East Asia and the Pacific	24 760	17 689
West and Central Asia	36 957	33 408
Total expenses	332 270	308 703

Segment reporting by subprogramme for the year ended

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Policymaking organs	665	861
Executive direction and management	3 232	3 366
Countering transnational organized crime	93 373	81 037
A comprehensive and balanced approach to counter the world drug problem	68 060	77 983
Countering corruption	25 891	20 979
Terrorism prevention	16 044	15 189
Justice	30 589	33 037
Research, trend analysis and forensics	31 304	27 701
Policy support	6 280	4 670
Technical cooperation and field support	23 129	14 935
Provision of secretariat services and substantive support to the United Nations intergovernmental bodies, the International Narcotics Control Board and the United Nations Congress on Crime Prevention and Criminal Justice	9 481	5 376
Programme support	24 222	23 569
Total expenses	332 270	308 703

Note 4**Comparison to budget**

77. UNODC budgets are prepared on a modified cash basis, the results of which are presented in statement V. Explanations of material differences between the revised budget amounts and actual expenditure amounts on a modified cash basis are considered in the table below.

78. The original budget for the biennium 2018–2019 of \$772.794 million covers extrabudgetary resources of \$731.357 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see [E/CN.7/2018/12–E/CN.15/2018/14](#)) and regular budget resources of \$41.437 million approved by the General Assembly (resolutions 72/263 A–C) for sections 16 and 23. Of the \$772.794 million, the original budget for 2018 of \$416.485 million is included in these statements.

79. The revised budget for the biennium 2018–2019 of \$752.158 million covers extrabudgetary resources of \$709.820 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see [E/CN.7/2018/14–E/CN.15/2018/16](#)) and regular budget resources of \$42.337 million approved by the General Assembly (resolutions 73/280 A–C) for sections 16 and 23. Of the \$752.158 million, the revised budget for 2018 of \$349.239 million is included in these statements.

80. The explanations of material differences of 10 per cent or more for 2018 are provided below:

<i>Budget caption</i>	<i>Material differences</i>
Policymaking organs	The variance of \$0.157 million relates mainly to the preparatory meetings for the Fourteenth United Nations Congress on Crime Prevention and Criminal Justice scheduled to be held in the first half of 2019.
Executive direction and management	The variance of \$0.637 million is due mainly to delayed recruitment and deployment of staff.
Subprogramme 4, Terrorism prevention	The variance of \$3.298 million is due mainly to higher-than-budgeted implementation of the project on strengthening the legal regime against terrorism, reflecting the receipt of higher-than-anticipated contributions, which enabled the subprogramme to increase its headquarters and field presence significantly and to undertake additional activities in South and South-East Asia.

81. The table below shows the reconciliation between the actual amounts on a comparable basis under statement V and the Office's cash flows under statement IV:

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2018

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total 31 December 2018</i>
Actual amounts on a comparable basis (statement V)	(332 956)	–	–	(332 956)
Basis differences	425 301	–	–	425 301
Entity differences	(7 988)	–	–	(7 988)
Presentation differences	3 516	(71 592)	–	(68 076)
Actual amounts in the statement of cash flows (statement IV)	87 873	(71 592)	–	16 281

82. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the non-cash elements such as budgetary commitments of \$61.174 million (2017: \$40.478 million) and payment against prior-year budgetary commitments of \$25.782 million (2017: \$35.175 million) are included as basis differences. In addition, other IPSAS-specific differences such as the treatment of employee benefits and indirect cash flows relating to changes in receivables and accrued liabilities are included.

83. Entity differences arise when the budget includes programmes that are not part of the UNODC financial statements reporting and vice versa, such as the regular

budget of the United Nations, which is reported under the United Nations financial statements (volume I). The UNODC financial statements encompass a portion of the regular budget allocated to the administrative budget of the United Nations Office at Vienna in support of UNODC programme delivery (see note 18).

84. Presentation differences are the differences in the format and classification schemes between the statement of cash flows and the statement of comparison of budget and actual amounts. The latter does not include the changes in cash pool balances of \$65.319 million (2017: \$198.253 million). Other presentation differences include the fact that the amounts included in the statement of comparison of budget and actual amounts are not segregated into operating, investing and financing activities such as cash flows on property, plant and equipment, including intangibles, of \$6.273 million (2017: \$6.043 million).

85. Timing differences occur if the budget period differs from that of the financial statements. As the budget results under statement V reflect only the 2018 proportion of the biennium, there are no timing differences.

Note 5

Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Cash at bank and on hand	44	35
Cash pool cash and term deposits	70 232	53 960
Total cash and cash equivalents (statement I)	70 276	53 995

86. Cash at bank and on hand represents imprest and petty cash accounts.

87. Cash pool and cash term deposits are held for the purpose of meeting short-term cash requirements.

Note 6

Investments

(Thousands of United States dollars)

	Total 31 December 2018	Total 31 December 2017
Current		
Main pool	602 265	433 904
Euro pool	—	—
Subtotal, current (statement I)	602 265	433 904
Non-current		
Main pool	46 648	136 195
Subtotal, non-current (statement I)	46 648	136 195
Total	648 913	570 099

88. Investments comprise amounts held in the United Nations cash pools and comprise current investments and non-current investments. Further details and analysis of related exposure are provided in note 21.

Note 7

Outstanding voluntary contributions receivable and other receivables

Outstanding voluntary contributions receivable

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current voluntary contributions receivable		
Governments	15 545	26 571
Other governmental organizations	116 384	154 405
United Nations organizations	5 838	1 097
Private donors	2 513	2 546
Total current voluntary contributions receivable before allowance	140 280	184 619
Non-current voluntary contributions receivable		
Governments	188	13 059
Other governmental organizations	112 221	80 609
United Nations organizations	1 104	–
Private donors	–	5 590
Total non-current voluntary contributions receivable before allowance	113 513	99 258
Allowance for doubtful receivables, current	(2 132)	(5 452)
Total allowance for doubtful receivables	(2 132)	(5 452)
Net voluntary contributions receivable, current (statement I)	138 148	179 167
Net voluntary contributions receivable, non-current (statement I)	113 513	99 258
Total voluntary contributions receivable	251 661	278 425

Other receivables

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current other receivables		
Governments	10 001	10 374
Receivables from other United Nations entities	37	158
Other revenue receivables	1 328	1 827
Total other receivables before allowance, current	11 366	12 359
Allowance for doubtful receivables, current	(2 475)	–
Total other receivables (statement I)	8 891	12 359

Movements in allowances for doubtful receivables

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Opening allowance for doubtful receivables	5 452	2 734
Amounts written off ^a	(10 488)	(4 567)
Doubtful receivables adjustment for current year	9 643	7 285
Closing allowance for doubtful receivables	4 607	5 452

^a Note 26 provides further details on the amounts written off.**Ageing of voluntary contributions receivable and other receivables**

(Thousands of United States dollars)

	31 December 2018		31 December 2017	
	Gross receivable	Allowance	Gross receivable	Allowance
Neither past due nor impaired	234 294	(2 475)	283 902	(1 895)
Less than one year	30 658	(1 925)	11 001	(3 049)
One to two years	5	(5)	983	(246)
Two to three years	103	(103)	320	(232)
More than three years	99	(99)	30	(30)
Total	265 159	(4 607)	296 236	(5 452)

89. The balance of outstanding voluntary contributions receivable comprises pledges earmarked for specific activities.

90. All pledges that are outstanding are reviewed and an allowance is created for those that may be deemed irrecoverable.

91. Other receivables primarily include amounts due from employees or from United Nations and other entities for goods supplied, services rendered and operating lease arrangements.

Note 8**Advance transfers**

(Thousands of United States dollars)

	31 December 2018	31 December 2017
United Nations Office for Project Services	2 245	1 586
Advances to other United Nations entities	1 601	886
Implementing partners (Colombia)	11 850	2 614
Other implementing partners	2 358	1 351
Total advance transfers (statement I)	18 054	6 437

92. Advance transfers represent the funds issued to implementing partners responsible for delivering programmes on behalf of UNODC. Advances are issued on the basis of established agreements and expensed when either the service delivery is confirmed through submission of certified financial reports by the partners or, in the

absence of reports, UNODC estimates an accrual for programme delivery after consultation with the responsible UNODC unit.

Note 9

Advances to the United Nations Development Programme and other assets

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Advances to UNDP and other United Nations entities	10 461	7 514
Advances to vendors	134	330
Advances to staff	1 461	1 461
Advances to other personnel	845	1 138
Deferred charges	318	198
Other assets	68	609
Total advances to UNDP and other assets (statement I)	13 287	11 250

93. Advances to staff include advances for salary and entitlements, including travel advances.

94. Advances to UNDP and other United Nations entities are made within their capacity as service providers.

Note 10

Property, plant and equipment

95. The movements and balances for property, plant and equipment of UNODC as at 31 December 2018 are provided below:

Movements and balances for property, plant and equipment, 2018

(Thousands of United States dollars)

	Buildings	Furniture and fixtures	Communications and information technology equipment	Vehicles	Machinery and equipment	Assets under construction	Total
Cost							
As at 1 January 2018	504	362	1 447	9 674	2 079	5 899	19 965
Additions	(4)	69	946	2 045	1 028	2 135	6 219
Disposals ^a	—	(305)	(314)	(1 459)	(909)	—	(2 987)
Completed assets under construction	—	—	—	—	—	—	—
Cost as at 31 December 2018	500	126	2 079	10 260	2 198	8 034	23 197
Accumulated depreciation							
As at 1 January 2018	370	45	992	6 706	648	—	8 761
Depreciation	23	12	128	395	72	—	630
Disposals ^a	—	—	(11)	(755)	(1)	—	(767)
Transfers	—	—	—	—	—	—	—
Accumulated depreciation as at 31 December 2018	393	57	1 109	6 346	719	—	8 624

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Communications and information technology equipment</i>	<i>Vehicles</i>	<i>Machinery and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Net carrying amount							
As at 1 January 2018	134	317	455	2 968	1 431	5 899	11 204
As at 31 December 2018 (statement I)	107	69	970	3 914	1 479	8 034	14 573

^a Disposals include the assets transferred to end beneficiaries as part of UNODC programme delivery.

Movements and balances for property, plant and equipment, 2017

(Thousands of United States dollars)

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Communications and information technology equipment</i>	<i>Vehicles</i>	<i>Machinery and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
As at 1 January 2017	504	82	3 414	9 038	2 424	6 681	22 143
Additions	–	305	381	1 753	758	2 738	5 935
Disposals ^a	(3 520)	(25)	(2 348)	(1 117)	(1 103)	–	(8 113)
Completed assets under construction	3 520	–	–	–	–	(3 520)	–
Cost as at 31 December 2017	504	362	1 447	9 674	2 079	5 899	19 965
Accumulated depreciation							
As at 1 January 2017	304	33	891	6 352	635	–	8 215
Depreciation	66	18	398	468	92	–	1 042
Disposals ^a	–	(3)	(60)	(145)	(78)	–	(286)
Transfers	–	(3)	(237)	31	(1)	–	(210)
Accumulated depreciation as at 31 December 2017	370	45	992	6 706	648	–	8 761
Net carrying amount							
As at 1 January 2017	200	49	2 523	2 686	1 789	6 681	13 928
As at 31 December 2017 (statement I)	134	317	455	2 968	1 431	5 899	11 204

^a Disposals include the assets transferred to end beneficiaries as part of UNODC programme delivery.

96. As at the end of 31 December 2018, UNODC held a total of \$14.573 million (2017: \$11.204 million) in property, plant and equipment. The increase in net assets of \$3.369 million (2017: decrease of \$2.724 million) from the prior period was attributable mainly to the purchase of vehicles, machinery and equipment, and assets under construction for the purpose of programme delivery.

97. UNODC enters into construction works such as building prisons, police stations and courthouses for the benefit of Member States and other end beneficiaries. Once completed, these assets are handed over to the local governments, and the ownership of the property is then fully transferred. During 2018, there were no construction projects transferred to the beneficiaries. Ongoing construction projects amounting to \$8.034 million at the end of 2018 are anticipated to be completed in 2019 and beyond, after which they will be handed over to the beneficiaries.

Note 11 Intangibles

(Thousands of United States dollars)

	<i>Software internally developed</i>	<i>Assets under development</i>	<i>Total</i>
Cost as at 31 December 2017	901	149	1 050
Additions	–	54	54
Disposals	–	–	–
Completed assets under development	203	(203)	–
Cost as at 31 December 2018	1 104	–	1 104
Accumulated amortization as at 31 December 2017	419	–	419
Amortization	214	–	214
Impairment and write-offs in year	–	–	–
Accumulated amortization as at 31 December 2018	633	–	633
Net carrying amount			
31 December 2017	482	149	631
31 December 2018 (statement I)	471	–	471

98. As part of its programme delivery, UNODC has developed several software products, namely, goAML, goCase and goPRS. These software products are provided for use by Member States and other international organizations under service-level agreements.

99. In 2015, following the implementation of Umoja (the enterprise resource planning system), UNODC engaged in developing reporting dashboards, which allow for an overview of project implementation and donor contributions. In 2018, the total assets under development in the amount of \$0.203 million were completed and put into production.

Note 12 Accounts payable and accrued liabilities

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Vendor payables	5 944	6 312
Transfers payable	–	3 272
Payables to other United Nations entities	47	1 671
Accruals for goods and services	11 067	13 026
Other	16 673	7 991
Subtotal	33 731	32 272
Accounts payable, Member States	9 945	10 085
Total accounts payable and accrued liabilities (statement I)	43 676	42 357

100. Transfers payable represent the unspent balance owed to donors for non-exchange transactions.

101. Other includes \$12.275 million in payables to the European Union under conditional liability arrangements.

Note 13

Advance receipts

(Thousands of United States dollars)

	31 December 2018	31 December 2017
United Nations Interregional Crime and Justice Research Institute training fees	86	44
National Drug Control System	748	714
Various software products for Member States	6 682	6 263
Judicial system construction and capacity-building	20 104	21 299
Other advance receipts	33	–
Total advance receipts (statement I)	27 653	28 320

102. Advance receipts consist of deferred income relating to amounts received for exchange transactions not yet implemented.

Note 14

Employee benefits liabilities

Summary of employee benefits liabilities as at 31 December 2018

(Thousands of United States dollars)

	Current	Non-current	Total 31 December 2018
After-service health insurance	744	87 218	87 962
Annual leave	506	7 328	7 834
Repatriation benefits	945	13 464	14 409
Subtotal, defined benefits liabilities	2 195	108 010	110 205
Accrued salaries and allowances	1 389	5 003	6 392
Total employee benefits liabilities (statement I)	3 584	113 013	116 597

Summary of employee benefits liabilities as at 31 December 2017

(Thousands of United States dollars)

	Current	Non-current	Total 31 December 2017
After-service health insurance	625	90 725	91 350
Annual leave	604	7 466	8 070
Repatriation benefits	1 108	13 922	15 030
Subtotal, defined benefits liabilities	2 337	112 113	114 450
Accrued salaries and allowances	1 160	5 047	6 207
Total employee benefits liabilities (statement I)	3 497	117 160	120 657

103. UNODC began the funding of after-service health insurance liabilities on its voluntary funded activities by imposing a levy on the net base salary with effect from December 2012. The current levy for after-service insurance on voluntary funded activity is 9 per cent of the gross salary.

104. The after-service health insurance liability of \$87.962 million comprises \$27.190 million in regular budget liabilities and \$60.772 million in non-regular-budget liabilities. As at 31 December 2018, \$31.334 million (2017: \$25.149 million) of the non-regular-budget liabilities had been funded.

105. On 23 December 2015, the General Assembly adopted resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes affect the calculation of long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented that affects the computation of that short-term benefit. The impact of these changes is explained as follows:

<i>Change</i>	<i>Details</i>
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined UNODC on or after 1 January 2014 is 65. For those who joined before 1 January 2014, the mandatory age of separation has been raised from 60 or 62 to 65 years from 1 January 2018. This change is expected to affect future calculations of employee benefits liabilities.
Unified salary structure	A unified salary scale for internationally recruited staff (Professional and Field Service categories) went into effect on 1 January 2017. Previously, the salary scales were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The unified salary scale resulted in the elimination of single and dependency rates and the dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations and Rules of the United Nations. A revised staff assessment scale and pensionable remuneration scale was implemented along with the unified salary structure. The change in salary scale did not result in reduced payments for staff members. However, it is expected to affect future valuation of the repatriation benefit and the commuted annual leave benefit.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have served for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years of service for prospective employees, while current employees retain the one-year eligibility. This change in eligibility criteria was implemented effective January 2017 and is expected to affect future calculations of employee benefits liabilities.
Education grant	With effect from the school year in progress on 1 January 2018, the computation of the education grant given to eligible staff members utilizes a global sliding scale that is set in one single currency (United States dollar) with the same maximum amount of the grant for all countries. This revised education grant scheme also changes boarding assistance and education grant travel provided by the Organization. The effects can be seen at the end of the 2017/18 school year and at the time of settlements.

106. The policy changes above were taken into consideration in the actuarial valuation conducted in 2017.

107. The liabilities arising from end-of-service/post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. An actuarial valuation is usually

undertaken every two years, with a roll-forward in the second year. The most recent full actuarial valuation was conducted as at 31 December 2017.

108. Location-specific post-employment benefits for the end-of-service allowance for staff in the General Service category are calculated internally at UNODC and reported within accrued salaries and allowances. These amounted to \$5.046 million for 2018 (2017: \$5.047 million).

Actuarial valuation: assumptions

109. The principal actuarial assumptions used to determine the employee benefits obligations at 31 December 2018 and 31 December 2017 are as follows.

Actuarial assumptions

(Percentage)

<i>Assumptions</i>	<i>After-service health insurance</i>	<i>Repatriation benefits</i>	<i>Annual leave</i>
Discount rates, 31 December 2017	2.32	3.54	3.56
Discount rates, 31 December 2018	2.76	4.22	4.25
Inflation, 31 December 2017	3.65–3.85	2.20	–
Inflation, 31 December 2018	3.65–3.85	2.20	–

110. Discount rates are calculated on the basis of a weighted blend of three discount rate assumptions, based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro area corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high-grade corporate bond rates).

111. The 2018 actuarial valuation reports a net actuarial gain of \$11.779 million, comprising a gain of \$10.240 million on after-service health insurance, a gain of \$0.981 million on repatriation grants and a gain of \$0.558 million on annual leave. The actuarial gains are due to the increase in the discount rate assumption.

Movements in employee benefits liabilities accounted for as defined benefit plans

Reconciliation of opening to closing total defined benefits liability

(Thousands of United States dollars)

	<i>2018</i>	<i>2017</i>
Net defined benefits liability as at 1 January 2018	114 451	105 092
Current service cost	7 048	6 964
Interest cost	2 898	2 547
Benefits paid	(2 413)	(2 149)
Total net costs recognized in the statement of financial performance	7 533	7 362
Actuarial (gains)/losses recognized in the statement of changes in net assets	(11 779)	1 997
Net defined benefits liability as at 31 December 2018	110 205	114 451

Discount rate sensitivity analysis

112. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bond markets varied over the reporting

period, which had an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below.

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

<i>31 December 2018</i>	<i>After-service health insurance</i>	<i>Repatriation grant</i>	<i>Annual leave</i>
Increase of discount rate by 1 per cent	(19 378)	(1 321)	(744)
As a percentage of end-of-year liability	(22)	(9)	(9)
Decrease of discount rate by 1 per cent	27 083	1 539	872
As a percentage of end-of-year liability	31	11	11

Medical costs sensitivity analysis

113. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability resulting from changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefits obligations, as shown below.

(Thousands of United States dollars)

<i>2018</i>	<i>Effects on the defined benefits obligations</i>	<i>Effects on current service cost and interest cost</i>
Increase of discount rate by 1 per cent	26 841	2 691
As a percentage of end-of-year liability/service and interest cost	30.5	35.9
Decrease of discount rate by 1 per cent	(19 610)	(1 886)
As a percentage of end-of-year liability/service and interest cost	(22.3)	(25.2)

United Nations Joint Staff Pension Fund

114. The Regulations of the United Nations Joint Staff Pension Fund require that an actuarial valuation be made at least once every three years by the Consulting Actuary. In practice, the United Nations Joint Staff Pension Board has been carrying out an actuarial valuation every two years. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

115. The financial obligation of UNODC to the Pension Fund consists of its mandated contribution, at the rate established by the 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 Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date. Total contributions paid to the Pension Fund during the preceding three years (2015, 2016 and 2017) amounted to \$6,931.39 million, of which 0.8 per cent was contributed by UNODC.

116. During 2017, the 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 biennial 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.

117. The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll-forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll-forward) when the current system of pension adjustments was taken into account.

118. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2017, 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 plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

119. In 2018, contributions paid to the Pension Fund by UNODC amounted to \$14.976 million (2017: \$14.034 million).

120. Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets that are in excess of the liabilities is included in the amount.

121. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board and to the General Assembly on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed on the Fund website (www.unjspf.org).

Note 15

Provisions

122. Provisions are recorded for pending claims when it is determined that an unfavourable outcome is probable and the amount of the loss can be reasonably estimated. As at 31 December 2018, UNODC had no provisions as no assessed liabilities met the criteria.

Note 16

Conditional liabilities

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Liabilities (cash received)	42 999	39 652
Current liabilities (cash not received)	38 391	52 985
Total conditional liabilities (current) (statement I)	81 390	92 637
Non-current liabilities (cash not received)	69 772	62 045
Total conditional liabilities (non-current) (statement I)	69 772	62 045

123. Liabilities for conditional arrangements consist of cash received from the European Union and not yet utilized in the amount of \$42.999 million (2017: \$39.652 million). The liability for the cash not yet received has a contra amount reported within voluntary contributions receivable (other governmental organizations, see note 7).

Note 17

Net assets

(Thousands of United States dollars)

	<i>Accumulated surpluses/(deficits, unrestricted</i>	<i>Accumulated surpluses/(deficits, restricted</i>	<i>Total</i>
Net assets as at 1 January 2017	6 229	510 770	516 999
Change in net assets			
Transfers to/from unrestricted/restricted/reserves	139	(139)	–
Actuarial gain/(loss)	(1 353)	(644)	(1 997)
Surplus/(deficit) for the year	6 686	76 696	83 382
Net assets as at 31 December 2017	11 701	586 683	598 384
Net assets as at 1 January 2018	11 701	586 683	598 384
Change in net assets			
Transfers to/from unrestricted/restricted/reserves	(8 818)	8 818	–
Actuarial gain/(loss)	11 779	–	11 779
Surplus/(deficit) for the year	12 279	64 596	76 875
Net assets as at 31 December 2018	26 941	660 097	687 038

124. The restricted balances consist of donor contributions earmarked for specific activities.

125. The net unrestricted balance consists of unearmarked project fund balances of \$60.171 million (2017: \$47.542 million) and a negative balance of \$33.680 million (2017: negative \$35.841 million) representing the unfunded end-of-service liability originating from the regular budget.

Note 18

United Nations regular budget allocation

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Revenue		
United Nations regular budget allocation	34 294	30 638
Expenditure		
Direct programme activities	23 963	21 437
Support (administrative) activities	10 331	9 201
Total expenditure (statement II)	34 294	30 638
Excess of income over expenditure	–	–

126. UNODC efforts financed by the regular budget of the United Nations encompass direct programme activities, namely, executive direction and management, research, normative work, secretariat support to the intergovernmental bodies and the Commissions and substantive support to the International Narcotics Control Board.

127. Support activities represent administrative services, including finance, human resources and procurement, provided by the United Nations Office at Vienna to UNODC under section 29 of the regular budget of the United Nations. Activities under this caption represent 35.3 per cent of the total administrative budget of the United Nations Office at Vienna. The remainder of the administrative operations of the United Nations Office at Vienna (64.7 per cent) supports other Secretariat entities located in Vienna. For 2018, the expenses consisted of \$22.590 million (2017: \$19.850 million) under section 16, \$0.860 million (2017: \$0.928 million) under section 23, \$7.395 million (2017: \$5.898 million) under section 29G, \$0.513 million (2017: \$0.659 million) under section 35 and \$2.934 million (2017: \$3.303 million) under section 36.

Note 19

Revenue from non-exchange transactions

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Voluntary contributions		
Voluntary contributions in cash	334 536	340 390
Voluntary contributions in kind	1 288	1 890
Total voluntary contributions received	335 824	342 280
Refunds	(3 522)	(1 062)
Net voluntary contributions received (statement II)	332 302	341 218
Other transfers and allocations		
Interorganizational arrangements	22 572	5 719
Total other transfers and allocations (statement II)	22 572	5 719

128. Voluntary contributions in kind reflect primarily donated rights to use for premises for UNODC field offices, typically provided by Governments.

129. Other transfers and allocations consist of interorganizational arrangements, which are amounts received from other United Nations entities.

Services in kind

130. In-kind contributions of services received during the year are not recognized as revenue and are, therefore, not included in the above voluntary contributions in kind. In-kind services received in 2018 in the amount of \$1.839 million (2017: \$1.879 million) consisted of satellite imaging, ad hoc expert advice and free use of training facilities.

Note 20
Other revenue

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Revenue from services rendered	6 388	6 250
Rental income	80	–
Revenue-producing activities and other miscellaneous revenue	14	1 528
Total other revenue (statement II)	6 482	7 778

131. Other revenue represents exchange revenue.

132. Revenue from services rendered consists mainly of the provision of software support and maintenance to Member States, the training of individuals and the provision of other support services to the UNODC governing bodies. It also includes judicial system construction and capacity-building activities for a Member State under exchange revenue arrangements.

Note 21
Financial instruments and financial risk management

(Thousands of United States dollars)

	31 December 2018	31 December 2017
<i>Financial instruments</i>		
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, main pool	602 265	433 904
Short-term investments, euro pool	–	–
Total short-term investments	602 265	433 904
Long-term investments, main pool	46 648	136 195
Total long-term investments	46 648	136 195
Total fair value through the surplus or deficit investments	648 913	570 099
Loans and receivables		
Cash and cash equivalents, main pool	70 232	48 725
Cash and cash equivalents, euro pool	–	5 235
Cash and cash equivalents, other	44	35
Cash and cash equivalents	70 276	53 995
Voluntary contributions	251 661	278 425
Other receivables	8 891	12 359
Other assets (excluding advances)	–	94
Total loans and receivables	260 552	290 878
Total carrying amount of financial assets	979 741	914 972

	31 December 2018	31 December 2017
<i>Financial instruments</i>		
Of which relates to financial assets held in main pool	719 145	618 823
Of which relates to financial assets held in euro pool	–	5 235
Financial liabilities at amortized cost		
Accounts payable and accrued payables (excluding deferred payables)	43 676	42 357
Other liabilities	–	11
Total carrying amount of financial liabilities	43 676	42 368
Summary of net income from financial assets		
Investment revenue	13 495	6 732
Total net income from financial assets (statement II)	13 495	6 732

Financial risk management: overview

133. UNODC has exposure to the following financial risks:

- (a) Credit risk;
- (b) Liquidity risk;
- (c) Market risk.

134. The present note provides information on the exposure of UNODC to those risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk management framework

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

Credit risk

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

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

138. The contributions receivable of UNODC are due mainly from Member States and other United Nations entities that do not have significant credit risk.

139. UNODC evaluates the allowance for doubtful receivables at each reporting date and establishes such an allowance when there is objective evidence that it will not

collect the full amount due. The movement in the allowances account during the year is shown in note 7.

140. UNODC had cash and cash equivalents of \$70.276 million as at 31 December 2018, which is the maximum credit exposure on these assets.

Liquidity risk

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

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

143. UNODC and United Nations Headquarters perform cash flow forecasting and monitor rolling forecasts of liquidity requirements to ensure that sufficient cash is available to meet operational needs. Investments are made by Headquarters with due consideration to the cash requirements for operating purposes based on cash flow forecasting. Headquarters maintains a large portion of UNODC-apportioned investments in cash equivalents and short-term investments sufficient to cover the Office's commitments as and when they fall due.

144. The exposure to liquidity risk is based on the notion that UNODC may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to the receivables, cash and investments available to UNODC and internal policies and procedures put in place to ensure that there are appropriate resources to meet its financial obligations.

Market risk

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

146. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to a change in interest rates. In general, as an interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risk relates to the cash pools.

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

148. The financial assets and liabilities of UNODC are primarily denominated in United States dollars. Non-United States dollar financial assets primarily relate to voluntary contributions, in addition to cash and cash equivalents and receivables held to support local operating activities where transactions are made in local currencies.

UNODC maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars.

149. The most significant exposure to currency risk relates to cash pool cash, cash equivalents and voluntary contributions. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily in euros and Norwegian krone.

Currency exposure as at 31 December 2018

(Thousands of United States dollars)

	<i>United States dollars</i>	<i>Euros</i>	<i>Norwegian krone</i>	<i>Other</i>	<i>Total</i>
Short-term investments	602 265	–	–	–	602 265
Long-term investments	46 648	–	–	–	46 648
Cash and cash equivalents, cash pools	70 232	–	–	–	70 232
Cash and cash equivalents, other	2	–	–	42	44
Subtotal, cash pool	719 147	–	–	42	719 189
Voluntary contributions	52 789	122 847	26 363	49 662	251 661
Other receivables	7 964	307	–	620	8 891
Total	779 900	123 154	26 363	50 324	979 741

150. A strengthening or weakening of the euro exchange rate as at 31 December 2018 would have affected the measurement of investments denominated in a foreign currency and increased or decreased the net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Currency exposure sensitivity analysis as at 31 December 2018

(Thousands of United States dollars)

	<i>Effect on net assets/surplus or deficit</i>	
	<i>Strengthening</i>	<i>Weakening</i>
Euro (10 per cent movement)	12 315	(12 315)
Norwegian krone (10 per cent movement)	2 636	(2 636)
Other (10 per cent movement)	5 088	(5 088)

Other market price risk

151. UNODC is not exposed to significant other market price risk as it has limited exposure to price-related risk linked to expected purchases of certain commodities used regularly in operations. Therefore, a change in those prices can only alter cash flows by an immaterial amount.

Accounting classifications and fair value

152. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits, receivables and payables, carrying value is a fair approximation of fair

value. The carrying value of investments carried at fair value through the surplus or deficit is fair value as these are predominately cash pool assets.

Cash pools

153. In addition to directly held cash and cash equivalents, UNODC participates in the United Nations Treasury cash pools. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Investment Management Guidelines.

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

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

156. Pooling of funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

157. UNODC participates in two United Nations Treasury-managed cash pools, specifically:

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

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

158. As at 31 December 2018, the cash pools held total assets of \$7,510.520 million (2017: \$8,100.209 million), of which \$719.145 million was due to the Office (2017: \$624.059 million), and its share of revenue from cash pools was \$13.495 million (2017: \$6.732 million).

Summary of assets and liabilities of the cash pools as at 31 December 2018

(Thousands of United States dollars)

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Fair value through the surplus or deficit			
Short-term investments	6 255 379	–	6 255 379
Long-term investments	486 813	–	486 813
Total fair value through the surplus or deficit investments	6 742 192	–	6 742 192
Loans and receivables			
Cash and cash equivalents	732 926	5 706	738 632
Accrued investment revenue	29 696	–	29 696
Total loans and receivables	762 622	5 706	768 328
Total carrying amount of financial assets	7 504 814	5 706	7 510 520

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Cash pool liabilities			
Payable to UNODC	719 145	—	719 145
Payable to other cash pool participants	6 785 669	5 706	6 791 375
Total liabilities	7 504 814	5 706	7 510 520
Net assets	—	—	—

Summary of revenue and expenses of the cash pools for the year ended 31 December 2018

(Thousands of United States dollars)

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Investment revenue	153 289	(6)	153 283
Unrealized gains/(losses)	3 836	—	3 836
Investment revenue from cash pools	157 125	(6)	157 119
Financial exchange gains/(losses)	860	6 025	6 885
Bank fees	(805)	—	(805)
Operating expenses from cash pools	55	6 025	6 080
Revenue and expenses from cash pools	157 180	6 019	163 199

Summary of assets and liabilities of the cash pools as at 31 December 2017

(Thousands of United States dollars)

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Fair value through the surplus or deficit			
Short-term investments	5 645 952	—	5 645 952
Long-term investments	1 779 739	—	1 779 739
Total fair value through the surplus or deficit investments	7 425 691	—	7 425 691
Loans and receivables			
Cash and cash equivalents	636 711	13 709	650 420
Accrued investment revenue	24 098	—	24 098
Total loans and receivables	660 809	13 709	674 518
Total carrying amount of financial assets	8 086 500	13 709	8 100 209
Cash pool liabilities			
Payable to UNODC	618 824	5 235	624 059
Payable to other cash pool participants	7 467 676	8 474	7 476 150
Total liabilities	8 086 500	13 709	8 100 209
Net assets	—	—	—

**Summary of revenue and expenses of the cash pools for the year ended
31 December 2017**

(Thousands of United States dollars)

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Investment revenue	104 576	(1)	104 575
Unrealized gains/(losses)	874	–	874
Investment revenue from cash pools	105 450	(1)	105 449
Financial exchange gains/(losses)	7 824	1 610	9 434
Bank fees	(853)	–	(853)
Operating expenses from cash pools	6 971	1 610	8 581
Revenue and expenses from cash pools	112 421	1 609	114 030

Note 22

Employee salaries, allowances and benefits

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Salary and wages	93 046	80 881
Pension, insurance and other benefits	26 972	26 522
Total employee salaries, allowances and benefits (statement II)	120 018	107 403

159. Employee salaries, allowances and benefits include salaries, post adjustment, entitlements, pensions, health insurance plans, travel costs relating to home leave, education grant, assignment, separation and annual leave.

Note 23

Non-employee compensation and allowances

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
United Nations Volunteers	1 442	969
Consultants and contractors	26 889	22 326
Other	30 426	25 384
Total non-employee compensation and allowances (statement II)	58 757	48 679

160. Non-employee costs refer to contracted services from individuals on the basis of time or delivery of defined outputs. Such contracts do not carry the employment benefits to which United Nations staff are entitled.

Note 24
Grants and other transfers

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Grants to end beneficiaries, direct	4 185	18 247
Grants to end beneficiaries, indirect	(6)	11
Transfers to implementing partners	29 051	29 276
Total (statement II)	33 230	47 534

161. Expenses under transfers to implementing partners relate to programmatic delivery executed on behalf of UNODC by other organizations. The amount of \$29.051 million (2017: \$29.276 million) represents the work delivered for the year 2018 on the basis of certified financial reports provided by the implementing partners. In the absence of certified reports, UNODC estimated the work performed by reference to the duration of the agreement and in consultation with the responsible programme managers. Related outstanding advances, that is cash transfers to implementing partners for which work had yet to be delivered as at 31 December 2018, are shown as advance transfers in statement I. Within the total of \$29.051 million related to programmatic delivery by implementing partners, \$16.372 million (2017: \$15.995 million) relates to grant awards to farming cooperatives under the alternative livelihoods programmes in Colombia.

Note 25
Supplies and consumables

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Fuel and lubricants	248	267
Rations	35	37
Spare parts	455	501
Consumables	5 196	4 695
Total supplies and consumables (statement II)	5 934	5 500

Note 26
Other operating expenses

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Contracted services	43 549	40 011
Acquisitions of goods	7 297	6 005
Acquisitions of intangible assets	340	568
Rental of offices and premises	5 015	3 502
Rental of equipment	252	259
Bad debt expense	9 671	7 288
Net foreign exchange losses	3 393	—
Other/miscellaneous operating expenses	4 250	9 272
Total other operating expenses (statement II)	73 767	66 905

162. Acquisitions of goods comprise mainly low-value items for use by UNODC.

163. Bad debt expense totalling \$9.671 million consists of \$10.488 million in write-offs of uncollected pledges and other receivables (2017: \$4.567 million) and a write-off of an advance of \$0.028 million, offset in part by a decrease in the allowance for doubtful debts of \$0.845 million (2017: increase of \$2.718 million). The write-offs consist of \$5.179 million from the United Arab Emirates, \$1.423 million from the United States Agency for International Development, \$0.716 million from Mexico, \$0.706 million from the Netherlands, \$0.522 million from Qatar, \$0.498 million from the United Kingdom of Great Britain and Northern Ireland, \$0.497 million from the Office of Counter-Terrorism, \$0.342 million from Italy, \$0.196 million from the Drosos Foundation, \$0.188 million from Canada, \$0.094 million from the United Nations Population Fund, \$0.088 million from the United States of America and \$0.033 million from other donors.

164. Other/miscellaneous operating expenses includes exchange losses of \$3.393 million (2017: gain of \$1.440 million within other revenue).

165. Contracted services under other operating expenses consist of various services by individuals or institutions. Within the total of \$43.549 million, \$18.052 million (2017: \$15.204 million) represents various contracted services for the facilitation of meeting, workshop and travel services, and \$10.438 million (2017: \$8.504 million) for communications and information technology services.

Note 27

Other expenses

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Contributions in-kind	1 288	1 890
Other/miscellaneous expenses	29	65
Total other expenses (statement II)	1 317	1 955

Note 28

Related parties

Key management personnel

166. The key management personnel of UNODC are the Executive Director, the directors of the four UNODC divisions and the director of the United Nations Interregional Crime and Justice Research Institute, as they all have authority and responsibility for planning, directing and controlling the activities of UNODC. Their compensation is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Salary and post adjustment	1 029	997
Other monetary entitlements	253	201
Non-monetary benefits	266	294
Total remuneration for the period	1 548	1 492

167. Key management personnel earn post-employment benefits at the same level as other employees. With the exception of Pension Fund benefits, post-retirement benefits cannot be reliably quantified.

168. Entitlements include mobility and hardship allowance, home leave and rental subsidy.

169. The key management personnel do not hold any other interests in UNODC.

Note 29

Leases and commitments

Operating leases

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Due in less than one year	979	617
Due in one to five years	432	349
Total minimum operating lease obligations	1 411	966

170. The operating leases consist of the non-cancellable portion of rental agreements in various UNODC field offices. The increase is due mainly to new and amended rental agreements. The average remaining duration of rental agreements is 17 months.

171. UNODC entered into operating leases in the amount of \$1.288 million for donated-right-to-use arrangements for which corresponding revenue is included in statement II and presented within voluntary contributions revenue (see note 19) and other operating expenses (see note 26).

172. As at 31 December 2018, UNODC had no financial leases.

Contractual commitments

173. As at the reporting date, the commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered increased to \$17.939 million (2017: \$12.573 million) owing to higher operational activity.

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Property, plant and equipment	1 911	2 205
Goods and services	16 028	10 368
Total open contractual commitments	17 939	12 573

Note 30

Contingent liabilities and contingent assets

174. A contingent liability arises when there is significant uncertainty about a number of aspects regarding the liability. At 31 December 2018, UNODC had no contingent liabilities.

Note 31

Events after the reporting date

175. The reporting date for these financial statements is 31 December 2018 and they were authorized for issuance by the Executive Director of UNODC on 31 March 2019, on which date they were also submitted to the Board of Auditors. All information relevant to the preparation of the financial statements was considered in the present document. There have been no material events that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.
