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Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2018.

Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2018

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Letters of transmittal

Letter dated 28 March 2019 from the Secretary-General to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to submit herewith the financial statements of the United Nations Compensation Commission for the year ended 31 December 2018, which I hereby approve. The financial statements have been completed and certified by the Controller as correct in all material respects.

(*Signed*) António **Guterres**

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2018.

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

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

Opinion

We have audited the financial statements of the United Nations Compensation Commission, 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/equity (statement III) and the statement of cash flows (statement IV) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission 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 the United Nations Compensation Commission, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Secretary-General 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

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

In preparing the financial statements, the Secretary-General is responsible for assessing the ability of the United Nations Compensation Commission to continue as a going concern, disclosing matters related to the going concern and using the going-concern basis of accounting unless the Secretary-General intends either to liquidate the United Nations Compensation Commission 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 the United Nations Compensation Commission.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations Compensation Commission.

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

- Draw conclusions as to the appropriateness of the use by the Secretary-General 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 the United Nations Compensation Commission 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 the United Nations Compensation Commission to cease to continue as a going concern.

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

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

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission 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 the United Nations Compensation Commission.

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

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

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

24 July 2019

II. Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Compensation Commission for the year ended 31 December 2018, which have been prepared under the International Public Sector Accounting Standards (IPSAS). The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the International Standards on Auditing.

Audit opinion

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

Overall conclusion

The Commission's operating reserve improved from $8.08 million in 2017 to $8.34 million in 2018, representing a 3.28 per cent increase. The Commission's financial position remained sound. The Board found no material misstatements that would affect its opinion on the financial statements of the Commission. The Board notes that, in accordance with decision 276 (2017) of the Governing Council of the Commission, deposits into the United Nations Compensation Fund resumed in 2018, as did payments of compensation towards the outstanding award in accordance with the payment mechanism set out in Governing Council decision 267 (2009).

Key audit findings

Preparedness for liquidation

The Committee on Administrative Matters of the Governing Council decided that the budget would be drawn from the Compensation Fund rather than operating reserves. The Board noticed that, as of December 2018, the operating reserve had a balance of $8.34 million. The Commission has yet to estimate the reserve required for post-closure activities and meeting post-closure liabilities. In addition, there were no specific operational guidelines or parameters set out for expenditure out of the operating reserve.

Main recommendation

In the light of its findings, the Board recommends that the Commission:

(a) **Expedite its preparedness for liquidation. An estimation of the reserve required to be maintained for winding-down and post-closure requirements needs to be carried out, and there should be a transparent basis for such estimation.**

Key facts

$121.18 million	Total assets in 2018, up from $26.35 million in 2017
$112.83 million	Total liabilities in 2018, up from $18.27 million in 2017
$8.34 million	Net assets in 2018, up from $8.08 million in 2017
$1.15 million	Total expenses in 2018, down from $1.22 million in 2017

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission and has reviewed its operations for the financial period 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 International Standards on Auditing.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Commission 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). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Governing Council of the Commission. The Board's report was discussed with the management of the Commission, whose views have been appropriately reflected.

B. Findings and recommendations

1. Follow-up of previous recommendations

4. The Board followed up on the implementation of its previous recommendations and verified the status of outstanding recommendations. Of the two outstanding recommendations up to the year ended 31 December 2017, the Commission has fully implemented one recommendation (50 per cent) and one recommendation (50 per cent) is under implementation. The annex to the present report contains details of the status of implementation of the Board's previous recommendations.

2. Financial overview

5. The Commission is a subsidiary organ of the Security Council and was established in accordance with Security Council resolution 687 (1991) to process claims and pay compensation for damages arising as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991). The United Nations Compensation Fund, from which the awarded claims would be paid, was also established pursuant to resolution 687 (1991). In a report submitted to the Security Council in compliance with resolution 687 (1991) (S/22559), the Secretary-General stipulated that the Compensation Fund would be established as a special account of the United Nations.

6. In total, the Commission received approximately 2.69 million claims seeking approximately $352.50 billion in compensation and approved awards of approximately $52.40 billion in respect of approximately 1.54 million of those claims (representing approximately 15 per cent of the amount claimed). As at 31 December 2018, the Commission had paid $48.10 billion.

7. Funds to pay compensation are drawn from the Compensation Fund, in which deposits are received from Iraq at a defined percentage of the proceeds generated by

the export sales of Iraqi petroleum and petroleum products, pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). In accordance with Governing Council decision 276 (2017), deposits, representing 0.5 per cent of the proceeds of the oil export sales of Iraq resumed into the Compensation Fund in 2018, as did payments of compensation towards the outstanding award in accordance with the payment mechanism set out in Governing Council decision 267 (2009). An amount of $4.4 billion in respect of only one claim remains to be paid. In 2018, the Commission received deposits of $364.62 million and made three quarterly payments totalling $270 million to the remaining claim.

8. Table II.1 depicts the key financial ratios for the Commission. With a ratio of total assets to total liabilities of 1.07, the Commission remained in good financial health. All cash ratios reflected the strong solvency status of the Commission.

Table II.1
Ratio analysis

Description of ratio	*31 December 2018*	*31 December 2017*
Current ratio[a]		
Current assets: current liabilities	1.06	1.69
Total assets: total liabilities[b]		
Assets: liabilities	1.07	1.44
Cash ratio[c]		
Cash + investments: current liabilities	1.06	1.69
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	1.06	1.69

Source: United Nations Compensation Commission financial statements.
[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.
[b] A high ratio is a good indicator of solvency.
[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds that is there in current assets to cover current liabilities.
[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

3. Preparedness for liquidation

Estimation of the reserve required to be maintained for winding-down and post-closure requirements

9. It had earlier been envisaged that the Commission would fulfil its mandate by 2015. In anticipation, the Commission had initiated the liquidation process in 2014. As a part of that process, the Commission's secretariat had taken various steps regarding a staffing needs assessment, the archiving of records and the disposal of assets. With the postponement in deposits of oil receipts in the Compensation Fund from the fourth quarter of 2014 to the last quarter of 2017, however, the liquidation process was also postponed.

10. The Governing Council welcomed the proposal put forward by the Government of Iraq that would see deposits into the Compensation Fund resume in 2018 and that, based on oil price and export projections, would see payment in full of the outstanding award by the end of 2021 (S/AC.26/Dec.276 (2017)). In accordance with decision 276 (2017), the oil deposits have since resumed from 2018. With the payment that

was made in January 2019, the Commission has paid out $48.10 billion, leaving approximately $4.3 billion[1] to be paid to the only residual claimant.

11. It is expected that payment of the outstanding award will be completed by the end of 2021. The Board noted that, considering current oil production and the rising trend of oil prices, the payment of compensation could be completed even earlier. The Commission therefore needs to be prepared for liquidation. The Board noted that the risk of the accelerated payment of outstanding compensation and the termination of the Commission's mandate prior to concluding all liquidation activities was also recognized by the Commission's secretariat in its update on liquidation-related activities presented to the Governing Council in November 2018.

12. The Board noted that, in accordance with the report of the Secretary-General to the Security Council, as required under resolution 687 (1991) (S/22559), the expenses of the Commission, including those of the Governing Council, the commissioners and the secretariat, should in principle be paid from the Compensation Fund. The Governing Council, at its 41st meeting, on 23 March 1994, decided to retain an adequate operating reserve consisting of an amount sufficient to cover at least one year's operating expenses. The Governing Council had also decided, in 1997, to enlarge the reserve sufficiently to provide funding for the remaining three and half years of the workplan. An estimation of the reserve required for post-closure activities and meeting post-closure liabilities in the current situation, however, was yet to be determined. The Board noticed that, in order to ensure sufficient reserves for the orderly wind-down of the Commission and cover any post-closure costs, the Committee on Administrative Matters decided, in October 2015, that the budget would be drawn from the Compensation Fund rather than the operating reserve. The budgets for 2016, 2017 and 2018 were therefore drawn from the Compensation Fund directly, while the surplus at year-end was added to the operating reserve. From 2016 to 2018, a surplus, as shown in table II.2, was added to the operating reserve.

Table II.2
Surplus added to operating reserve

Year	*Amount (United States dollars)*
2016	589 000
2017	244 000
2018	205 000

13. The administrative budget for 2019 was also drawn from the Compensation Fund directly. As of December 2018, the operating reserve had a balance of $8.34 million.

14. The Board observed that, while the intent was to maintain a "sufficient level" of reserves, neither has the specific level been defined nor has the basis for such estimation been stipulated. In addition, there were no specific operational guidelines or parameters set out for expenditure out of the operating reserve.

15. The Commission's secretariat reported that the Governing Council had not made a final determination on the amount to be retained but has made a determination that it be maintained for a period of five years following the closure of the Commission and that the post-closure reserve be kept under the stewardship of the United Nations

[1] The amount is different from financial statements because the United Nations Compensation Commission paid $100 million to the residual claimant on 18 January 2019.

Controller, with any balance remaining after the five years returned to the Government of Iraq, together with a final accounting of all expenditure.

16. The Board is of the view that the reserve required to be maintained be appropriately estimated with a transparent basis for such estimation and that action be taken for mobilizing such a reserve.

17. The Commission's secretariat indicated that a mission was planned to Headquarters at the beginning of May 2019 to resume preliminary discussions on the matter of liquidation expenditure and any reserve that will be needed for expenditures post-closure.

18. **The Board recommends that the Commission expedite its preparedness for liquidation. An estimation of the reserve required to be maintained for winding-down and post-closure requirements needs to be carried out, and there should be a transparent basis for such estimation.**

C. Disclosures by management

Write-off of cash, receivables and property

19. The Commission informed the Board that there were no write-offs of losses of cash, receivables or property during the year 2018.

Ex gratia payments

20. The Commission reported no ex gratia payments for the year ended 31 December 2018.

Cases of fraud, presumptive fraud and financial mismanagement

21. 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.

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

23. The Commission reported no cases of confirmed fraud or presumptive fraud for the year ended 31 December 2018.

D. Acknowledgement

24. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head and other staff at the Commission.

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

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

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

24 July 2019

Annex

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

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Recommendations of the Board*	*Response of the Commission*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
1	S/2018/567	Chap. II, para. 12	Disclose the fact of its budget not being public in the notes to the financial statements	The fact is disclosed in para. 7 of the financial report	The Commission has disclosed the fact of its budget not being public in the financial report and not in the notes to the financial statements. The recommendation is considered to be under implementation		X		
2	S/2018/567	Chap. II, para. 21	Update its workplan for the completion strategy and exit plan, incorporating measurable and achievable outputs, including rationalization of the use of space	The update on liquidation-related activities was prepared and placed before Governing Council on 7 November 2018	The Commission has updated its workplan and placed it before the Governing Council. The recommendation is considered to have been implemented	X			
	Total					**1**	**1**		
	Percentage					**50**	**50**		

III. Certification of the financial statements

Letter dated 20 March 2019 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Compensation Commission for the year ended 31 December 2018 have been prepared in accordance with 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 provide additional information on and clarifications of the financial activities undertaken by the Commission during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission, numbered I to IV, are correct in all material respects.

(*Signed*) Chandramouli **Ramanathan**
Assistant Secretary-General
Controller

IV. Financial report for the year ended 31 December 2018

A. Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the year ended 31 December 2018.

2. The present report is designed to be read in conjunction with the financial statements. Attached hereto is an annex that includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

3. The Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991). The Commission is currently composed of the Governing Council and the secretariat. The Governing Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

4. Approximately 2.7 million claims, with an asserted value of $352.5 billion, were filed with the Commission. The Commission concluded claims processing in 2005, and the total compensation awarded was $52.4 billion, for more than 1.5 million successful claimants. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. By Security Council resolution 1483 (2003), this percentage was reduced from 25 per cent to 5 per cent. In its resolution 1956 (2010), the Council reaffirmed the 5 per cent level and further decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund.

5. With the adoption of its decisions 272 (2014), 273 (2015) and 274 (2016), the Governing Council postponed the obligation of Iraq to deposit 5 per cent of oil proceeds into the Compensation Fund from October 2014 to 31 December 2017. Accordingly, the Commission made no payments towards the remaining claim during that period. As at 31 December 2017, the Commission had paid approximately $47.8 billion in compensation for distribution to successful claimants in all categories, leaving $4.6 billion outstanding.

6. In order to ensure the resolution of the outstanding claim payments, the Governing Council adopted decision 275 (2017), in which it called upon the Governments of Iraq and Kuwait to present options for its consideration that would ensure the final payment of compensation towards the outstanding award by the end of 2021. On the basis of the proposal presented, the Governing Council adopted decision 276 (2017), which provided for 0.5 per cent of proceeds from export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund from 1 January 2018 to 31 December 2018; 1.5 per cent of such proceeds to be deposited from 1 January 2019 to 31 December 2019; and 3 per cent of such proceeds to be deposited from 1 January 2020 until such time as the outstanding compensation award has been paid in full. In accordance with that decision, deposits into the Compensation Fund

resumed in 2018, as did payments of compensation towards the outstanding award in accordance with the payment mechanism set out in decision 267 (2009). In 2018, the Commission received deposits of $364.62 million and made three quarterly payments totalling $270 million to the remaining claim. As at 31 December 2018, the Commission had cumulatively paid approximately $48 billion in compensation for distribution to successful claimants in all categories, leaving $4.4 billion outstanding.

B. Overview of the financial statements for the year ended 31 December 2018

7. Financial statements I, II, III and IV show the financial results of the Commission's activities. The notes to the financial statements explain the Commission's accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements. Given that the budget of the Commission is not publicly available, the Commission is not required under IPSAS to include statement V, statement of comparison of budget and actual amounts.

Revenue

8. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. In 2018, the Commission's budget was funded from the Compensation Fund, in accordance with the directives of the Committee on Administrative Matters of the Governing Council, and, accordingly, the Commission recognized revenue in 2018.

Expenses

9. Under IPSAS, expenses are recorded in the financial statements on an accrual basis when goods and/or services have been received. The 2018 expenses totalled $1.16 million. The main expense category was staff costs of $0.7 million, which constituted 60.6 per cent of the total expenses. Other expenses included contractual services of $0.03 million (2.9 per cent), other operating expenses of $0.42 million (36.3 per cent) and travel costs of less than $0.01 million (0.2 per cent). Total expenses incurred in 2017 amounted to $1.22 million, and the decrease in expenses in 2018 was due mainly to a reduction in the number of meetings of the Governing Council, from three in 2017 to two in 2018.

Operating result

10. As a result of the Commission's budget being funded from the Compensation Fund with a recognition of the corresponding revenue and the incurred expenses during the year below budget, the statement of financial performance shows a surplus for the year.

Assets

11. Assets as at 31 December 2018 totalled $121.18 million, compared with a total of $26.35 million as at 31 December 2017.

12. These assets were held as investment and cash and cash equivalents, representing 100 per cent of the total assets, all of which were held in the main cash pool. These relate to the oil revenue received but not yet paid towards the outstanding compensation award, as well as funds to cover liabilities associated with employee benefits and the operating reserve.

Liabilities

13. Liabilities as at 31 December 2018 totalled $112.84 million, compared with the balance at 31 December 2017 of $18.27 million. The increase reflects the resumption of deposits by the Government of Iraq into the Compensation Fund in 2018.

14. The largest liability ($106.70 million), representing 94.6 per cent of the total liabilities, relates to the accounts payable equivalent of the balance of deposits received at year end, to be applied to the payment of compensation awards in 2019.

15. The other significant liability is the non-current liability for employee benefits earned by staff members and retirees amounting to $5.97 million, which relates primarily to after-service health insurance, representing 5.3 per cent of total liabilities.

Net assets

16. The increase of $0.27 million in net assets during the year reflects a surplus for the year of $0.21 million and actuarial gains on employee benefits liabilities of $0.06 million. The net asset position of $8.35 million reflects the operating reserve of the Commission, which is to be maintained at a sufficient level to finance the Commission's administrative expenses until the completion of its mandate.

Liquidity position

17. The financial matters of the Commission are driven primarily by the oil receipts from Iraq and the payments of compensation awards. Pursuant to Security Council resolution 692 (1991), the administrative expenses of the Commission are to be drawn from the Compensation Fund. Accordingly, the Commission has at its disposal the amount remaining in the accounts payable for compensation awards of $106.70 million. In addition, the Commission has at its disposal the amount remaining in the operating reserve of $8.35 million. The liquidity of the operations of the Commission is therefore assured.

V. Financial statements for the year ended 31 December 2018

United Nations Compensation Commission

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*
Assets – funds held in trust			
Current assets			
Cash and cash equivalents	4, 5	11 834	2 074
Investments	4, 5	101 485	18 466
Deferred expenditure	4	–	15
Total current assets		**113 319**	**20 555**
Investments	4, 5	7 861	5 796
Total non-current assets		**7 861**	**5 796**
Total assets		**121 180**	**26 351**
Liabilities and funds held in trust			
Current liabilities			
Accounts payable: compensation awards	4, 6	106 701	12 038
Other accounts payable and accrued liabilities	4	–	12
Employee benefits liabilities	7	161	134
Total current liabilities		**106 862**	**12 184**
Non-current liabilities			
Employee benefits liabilities	7	5 973	6 087
Total non-current liabilities		**5 973**	**6 087**
Total liabilities		**112 835**	**18 271**
Net of total assets and total liabilities		**8 345**	**8 080**
Net assets			
Operating reserve	8	8 345	8 080
Net assets		**8 345**	**8 080**

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

United Nations Compensation Commission

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

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*
Revenue			
Revenue	9	1 360	1 462
Total revenue		**1 360**	**1 462**
Expenses			
Employee salaries, allowances and benefits	10	700	681
Contractual services	10	34	46
Travel	10	2	1
Other operating expenses	10	419	490
Total expenses		**1 155**	**1 218**
Surplus/(deficit) for the year		**205**	**244**

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

United Nations Compensation Commission

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

(Thousands of United States dollars)

	Note	*Operating reserve*
Net assets as at 1 January 2017		**7 786**
Changes in net assets during 2017		
Actuarial gains/(losses) on employee benefits liabilities	7	50
Surplus for the year		244
Total		**294**
Net assets as at 31 December 2017		**8 080**
Changes in net assets during 2018		
Actuarial gains/(losses) on employee benefits liabilities	7	60
Surplus for the year		205
Total		**265**
Net assets as at 31 December 2018		**8 345**

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

United Nations Compensation Commission

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

(Thousands of United States dollars)

Cash flows from operating activities	*Note*	*31 December 2018*	*31 December 2017*
Surplus/(deficit) for the period		205	244
Non-cash movements			
Actuarial gains/(losses) on employee benefits liabilities	7	60	50
Changes in assets			
(Increase)/decrease in receivables from other United Nations entities		–	60
(Increase)/decrease in deferred expenditure		14	(14)
Changes in liabilities			
Increase/(decrease) in accounts payable: compensation awards	6	94 663	(1 100)
Increase/(decrease) in other accounts payable and accrued liabilities	4	(12)	(10)
Increase/(decrease) in employee benefits liabilities	7	(87)	(84)
Net cash flows from/(used in) operating activities		**94 843**	**(854)**
Cash flows from investing activities			
Net change in the main cash pool investments		(85 083)	(4 577)
Net cash flows from/(used in) investing activities		**(85 083)**	**(4 577)**
Cash flows from financing activities			
Net cash flows from/(used in) financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**9 760**	**(5 431)**
Cash and cash equivalents — beginning of year		2 074	7 505
Cash and cash equivalents — end of year		**11 834**	**2 074**

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

United Nations Compensation Commission
Notes to the 2018 financial statements

Note 1
Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are as follows:

(a) The maintenance of international peace and security;

(b) The promotion of international economic and social progress and development programmes;

(c) The universal observance of human rights;

(d) The administration of international justice and law.

2. These objectives are implemented through the major organs of the United Nations, as follows:

(a) The General Assembly, which focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the Organization;

(b) The Security Council, which is responsible for various aspects of peacekeeping and peacebuilding, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council, which plays a specific role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice, which has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Vienna and Nairobi. It has peacekeeping and political missions, economic commissions, tribunals, training institutes and information and other centres around the world.

Reporting entity

4. The present financial statements relate to the United Nations Compensation Commission, which was established in 1991 in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process and pay claims for direct loss, damage or injury arising from the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991) and to administer a compensation fund from which to pay successful claims.

5. The Governing Council of the Commission established the Follow-up Programme for Environmental Awards in 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, to monitor the financial and technical aspects of 26 environmental remediation and restoration projects being undertaken by the participating Governments with funds awarded by the Commission. The mandate under the Programme was considered fulfilled in late 2013.

6. The Commission is regarded as an autonomous financial reporting entity that neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and mandate of the Commission, it is not deemed to be subject to common control for the purposes of financial reporting under the International Public Sector Accounting Standards (IPSAS). The Commission has no interests in associates or joint ventures. The present statements therefore relate only to the operations of the Commission.

7. The Commission's headquarters is located at the United Nations Office at Geneva.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

8. Pursuant to the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the Commission and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

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

(d) Statement IV: statement of cash flows using the indirect method;

(e) A summary of significant accounting policies and other explanatory notes.

Going concern and wind-down of the Commission

9. The financial statements have been prepared on a going-concern basis, and the accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. The going-concern assertion is based on the fact that Iraq continues to remain liable for the payment of outstanding compensation awards amounting to $4.4 billion under relevant Security Council resolutions. Following three successive one-year postponements of the obligation of Iraq to deposit 5 per cent of the proceeds from oil export sales into the Compensation Fund under Governing Council decisions 272 (2014), 273 (2015) and 274 (2016), deposits resumed on 1 January 2018 pursuant to Governing Council decision 276 (2017). This decision provides for deposits of oil proceeds into the Compensation Fund to resume in 2018 at a rate of 0.5 per cent, 1.5 per cent in 2019 and 3 per cent in 2020 until the outstanding compensation award has been paid in full. The Governing Council, in its decision 276 (2017), also called for the resumption of payments of compensation towards the outstanding award in 2018 in accordance with the payment mechanism set out in its decision 267 (2009). At its eighty-fifth session, on 7 November 2018, the Governing Council noted that current oil price and export levels indicated that the payment of the outstanding award would be fulfilled by the end of 2021. Until that time, the Commission is to remain in place under its current

arrangements, as affirmed by the Governing Council at its special session of November 2017, unless the Governing Council decides otherwise. Accordingly, the mandate of the Commission is considered to be ongoing.

Measurement basis

10. The financial statements are prepared using the historical cost convention, except for some investments and assets recorded at fair value through surplus or deficit. The financial statements are prepared for the year from 1 January to 31 December.

Fund accounting

11. Financial information is maintained on a fund-accounting basis in the Commission. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

Functional and presentation currency

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

13. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency-denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

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

Materiality and use of judgment and estimation

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

16. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies, and in the reported amounts of some assets, liabilities, revenue and expenses.

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

discount rates used in the calculation of the present value of provisions; and the classification of contingent assets/liabilities.

Future accounting pronouncements

18. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Commission's financial statements continue to be monitored:

(a) Heritage assets: the objective of the project is to develop accounting requirements for heritage assets;

(b) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(c) Revenue: the scope of the project is to develop new standard-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(d) Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13: Leases. Approval of a new IPSAS on leases is projected for June 2019;

(e) Public sector measurement: the objectives of this project include (i) issuing amended IPSAS standards with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; (ii) providing more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and (iii) addressing transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs;

(f) Infrastructure assets: the objective of the project is to research and identify issues that preparers have when applying IPSAS 17: Property, plan and equipment to infrastructure assets. Informed by this research, the aim is to provide additional guidance on accounting for infrastructure assets.

Recent and future requirements of the International Public Sector Accounting Standards

19. The IPSAS Board issued the following standards: IPSAS 39: Employee benefits in 2016 and effective 1 January 2018, IPSAS 40: Public sector combinations in 2017 and effective 1 January 2019, and IPSAS 41: Financial instruments in August 2018 and effective 1 January 2022. These standards do not affect the Commission's financial statements for 2018, given that the Commission's activities do not come under the scope of these standards.

Standard	*Anticipated impact in the year of adoption*
IPSAS 39	IPSAS 39 has no impact on the Commission because the "corridor method" of accounting for actuarial gains or losses, which is being eliminated, has never been applied since the adoption of IPSAS in 2014. The Commission does not have any plan assets; therefore, there is no impact from the application of the net interest approach

Standard	*Anticipated impact in the year of adoption*
	prescribed by the standard. IPSAS 39 became effective from 1 January 2018
IPSAS 40	There is no impact on the Commission's financial statements from the application of IPSAS 40 for 2017, given that, to date, there have been no public sector combinations
IPSAS 41	IPSAS 41 substantially improves the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, Financial instruments: recognition and measurement, and improves that Standard's requirements by introducing simplified classification and measurement requirements for financial assets, a forward-looking impairment model and a flexible hedge accounting model. IPSAS 41 will be effective from 1 January 2022. Its impact on the financial statements will be assessed prior to that date

Authorization for issue

20. The present financial statements are certified by the Assistant Secretary-General, Controller, and approved by the Secretary-General. In accordance with financial regulation 6.2, the Secretary-General transmits these financial statements as at 31 December 2018 to the Board of Auditors by 31 March 2019. The report of the Board, together with the audited financial statements, is transmitted through the secretariat of the Commission to the Governing Council, whose Committee on Administrative Matters approves the budget and oversees the financial activities of the Commission.

Note 3
Significant accounting policies

Financial assets classification

21. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. The Commission classifies its financial assets in one of the categories shown below at initial recognition and re-evaluates the classification at each reporting date.

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools and the United Nations Staff Mutual Insurance Society against Sickness and Accident
Loans and receivables	Cash and cash equivalents and receivables

22. All financial assets are initially measured at fair value. The Commission 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 the Commission becomes party to the contractual provisions of the instrument.

23. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations

operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

24. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition or are held for trading, or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are recorded as a variation to the investment proceeds, given that any gains are neither available nor utilizable by the Commission other than for the purposes of the payment of compensation awards (see note 6).

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

26. 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 the permanent reduction in value of the asset. Impairment losses are recognized against the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Commission has transferred substantially all risks and rewards of the financial asset.

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

Investment in cash pools

28. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. 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.

29. The Commission's investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Cash and cash equivalents

30. 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.

Receivables

31. Receivables comprise amounts receivable for goods or services provided to other entities, receivables from other United Nations reporting entities and receivables from staff. Receivables that are considered material are subject to specific review, and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Other assets

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

Financial liabilities: classification

33. Financial liabilities classified as "other financial liabilities" are initially recognized at fair value and subsequently measured at amortized cost. They include accounts payable, transfer payables, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations reporting entities. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Commission 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.

Financial liabilities: accounts payable and accrued liabilities

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

Financial liabilities: compensation awards

35. A percentage of the proceeds from Iraqi oil sales is deposited into the Compensation Fund pursuant to Security Council resolutions 1483 (2003) and 1956 (2010) and is used to pay compensation to successful claimants. The United Nations, through the Compensation Commission, is considered to be an agent responsible solely for the administration of the Fund (see para. 80 below). Accordingly, oil proceeds received are used solely for the purpose of payment of compensation awards and therefore do not meet revenue recognition criteria. Similarly, main pool investment proceeds are applied solely towards successful claims and do not meet revenue recognition criteria. Accordingly, the Commission recognizes an accounts payable balance for the total amount of oil proceeds deposited and investment proceeds, less any revenue drawn from the Compensation Fund for the administrative cost of the Commission.

Operating leases: the Commission as "lessee"

36. The Commission occupies premises and uses equipment through lease agreements. Leases in which all the risks and rewards of ownership are not substantially transferred to the Commission are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Employee benefits

37. 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. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

38. Short-term employee benefits are employee benefits (other than termination benefits, described in para. 47 below) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave and maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees on the basis of services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

39. Post-employment benefits comprise after-service health insurance, end of service repatriation benefits and annual leave, which are accounted for as defined benefit plans in addition to the United Nations Joint Staff Pension Fund.

Defined benefit plans

40. 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 Organization (other long-term benefits). Defined benefit plans are those for which the Commission's obligation is to provide agreed benefits, and therefore the Commission 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. The Organization 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, the Commission held no plan assets as defined by IPSAS 25: Employee benefits.

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

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

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

44. **Annual leave**. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Commission. The Commission recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities, whereby staff members gain access to current period leave entitlements before they gain access to accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at end of service as the true liability of the Commission. The accumulated annual leave benefit reflecting the outflow of economic resources from the Commission at end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly to post-employment benefits; therefore, the Commission values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

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

46. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The Commission and the Pension Fund, in line with the other participating organizations in the Pension Fund, are not in a position to identify the Commission's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. The Commission has therefore treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39. The Commission's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

Termination benefits

47. Termination benefits are recognized as an expense when the Commission is demonstrably committed, without a realistic possibility of withdrawal, to a plan to terminate the employment of a staff member before the normal retirement date. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

48. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Accumulated annual leave is an example of long-term employee benefits.

Provisions

49. 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 Commission has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the expenditure 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 expected to be required to settle the obligation.

Contingent liabilities

50. 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 Commission, 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.

51. An indicative threshold of $10,000 applies in recognizing provisions and/or disclosing contingent liabilities in the notes to the financial statements.

Contingent assets

52. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the effective control of the Commission. Contingent assets are disclosed in the notes when it is more likely than not that economic benefits will flow to the Commission.

Commitments

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

Investment revenue

54. Investment revenue includes the Commission'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 sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue, and the net revenue is distributed proportionately to all participants on the basis of their average daily balances. The cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances. Investment revenue is considered to be related to the Compensation Fund liability and recognized as accounts payable.

Expenses

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

56. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, such as pension and insurance subsidies and staff assignment, repatriation and other allowances. Operating expenses include costs of conferencing, office rental costs and other immaterial expenses.

Note 4
Financial instruments

Table 1
Summary of financial instruments
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Financial assets		
Fair value through surplus or deficit		
Short-term investments – main cash pool	101 485	18 466
Subtotal short-term investments	**101 485**	**18 466**
Long-term investments – main cash pool	7 861	5 796
Subtotal long-term investments	**7 861**	**5 796**
Total fair value through surplus or deficit investments	**109 346**	**24 262**
Cash and cash equivalents		
Cash and cash equivalents – main cash pool	11 834	2 074
Subtotal cash and cash equivalents	**11 834**	**2 074**
Total carrying amount of financial assets	**121 180**	**26 336**
Of which relates to financial assets held in main cash pool	121 180	26 336
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities – accounts payable	–	12
Subtotal accounts payable and accrued liabilities	**–**	**12**

	31 December 2018	*31 December 2017*
Accounts payable – compensation awards (note 6)	106 701	12 038
Total carrying amount of financial liabilities	**106 701**	**12 050**

Note 5
Financial risk management and the main cash pool

Main cash pool

57. In addition to directly held cash and cash equivalents and investments, the Commission participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

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

59. As at 31 December 2018, the Commission participated in the main pool, which held total assets of $7,504.8 million (2017: $8,086.5 million), of which $121.2 million was due to the Commission (2017: $26.3 million), and its share of revenue from the main pool was $1.3 million (2017: $0.3 million). The summary of financial instruments in the main pool is shown in table 2.

Table 2
Summary of assets and liabilities of the main pool as at 31 December 2018
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Fair value through surplus or deficit		
Short-term investments	6 255 379	5 645 952
Long-term investments	486 813	1 779 739
Total fair value through surplus or deficit investments	**6 742 192**	**7 425 691**
Loans and receivables		
Cash and cash equivalents	732 926	636 711
Accrued investment income	29 696	24 098
Total loans and receivables	**762 622**	**660 809**
Total carrying amount of financial assets	**7 504 814**	**8 086 500**
Cash pool liabilities		
Payable to the Compensation Commission	121 180	26 336
Payable to other cash pool participants	7 383 634	8 060 164
Total liabilities	**7 504 814**	**8 086 500**
Net assets	–	–

Table 3
Summary of net revenue and expenses of the main pool for the year ended 31 December 2018

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Investment revenue	152 805	104 576
Unrealized gains/(losses)	3 852	874
Investment revenue from main pool	**156 657**	**105 450**
Foreign exchange gains/(losses)	854	7 824
Bank fees	(805)	(853)
Operating expenses from main pool	**49**	**6 971**
Net revenue and expenses from main pool	**156 706**	**112 421**

Financial risk management

60. The United Nations Treasury is responsible for investment and risk management for the main pool, including conducting investment activities in accordance with the United Nations Investment Management Guidelines.

61. 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.

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

Financial risk management: credit risk

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

64. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications and provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

65. The credit ratings used for the main pool are those determined by major credit-rating agencies. S&P Global Ratings, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The year-end credit ratings are shown in table 4.

Table 4
Investments of the cash pool by credit ratings as at 31 December 2018
(Percentage)

Main pool	*Ratings as at 31 December 2018*				*Ratings as at 31 December 2017*			
Bonds (long-term ratings)								
	AAA	*AA+/AA/AA-*	*A+*	*NR*	*AAA*	*AA+/AA/AA-*	*A+*	*NR*
S&P Global Ratings	15.4	79.0	5.6	–	30.5	65.5	4.0	–
Fitch	55.1	39.3	–	5.6	61.3	30.6	–	8.1
	Aaa	*Aa1/Aa2/Aa3*	*A1*		*Aaa*	*Aa1/Aa2/Aa3*		
Moody's	49.7	50.0	0.3		55.3	44.7		
Commercial papers (short-term ratings)								
	A-1+				*A-1+/A-1*			
S&P Global Ratings	100.0				100.0			
	F1+				*F1*			
Fitch	100.0				100.0			
	P-1				*P-1*			
Moody's	100.0				100.0			
Reverse repurchase agreement (short-term ratings)								
	A-1+				*A-1+*			
S&P Global Ratings	100.0				100.0			
	F1+				*F1+*			
Fitch	100.0				100.0			
	P-1				*P-1*			
Moody's	100.0				100.0			
Term deposits (Fitch viability ratings)								
	aaa	*aa/aa-*	*a+/a/a-*		*aaa*	*aa/aa-*	*a+/a/a-*	
Fitch	–	53.5	46.5		–	44.2	55.8	

Abbreviation: NR, not rated.

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

Financial risk management: liquidity risk

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

Financial risk management: interest rate risk

68. The main pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than three years (2017: four years). The average duration of the main pool was 0.33 years (2017: 0.61 years), which is considered to be an indicator of low risk.

Main cash pool interest rate risk sensitivity analysis

69. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown in table 5 (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 5
Main pool interest rate risk sensitivity analysis as at 31 December 2018

(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**48.46**	**36.34**	**24.23**	**12.11**	–	**(14.89)**	**(24.22)**	**(36.33)**	**(48.44)**

Main pool interest rate risk sensitivity analysis as at 31 December 2017

(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**95.47**	**71.60**	**47.73**	**23.86**	–	**(23.86)**	**(47.72)**	**(71.57)**	**(95.42)**

Other market price risk

70. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value

71. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

Fair value hierarchy

72. Table 6 presents financial instruments carried at fair value, by fair value hierarchy levels. The levels are defined as follows:

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

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

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

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

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

75. The fair value hierarchy in table 6 presents the main pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 6
Fair value hierarchy for investments as at 31 December: main pool
(Thousands of United States dollars)

	31 December 2018			*31 December 2017*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporate	205 566	–	205 566	355 262	–	355 262
Bonds — non-United States agencies	791 922	–	791 922	1 190 050	–	1 190 050
Bonds — non-United States sovereigns	–	–	–	124 892	–	124 892
Bonds — supranationals	174 592	–	174 592	173 275	–	173 275
Bonds — United States treasuries	610 746	–	610 746	610 267	–	610 267
Main pool — commercial papers	219 366	–	219 366	671 945	–	671 945
Main pool — term deposits	–	4 740 000	4 740 000	–	4 300 000	4 300 000
Total main pool	**2 002 192**	**4 740 000**	**6 742 192**	**3 125 691**	**4 300 000**	**7 425 691**

Note 6
Accounts payable: compensation awards

Background

76. Funds to pay successful awards are drawn from the Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has changed over the years and, under the terms of Security Council resolution 1483 (2003), was set at 5 per cent. Security Council resolution 1956 (2010) also provided for 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund. These requirements

are binding on the Government of Iraq, unless the Government and the Governing Council of the Commission decide otherwise.

77. In exercising its authority over the arrangements for ensuring that payments are made to the Compensation Fund, the Governing Council continues to monitor the deposit of revenue into the Compensation Fund.

78. In response to a request from Iraq and owing to the extraordinarily difficult security circumstances facing the country in late 2014, the Governing Council adopted three decisions, 272 (2014), 273 (2015) and 274 (2016), in which it effectively postponed, from 2015 through 2017, the obligation of Iraq to deposit 5 per cent of oil proceeds and 5 per cent of the value of any non-monetary payments to service providers into the Compensation Fund. Under decision 274 (2016), deposits into the Compensation Fund were to resume on 1 January 2018.

Decisions 275 (2017) and 276 (2017)

79. In order to ensure the resolution of the $4.6 billion in outstanding compensation that remained to be paid, the Governing Council adopted decision 275 (2017), in which it called upon the Governments of Iraq and Kuwait to present options for the Governing Council's consideration that would ensure the final payment of compensation towards the outstanding award by the end of 2021. At its special session, held on 21 November 2017, the Governing Council adopted decision 276 (2017), which provides for 0.5 per cent of proceeds from the export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund from 1 January 2018 to 31 December 2018. This amount increases progressively to 1.5 per cent from 1 January 2019 to 31 December 2019 and to 3 per cent from 1 January 2020, until such time as the outstanding compensation award has been paid in full.

Accounting for the oil proceeds

80. Under IPSAS, other than any agreed proportion retained to fund the administration of the Commission, oil revenue received is not reflected as income on the Commission's financial statements but as a liability. The obligation to pay the outstanding award rests with the Government of Iraq, not with the United Nations. The United Nations, through the Commission, is therefore considered to be acting as an "agent", responsible solely for the administration of the Compensation Fund. Oil proceeds received from Iraq and deposited into the Fund are therefore recorded as cash (asset), with a corresponding recognition of accounts payable (liability), in favour of the outstanding claim.

81. As provided for in decision 276 (2017), deposits of 0.5 per cent of the proceeds resumed as at 1 January 2018. During 2018, the Government of Iraq made deposits in the amount of $364.62 million to the Compensation Fund.

82. Table 7 shows the movements in 2018. Investment proceeds accrued are an increase in the liability but are not available for disbursement until the associated cash is received.

Table 7
Accounts payable: compensation awards
(Thousands of United States dollars)

Movement in the accounts payable: Compensation Fund	
Liability at 31 December 2017	**12 038**
Unrealized loss on investment reversal	86
Subtotal: gross liability as at 1 January 2018	**12 124**
Deposits from the Government of Iraq	364 620
Claim payments	(270 000)
2018 administrative budget	(1 360)
Gross investment proceeds	1 683
Subtotal: gross liability as at 31 December 2018	**107 067**
Unrealized loss on investment	(366)
Total liability at 31 December 2018	**106 701**

Accounting for claim payments

83. Pursuant to Governing Council decision 267 (2009), payments are made on a quarterly basis utilizing all available funds in the Compensation Fund, rounding down to the nearest $10 million. Under IPSAS, claim payments made from the Commission are reflected as a direct reduction in the liability recorded to offset the cash deposits, rather than as an expenditure. In accordance with this decision and Governing Council decision 276 (2017), there were three payments for compensation awards in 2018, each $90 million, for a total of $270 million.

Compensation awards approved but not yet paid as at year-end

84. As at 31 December 2018, compensation awards approved by the Governing Council but not yet paid, pending receipt of deposits from the proceeds of oil export sales further to Security Council resolutions 1483 (2003) and 1956 (2010), stood at approximately $4,359 million (2017: $4,629 million).

Note 7
Employee benefits liabilities

Table 8
Employee benefits liabilities
(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2018*
After-service health insurance	124	5 707	5 831
Annual leave	1	27	28
Repatriation benefits	26	53	79
Subtotal defined benefit liabilities	**151**	**5 787**	**5 938**
Termination benefits	–	186	186
Other employee benefits	10	–	10
Total employee benefits liabilities	**161**	**5 973**	**6 134**

	Current	*Non-current*	*Total as at 31 December 2017*
After-service health insurance	111	5 797	5 908
Annual leave	1	28	29
Repatriation benefits	14	76	90
Subtotal defined benefit liabilities	**126**	**5 901**	**6 027**
Termination benefits	–	186	186
Other employee benefits	8	–	8
Total employee benefits liabilities	**134**	**6 087**	**6 221**

85. Other employee benefits consist of accruals for home leave allowance and the settlement of employee taxes.

86. 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. Actuarial valuation is usually undertaken every two years, with the most recent full valuation conducted as at 31 December 2017.

87. The total employee benefits liability decreased by $0.09 million in 2018 owing in large part to the changes in financial assumptions used in the recent actuarial valuation, reflecting the update of the yield curves as at 31 December 2018. It resulted in an actuarial gain of $0.06 million, with the remaining $0.03 million constituted by service costs, interest on obligation and other employee benefits, offset by benefits paid.

Actuarial valuation: assumptions

88. The Commission reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at year-end are set out in table 9.

Table 9
Actuarial assumptions used to determine employee benefits obligations
(Percentage)

Actuarial assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates: 31 December 2017 valuation	0.64	2.64	3.62
Discount rates: 31 December 2018 valuation	0.84	3.41	4.32
Inflation: 31 December 2017 valuation	4.00–5.70	2.20	–
Inflation: 31 December 2018 valuation	3.89–5.57	2.20	–

89. For the 2018 actuarial valuations, the yield curves used in the calculation of the discount rates in respect of the United States dollar, the euro and the Swiss franc are those developed by Aon Hewitt and detailed in the actuarial report. This is consistent with the decision of the Task Force on Accounting Standards established by the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, taken in the context of the harmonization of actuarial assumptions throughout the United Nations system and the recommendation of the Advisory Committee on Administrative and Budgetary Questions (A/71/815, para. 26) endorsed by the General Assembly in section IV of its resolution 71/272 B.

The discount rates reflected in the 2018 after-service liability valuations were based on a weighted blend of per-currency discount rates, themselves calculated on the basis of United States dollar, euro and Swiss franc cash flows.

90. As at 31 December 2018, the salary increase assumptions for the Professional staff category were 8.5 per cent (2017: 8.5 per cent) for the age of 23, grading down to 4.0 per cent (2017: 4.0 per cent) for the age of 70. The assumptions for the General Service staff category were 6.8 per cent (2017: 6.8 per cent) for the age of 19, grading down to 4.0 per cent (2017: 4.0 per cent) for the age of 65.

91. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan cost increases and the economic environment. Medical cost trend rate assumptions that were used for the valuation as at 31 December 2018 were updated to include escalation rates for future years. As at 31 December 2018, these escalation rates were a health-care yearly escalation rate of 3.89 per cent (2017: 4.00 per cent) for Swiss medical plans; a health-care escalation rate of 3.91 per cent (2017: 4.00 per cent) for eurozone medical plans and a health-care escalation rate of 5.57 per cent (2017: 5.70 per cent) for all other medical plans, except 5.38 per cent (2017: 5.50 per cent) for the United States Medicare plan and 4.73 per cent (2017: 4.80 per cent) for the United States dental plan, grading down to 3.05 per cent over 9 years for Swiss medical plans, to 3.65 per cent over 4 years for eurozone medical plans, and to 3.85 per cent over 14 years for all other medical plans.

92. With regard to the valuation of repatriation benefits as at 31 December 2018, inflation in travel costs was assumed to be 2.20 per cent (2017: 2.20 per cent), on the basis of the projected United States inflation rate over the coming 20 years. The assumption for 2017 was over 10 years.

93. Annual leave balances were assumed to increase at the following annual rates during the staff members' projected years of service: 1 to 3 years – 9.1 per cent; 4 to 8 years – 1.0 per cent; 9 years and over —– 0.1 per cent. The attribution method continues to be used for annual leave actuarial valuation.

94. For defined-benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

Table 10
Movement in employee benefits liabilities accounted for as defined benefit plans
(Thousands of United States dollars)

	2018	*2017*
Net defined benefit liability as at 1 January	**6 027**	**6 091**
Current service cost	58	85
Interest cost	40	45
Total net costs recognized in the statement of financial performance	**98**	**130**
Benefits paid	(127)	(144)
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	(60)	(50)
Net defined benefit liability as at 31 December	**5 938**	**6 027**

95. The total amount of current service and interest costs recognized in the statement of financial performance was $0.10 million.

Discount rate sensitivity analysis

96. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bonds markets varied over the reporting year, and volatility affects the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in table 11.

Table 11
Discount rate sensitivity to end-of-year employee benefits liabilities
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
For the year ended 31 December 2018			
Increase of discount rate by 1 per cent	(270)	(3)	(3)
As a percentage of end-of-year liability	(5)	(3)	(10)
Decrease of discount rate by 1 per cent	290	3	4
As a percentage of end-of-year liability	5	3	14
For the year ended 31 December 2017			
Increase of discount rate by 1 per cent	(274)	(3)	(3)
As a percentage of end-of-year liability	(5)	(4)	(10)
Decrease of discount rate by 1 per cent	294	3	4
As a percentage of end-of-year liability	5	3	14

Medical costs sensitivity analysis

97. 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 medical cost rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, the impact on the measurement of the defined benefit obligations would be as shown in table 12.

Table 12
Effect of a 1 per cent movement in assumed medical cost trend rates
(Thousands of United States dollars)

	Increase	*Decrease*
1 per cent movement in the assumed medical costs trend rates: 31 December 2018		
Effect on the defined benefit obligation	1 276	(990)
Effect on the aggregate of the current service cost and interest cost	24	(17)
1 per cent movement in the assumed medical costs trend rates: 31 December 2017		
Effect on the defined benefit obligation	1 293	(1 003)
Effect on the aggregate of the current service cost and interest cost	24	(17)

Other defined-benefits plan information

98. Benefits paid for 2018 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefits payments (net of participants' contributions in these schemes) are shown in table 13 and historical information on liabilities for after-service health insurance, repatriation benefits and annual leave are shown in table 14.

Table 13
Estimated defined benefits payments, net of participants' contributions
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
2018	112	14	1	**127**
2017	105	34	5	**144**

Historical information

Table 14
Liabilities for after-service health insurance, repatriation benefits and annual leave, 2013–2018
(Thousands of United States dollars)

	2013	*2014*	*2015*	*2016*	*2017*	*2018*
Present value of the defined benefit obligations	6 461	8 298	6 422	6 091	6 027	5 938

United Nations Joint Staff Pension Fund

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

100. The Commission's financial obligation 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 Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

101. During 2017, the Pension Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. Accordingly, 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 Pension Fund for its 2016 financial statements.

102. 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.

103. 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 Pension Fund, given that 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 the preparation of this report, the General Assembly had not invoked the provision of article 26.

104. Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or due to the termination of the Pension Fund pension plan, deficiency payments required from each member organization would be based on the proportion of that member organization's contributions to the total contributions paid to the Pension Fund during the three years (2015, 2016 and 2017) amounted to $6,931.39 million.

105. During 2018, contributions paid by the Commission to the Pension Fund amounted to $0.086 million (2017: $0.085 million). Expected contributions due in 2019 are approximately $0.09 million.

106. Membership in the Pension Fund may be terminated by a decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Pension 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 Pension Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Pension Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Pension Fund on the date of termination; no part of the assets that are in excess of the liabilities are included in the amount.

107. 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 annually. The Pension Fund publishes quarterly reports on its investments, which can be viewed on the Pension Fund's website at www.unjspf.org.

Impact of General Assembly resolutions on staff benefits

108. On 23 December 2015, the General Assembly adopted resolution 70/244, in which it approved some 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 other long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented that affects the computation of this short-term benefit. The impact of these changes is explained below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65. For those who joined before 1 January 2014, the mandatory age of separation was raised from 60 or 62 to 65 years with effect from 1 January 2018. This change is expected to have an impact on future calculations of employee benefits liabilities
Unified salary structure	A unified salary scales for internationally recruited staff (Professional and Field Service) went into effect on 1 January 2017. Previously, the salary scales had been 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 an allowance for staff members who have recognized dependents in accordance with Staff Regulations and Rules of the United Nations. A revised staff assessment scale and pensionable remuneration scale were implemented, along with the unified salary structure. The change in salary scale did not result in reduced payments for staff members. Nevertheless, it is expected to affect the future valuation of the repatriation benefit and commuted annual leave
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation, provided they have been in service for at least 1 year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from 1 to 5 years for prospective employees, while current employees retain the 1-year eligibility. This change in eligibility criteria was already implemented effective 1 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 a single currency (United States dollar), with the same maximum amount of the grant for all countries. In addition, this revised education grant scheme also changes boarding assistance and education grant travel provided by the Commission. The impact can be seen at the end of the 2017–2018 school year and at the time of settlements.

109. The impact of these changes, other than the education grant, has been fully reflected in the actuarial valuation conducted in 2018.

Termination benefits

110. Some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission’s accrued liability for these costs at year-end was $0.19 million (2017: $0.19 million).

Note 8
Net assets

111. Net assets and reserves represent the residual interest in the assets of the Commission after deducting all its liabilities. The financial statements reflect the aggregation of two funds: the Compensation Fund and the Follow-up Programme for Environmental Awards.

Operating reserve

112. An operating reserve was established by the Governing Council to finance the Commission's administrative expenses, and this reserve is set aside within the Compensation Fund. As at 31 December 2018, the balance of the operating reserve is $8.33 million (2017: $8.06 million).

113. A separate operating reserve exists for the Follow-up Programme for Environmental Awards that represents a small amount of residual interest earned on the funds in the Follow-up Programme. This small reserve ($0.02 million) will be retained until closing for the orderly wind-down of the Commission and to cover any post-closure costs associated with the Programme.

Note 9
Revenue

Amount charged for administration of claims

114. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. At its 36th meeting, held in October 2017, the Committee on Administrative Matters of the Governing Council directed that, as with two previous budgets, the administrative budget for 2018 be drawn from the Compensation Fund, rather than from the operating reserve, in order to ensure that the reserve continues to remain at a sufficient level for the orderly wind-down of the Commission and to cover any post-closure costs.

115. For the Follow-up Programme for Environmental Awards, revenue consists of interest and investment income on the balance of cash in the Programme fund.

116. As a result of the budget being deducted from the Compensation Fund, statement II, statement of financial performance, shows a surplus for the year, which is incorporated into the operating reserve in statement I, statement of financial position.

Note 10
Expenses

Table 15
Expenses for the year
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Salaries and wages	542	531
Pension and insurance benefits	165	196
Other benefits	(7)	(46)
Total employee salaries, allowances and benefits	**700**	**681**

	31 December 2018	31 December 2017
Consultants and contractors	34	46
Total contractual services	**34**	**46**
Travel	2	1
Total travel	**2**	**1**
Contracted services	283	401
Rent – offices and premises	75	74
Other/miscellaneous operating expenses	61	15
Total other operating expenses	**419**	**490**
Total	**1 155**	**1 218**

117. Salaries and wages include international, General Service and temporary staff salaries, post adjustments and staff assessments. Other benefits include the repatriation grant, leave benefits and termination costs.

118. Contractual services expenses include non-employee compensation, allowances and travel.

119. Travel expenses include all staff and non-staff travel that is not considered to be an employee or contractual allowance or benefit.

120. Other operating expenses are comprised primarily of conferencing, information technology and administrative services of the United Nations Office at Geneva; the costs associated with the audit by the Board; the rental charge for the Commission's office space at the United Nations Office at Geneva, which includes maintenance, utilities and security services costs; and foreign exchange losses.

Note 11
Segment reporting

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

122. The Compensation Fund segment contains the Compensation Fund and related activities of the Commission's secretariat, which include the payment of compensation awards, addressing issues concerning the level of the contribution and arrangements of Iraq for ensuring that payments continue to be deposited into the Compensation Fund, servicing of the Governing Council, financial and general administrative activities of the secretariat and audit matters. In addition, as the Commission nears the conclusion of its mandate, the secretariat focuses additional efforts on liquidation-related activities to ensure the orderly wind-down of the Commission.

123. With the mandate of the Follow-up Programme for Environmental Awards having been declared fulfilled by the Governing Council in late 2013, the Programme segment focuses on winding-down activities, audit matters and possible post-closure issues as they pertain to the Programme.

124. The segment statements of financial position and financial performance are given in tables 16 and 17.

Table 16
Segment statements of financial position as at 31 December 2018

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Assets			
Current assets			
Cash and cash equivalents	11 833	1	11 834
Investments	101 470	15	101 485
Total current assets	**113 303**	**16**	**113 319**
Investments	7 860	1	7 861
Total non-current assets	**7 860**	**1**	**7 861**
Total assets	**121 163**	**17**	**121 180**
Liabilities			
Current liabilities			
Accounts payable: compensation awards/ environmental awards	106 701	–	106 701
Employee benefits	161	–	161
Total current liabilities	**106 862**	**–**	**106 862**
Non-current liabilities			
Employee benefits	5 973	–	5 973
Total non-current liabilities	**5 973**	**–**	**5 973**
Total liabilities	**112 835**	**–**	**112 835**
Net of total assets and total liabilities	**8 328**	**17**	**8 345**
Net assets			
Operating reserve	8 328	17	8 345
Net assets	**8 328**	**17**	**8 345**

Table 17
Segment statements of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Revenue			
Revenue	1 360	–	1 360
Total revenue	**1 360**	**–**	**1 360**
Expenses			
Employee salaries, allowances and benefits	700	–	700

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Contractual services	34	–	34
Travel	2	–	2
Other operating expenses	419	–	419
Total expenses	**1 155**	**–**	**1 155**
Surplus for the year	**205**	**–**	**205**

Note 12
Related parties

Key management personnel

125. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions. The head of the Commission's secretariat, the Executive Head, serves as the representative of the Secretary-General and has the authority and responsibility for planning, directing and controlling activities.

126. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, such entitlements as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund and qualify for post-employment benefits at the same level as other employees. These benefits, payable on separation, cannot be reliably quantified because they depend on the years of service and the actual separation date.

127. The Commission had one staff member in the key management personnel category, with a total remuneration of $0.25 million over the financial year; such payments are in accordance with the Staff Regulations and Rules of the United Nations, the published salary scales of the United Nations and other publicly available documents. As at the reporting date, there were no advances or loans issued to key management personnel other than those commonly available to all staff members. During the year, the Commission paid no remuneration or other benefits, such as consulting or service fees, to close family members of key management personnel.

Related party disclosures

128. Except where otherwise stated in the present statements, all transactions made with third parties, including United Nations organizations, occur within a normal supplier or client/recipient relationship or at arm's-length terms and conditions. Transactions with the United Nations entities comprise those shown in table 18.

Table 18
Transactions with third parties
(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*
United Nations Office at Geneva			
Information technology and administrative services		128	128
Conference services		97	197
Charges in relation to health insurance		100	99

	Note	31 December 2018	31 December 2017
Rental	13	73	73
Total United Nations Office at Geneva		**398**	**497**
Office of Internal Oversight Services		–	10
Total United Nations Offices at Geneva and Headquarters		**398**	**507**

Note 13
Operating leases and commitments

129. The Commission has entered into an operating lease arrangement with the United Nations Office at Geneva for the use of offices in Villa la Pelouse as its premises. The total lease payments recognized in expenditure for the year were $0.07 million (2017: $0.07 million). The arrangement has a six-month early termination clause and the future minimum lease payments for this six-month period are $0.04 million (2017: $0.04 million).

130. As at the reporting date, there were contractual commitments for goods and services contracted but not delivered for an amount of less than $0.01 million (2017: no commitments).

Note 14
Contingent liabilities and contingent assets

131. In the normal course of operations, the Commission may be subject to claims that can be categorized as corporate and commercial, administrative law and other. As at the reporting date, the Commission had neither contingent liabilities nor assets.

Note 15
Events after the reporting date

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