



United Nations

United Nations Children's Fund

Financial report and audited financial statements

**for the biennium ended 31 December 1999
and**

Report of the Board of Auditors

General Assembly

Official Records

Fifty-fifth session

Supplement No. 5B (A/55/5/Add.2)

General Assembly
Official Records
Fifty-fifth session
Supplement No. 5B (A/55/5/Add.2)

United Nations Children's Fund

**Financial report and audited financial
statements**

for the biennium ended 31 December 1999 and

Report of the Board of Auditors



United Nations • New York, 2000

Note

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

Contents

| <i>Chapter</i> | <i>Paragraphs</i> | <i>Page</i> |
|---|-------------------|-------------|
| Abbreviations | | v |
| Letters of transmittal | | vii |
| I. Financial report for the biennium ended 31 December 1999 | | 1 |
| II. Report of the Board of Auditors | | 3 |
| A. Introduction | 1–13 | 4 |
| B. Financial issues | 14–33 | 6 |
| 1. Accounts and financial reporting | 14–31 | 6 |
| 2. Write-offs of losses of cash, receivables and property | 32 | 8 |
| 3. Ex gratia payments | 33 | 9 |
| C. Management issues | 34–92 | 9 |
| 1. Programme management | 34–41 | 9 |
| 2. Internal audit | 42–66 | 10 |
| 3. Private Sector Division, Supply Division and regional and field offices | 67–90 | 13 |
| 4. Cases of fraud and presumptive fraud | 91–92 | 16 |
| D. Acknowledgement | 93 | 16 |
| Annex | | |
| Follow-up on action taken to implement the Recommendations of the Board of Auditors in its report for the biennium ended 31 December 1997 | | 18 |
| III. Audit opinion | | 24 |
| IV. Financial statements for the biennium ended 31 December 1999 | | 25 |
| A. Financial statements | | 26 |
| Statement I. Income and expenditures and changes in reserves and fund balances for the biennium ended 31 December 1999 | | 26 |
| Statement IA. Income and expenditures and changes in reserves and fund balances for the years ended 31 December 1998 and 1999 | | 27 |
| Statement IB. All financial resources for the biennium ended 31 December 1999 | | 28 |
| Statement II. Assets, liabilities, reserves and fund balances as at 31 December 1999 | | 29 |
| Statement III. Cash flows for the biennium ended 31 December 1999 | | 30 |
| Statement IV. Liquidity position as at 31 December 1999 | | 31 |
| Statement V. Status of funding for approved regular resources, supplementary funds and emergency relief and rehabilitation as at 31 December 1999 | | 32 |

| | |
|--|----|
| Statement VI. Programme cooperation: statement of approved programmes, expenditures and unspent balances for general resources, supplementary funds and emergency relief and rehabilitation for the biennium ended 31 December 1999. | 33 |
| Statement VI-1. Programme cooperation: statement of approved programmes, expenditures and unspent balances for regular resources for the biennium ended 31 December 1999 | 39 |
| Statement VI-2. Programme cooperation: statement of approved programmes, expenditures and unspent balances for supplementary funds for the biennium ended 31 December 1999 | 44 |
| Statement VI-3. Programme cooperation: statement of approved programmes, expenditures and unspent balances for emergency relief and rehabilitation for the biennium ended 31 December 1999. | 49 |
| Statement VII. Statement of appropriations for the 1998-1999 biennium as at 31 December 1999. | 53 |
| Statement VIII. Capital assets fund: statement of assets and fund balance as at 31 December 1999. | 54 |
| B. Schedules to the financial statements | 55 |
| Schedule 1. Contributions received or pledged for the biennium ended 31 December 1999 | 55 |
| Schedule 2. Other income for the biennium ended 31 December 1999 | 61 |
| Schedule 3. Cash holdings as at 31 December 1999 | 62 |
| Schedule 4. Contributions receivable for regular resources, supplementary funds and emergency relief and rehabilitation as at 31 December 1999 | 64 |
| Schedule 5. Ageing of contributions receivable as at 31 December 1999 | 69 |
| Schedule 6. Accounts receivable, advances and deposits as at 31 December 1999. | 70 |
| Schedule 7. Inventories as at 31 December 1999. | 71 |
| Schedule 8. Contributions pledged and received in advance as at 31 December 1999 | 72 |
| Schedule 9. Accounts payable and other unliquidated obligations as at 31 December 1999 | 73 |
| Schedule 10. Procurement services and other services for the biennium ended 31 December 1999 | 74 |
| Schedule 11. Income, expenditures and account balance related to procurement services for the biennium ended 31 December 1999 | 78 |
| Schedule 12. Summary of overexpenditures in country programmes for the biennium ended 31 December 1999 | 79 |
| Annexes | |
| I. Notes to the financial statements | 83 |
| II. Glossary of selected terminology. | 90 |

Abbreviations

| | |
|--------|---|
| AGFUND | Arab Gulf Programme for the United Nations Development Organizations |
| AusAID | Australian Agency for International Development |
| BPRM | Bureau of Population, Refugees and Migration (United States of America) |
| CDC | Centers for Disease Control and Prevention (United States) |
| CFA | <i>communaute financière africaine</i> (franc) |
| CIDA | Canadian International Development Agency |
| DHA | Department of Humanitarian Affairs |
| DOS | Department of State (United States) |
| EPF | Emergency Programme Fund |
| FRY | Federal Republic of Yugoslavia |
| HIV | human immunodeficiency virus |
| IFAD | International Fund for Agricultural Development |
| IHA | international humanitarian assistance |
| MOH | Ministry of Health |
| MPH | Ministry of Public Health |
| NORAD | Norwegian Agency for International Development |
| OFDA | Office of Foreign Disaster Assistance (United States) |
| OPEC | Organization of Petroleum Exporting Countries |
| RR | regular resources |
| SIDA | Swedish International Development Authority |
| UNAIDS | Joint United Nations Programme on HIV/AIDS |
| UNCDF | United Nations Capital Development Fund |
| UNDCP | United Nations International Drug Control Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNFIP | United Nations Fund for International Partnerships |
| UNFPA | United Nations Population Fund |

| | |
|--------|--|
| UNHCR | Office of the United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| UNIFEM | United Nations Development Fund for Women |
| UNOCHA | United Nations Office of the Coordinator for Humanitarian Appeals |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| USAID | United States Agency for International Development |
| WFP | World Food Programme |
| WHO | World Health Organization |

Letters of transmittal

27 June 2000

Sir,

Pursuant to financial regulation 11.4, I have the honour to submit the financial report and statements for the biennium ended 31 December 1999. These statements have been prepared and signed by the Comptroller.

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

Accept, Sir, the assurance of my highest consideration.

(Signed) Carol **Bellamy**
Executive Director

The Chairman of the Board of Auditors
United Nations

30 June 2000

Sir,

I have the honour to transmit to you the financial statements of the United Nations Children's Fund, including the Private Sector Division, for the biennium 1998-1999 ended 31 December 1999, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Sir John **Bourn**
Comptroller and Auditor General of the United Kingdom of
Great Britain and Northern Ireland and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium ended 31 December 1999

Introduction

1. The Executive Director of the United Nations Children's Fund (UNICEF) submits herewith the financial report of UNICEF, accompanied by 8 statements and supported by 12 schedules. Of those, statements I, II, III and VII are now presented in line with the formats agreed upon by the Administrative Committee on Coordination as a step towards harmonizing the accounts of agencies in the United Nations system. The financial report provides the financial results of UNICEF activities in 1998 and 1999. Highlights are summarized in the following paragraphs.

Income

2. UNICEF income in the biennium 1998-1999 totalled \$2,084 million. Virtually all Governments of both industrialized and developing countries contributed to UNICEF during the period. Income comprised \$1,160 million for regular resources, \$611 million for supplementary funds and \$313 million in emergency contributions. The breakdown of UNICEF income by source is: 62 per cent (\$1,290 million) from Governments; 34 per cent (\$701 million) from fund-raising campaigns, sale of greeting cards and individual donations; and 4 per cent (\$81 million) from miscellaneous sources, including interest and exchange rate revaluation of assets and liabilities. A total of \$12 million was contributed under inter-organizational arrangements.

Expenditures

3. UNICEF expenditures in the biennium 1998-1999 totalled \$1,927 million. This amount consisted of \$889 million for programme cooperation from regular resources, \$598 million for programme cooperation from supplementary funds and \$269 million for emergency relief and rehabilitation. The remaining expenditures of \$171 million were for management and administration.

Donations in kind

4. Donations in kind valued by donors at \$210 million were delivered by UNICEF to projects during the biennium. Those deliveries are not reflected in the financial accounts of UNICEF, although they are handled through the administrative structures of the organization.

Trust funds

5. Trust funds not related to programmes approved by the UNICEF Executive Board are not entered in the financial accounts of UNICEF as income and expenditures. These funds are used mainly to cover the cost of goods and services purchased and delivered on a reimbursable basis by UNICEF on behalf of Governments, other agencies in the United Nations system and non-governmental organizations. In the biennium 1998-1999, UNICEF received cash of \$403 million for these trust funds. Disbursements and obligations totalled \$295 million.

Cash holdings

6. UNICEF had total cash of \$559 million (which includes the unspent balances from trust funds in the amount of \$105 million). An amount of \$558 million was held in first-class banks, comprising \$518 million in interest-bearing time deposit accounts and \$40 million in current bank accounts. Cash-on-hand accounts amounted to \$1 million.

Approved programmes

7. During the biennium 1998-1999, the Executive Board approved the amount of \$2,689 million for new programmes for children in countries with which UNICEF cooperates, as well as for regional and interregional projects. This total includes \$1,753 million in programmes to be funded from UNICEF regular resources and \$618 million for projects that the Board approved as worthy of support and that were financed by pledges of supplementary funds made in 1998-1999. The total also includes \$318 million for projects financed by pledges for emergency relief and rehabilitation.

(Signed) Carol **Bellamy**
Executive Director
United Nations Children's Fund

Chapter II

Report of the Board of Auditors

Summary

The Board of Auditors has audited the operations of the United Nations Children's Fund and its related operations at UNICEF headquarters in New York, Copenhagen and Geneva and at nine regional and field offices. The Board also validated the financial statements of UNICEF for the biennium ended 31 December 1999.

The Board's main findings are as follows:

(a) The financial operations of UNICEF for the biennium 1998-1999 ended with an excess of income over expenditure of \$138.4 million compared with a shortfall of \$14.6 million declared in the biennium 1996-1997;

(b) UNICEF has changed its financial regulations to reflect the new definition of programme expenditure approved by its Executive Board in September 1999. UNICEF has yet to further define disbursements in the new definition of programme expenditure;

(c) Despite the improvement in the programme implementation rate from 72 per cent in 1998 to 77 per cent in 1999, programme implementation levels during the biennium 1998-1999 were below the benchmark of 80 per cent;

(d) The Office of Internal Audit's coverage of 38 field offices in 1999 was higher than the 36 field audits undertaken in 1998; the coverage in both years exceeded its annual planned coverage of 28 field offices;

(e) Working papers of the Office of Internal Audit were not indexed and cross-referenced to provide the necessary audit trail to facilitate review, and there was no evidence of supervisory review of the working papers;

(f) The Private Sector Division's net consolidated income from regular and other resources of \$356.4 million exceeded its approved budgeted income of \$311.2 million by \$45.2 million and was \$83.8 million higher than the actual income of \$272.6 million recorded for 1998;

(g) UNICEF secured the agreement of the National Committees to transfer their net sales proceeds to the organization on a quarterly basis instead of six months after the end of the fiscal years of the National Committees.

The Board made recommendations to improve programme management, strengthen the control and monitoring of expendable property and improve the functioning of the Office of Internal Audit.

A list of the Board's main recommendations is included in paragraph 12.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Children's Fund (UNICEF) and its related operations for the biennium ended 31 December 1999 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 1998-1999 had been incurred for the purposes approved by the Executive Board of UNICEF; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNICEF presented fairly the financial position as at 31 December 1999 and the results of the operations for the period then ended.

3. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article XII of the Financial Regulations and Rules of UNICEF. The reviews concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNICEF.

5. The audit was carried out at UNICEF headquarters in Geneva, New York and Copenhagen and at the field and regional offices in Brazil, Colombia, the Congo, Georgia, Haiti, Indonesia, Kenya, Malawi and Malaysia, including Private Sector Division offices (formerly known as the Greeting Card Operation) in New York and Geneva.

6. During the period under review, the Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped to maintain an ongoing dialogue with the Administration on audit issues.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions on all matters contained in the present report were discussed with the Administration, whose views, where appropriate, have been reflected in the report. The report is divided into two parts, covering the audit of financial and management issues, respectively.

8. A summary of the Board's main recommendations is contained in paragraph 12. The detailed findings are reported in paragraphs 14 to 92.

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by the Administration to implement the recommendations made in its report for the

biennium ended 31 December 1995¹ and confirms that there are no outstanding matters.

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1997². Details of the action taken and the comments of the Board are set out in the annex to the present report.

11. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving implementation of its recommendations approved by the Assembly, subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

- (a) The need for specification of timetables for the implementation of recommendations;
- (b) The disclosure of office-holders to be held accountable;
- (c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

The Board noted that the Administration had generally complied with those requirements.

Main recommendations

12. The Board's main recommendations are:

- (a) **UNICEF should closely monitor the level of programme implementation so that desired implementation benchmarks can be achieved (para. 36);**
- (b) **UNICEF should revise the mandate of the Office of Internal Audit to reflect the annual reporting to the Executive Board (para. 45);**
- (c) **The UNICEF Office of Internal Audit should formulate policy guidelines on the preparation of the working papers in compliance with accepted internal auditing standards, and evidence of a supervisory review should be shown on working papers to confirm that they have been subject to the proper level of review (para. 53);**
- (d) **UNICEF should take expeditious action to extend the database tracking system to all regional offices and headquarters divisions to enhance the capacity for monitoring internal audit recommendations (para. 65);**
- (e) **The Americas and the Caribbean Regional Office should ensure that the integrated monitoring and evaluation plan is implemented in the remaining 23 country offices in order to enhance monitoring and evaluation of programmes in the region (para. 86).**

13. The Board's other recommendations are shown in paragraphs 19, 38, 57, 80, 83, 88 and 90.

B. Financial issues

1. Accounts and financial reporting

United Nations accounting standards

14. The Board assessed the extent to which financial statements of the United Nations Children's Fund for the biennium ended 31 December 1999 conformed to the United Nations accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards.

Operational results

15. The total combined income of \$2.08 billion for all funds for the biennium ended 31 December 1999 was higher than the income of \$1.85 billion recorded for the biennium 1996-1997. Total expenditure of \$1.83 billion for the biennium 1996-1997 increased by 5 per cent to \$1.93 billion, for the biennium 1998-1999.

16. The financial operations of UNICEF for the biennium 1998-1999 ended with an excess of income over expenditure of \$138.4 million compared with a shortfall of \$14.6 million declared in the biennium 1996-1997. General resources, the main source of UNICEF income, recorded an excess of income over expenditure of \$95.1 million, compared with \$40.6 million for the biennium 1996-1997. Supplementary funds and emergency relief and rehabilitation funds also recorded an excess of income over expenditure, of \$6.9 million and \$36.3 million respectively, for the biennium 1998-1999, as against shortfalls of \$12.7 million and \$42.4 million respectively for the biennium ended 31 December 1997.

17. The liquidity position of UNICEF as at 31 December 1999 is set out in statement IV. In this context, liquidity is defined as the ability of the organization to discharge its short-term obligations as and when they fall due. As at 31 December 1999 the current assets of UNICEF of \$939.3 million exceeded current liabilities of \$655.1 million by \$284.2 million, disclosing a liquidity ratio of 1.43 to 1. Although this position showed an improvement of 5 per cent over the liquidity position of 1.36 to 1 as at 31 December 1997, it is still below the generally accepted norm, which requires that current assets exceed current liabilities by 2 to 1.

18. The liquidity policy of UNICEF also requires that the convertible cash balance with respect to general resources equal 10 per cent of projected general resources income. In the presentation of the financial statements for the biennium ended 31 December 1999, the convertible cash balances for general resources and supplementary funds were not disclosed separately to permit the determination of the liquidity position of UNICEF in accordance with its policy. The statements showed instead a combined convertible cash total of general resources and supplementary funds of \$541 million. The Board considers that the current presentation did not enhance transparency and did not promote a better understanding of the Fund's liquidity position.

19. The Board is pleased to note the significant increase in the total combined income of UNICEF for the biennium 1998-1999, but **recommends that UNICEF:**

(a) Further improve its working capital management in order to attain the accepted standard;

(b) Disclose separately convertible cash balances for general resources and supplementary funds in the notes to the financial statements to facilitate the determination of liquidity position in accordance with UNICEF policy.

20. The Administration informed the Board that it would continue to exert efforts to further improve the liquidity position. The Administration further stated that it would review the issue of separate disclosure of convertible balances in the notes to the financial statements when preparing the next financial statements.

Cash assistance to Governments

21. Cash assistance to Governments is aimed at supporting programme implementation in countries with which UNICEF cooperates. In its report for the biennium ended 31 December 1995, the Board expressed concern about recording such assistance as programme expenditure at the time funds are advanced to Governments contrary to the definition of programme expenditure in the UNICEF Financial Regulations and the policy manual on accounts.

22. The Board of Auditors, therefore, recommended that the Administration review the policy of recording cash assistance to Governments in line with the provisions of the Financial Regulations and the policy manual on accounts.

23. The Board's follow-up of this issue disclosed that the Administration had carried out a review and had revised the definition of programme expenditure as follows: "the sum of the disbursements and valid unliquidated obligations made against the allocation of the period in respect of direct inputs needed to achieve the objectives of a specific project or programme. This may typically include experts, support personnel, supplies and equipment, subcontracts, cash assistance and individual or group training". The amendment to its Financial Regulations to reflect the current definition was approved by the UNICEF Executive Board in its decision 1999/21 of 10 September 1999.

24. The Board of Auditors noted that in March 2000 the Administration had reviewed financial circular 15, which provides guidance on cash assistance to Governments. UNICEF had not defined disbursement in the new definition of expenditure in its policy and procedures manual on accounts to support the current treatment of cash assistance to Governments as expenditure.

25. UNICEF informed the Board that it was in the process of reviewing the policy and procedure manual on accounts to reflect the definition of disbursement in the new definition of programme expenditure.

26. The Board of Auditors noted that total unliquidated cash assistance to Governments as at 31 December 1999 was \$159.9 million, compared with \$111.7 million as at 31 December 1997, an increase of \$48.2 million. The programme expenditure of \$1,461.9 million in the financial statements for the biennium 1998-1999 included cash assistance of \$159.9 million that had not been liquidated by Governments as at 31 December 1999. The ageing analysis showed that out of the \$159.9 million in unliquidated cash assistance to Governments, \$18.8 million had been outstanding for over nine months, compared with \$11.2 million as at 31 December 1999.

27. The UNICEF Executive Board, in its decision 1999/21, indicated its intention to review the implications of the new definition. The Board of Auditors will keep this matter under review in view of the decision of the Executive Board.

Accounting for contributions in kind

28. UNICEF financial regulation 4.6 requires that contributions in kind be considered as income only when specifically requested by UNICEF and received in accordance with its specifications. By this regulation, contributions in kind received from donors during a financial period but not specifically requested by UNICEF are kept outside the mainstream accounting system and therefore are disclosed in a note to the financial statements.

29. The Board noted that contributions in kind that had been received but not specifically requested and that were therefore included in the notes to the accounts amounted to \$210 million during the biennium 1998-1999, compared with \$51.8 million for the biennium ended 31 December 1997. This amount also represented 10 per cent of total UNICEF income of \$2,084 million for the biennium 1998-1999.

30. The Administration informed the Board that the review of contributions in kind was ongoing, with special attention being given to developing a framework to support those cases where donated goods could form part of the inputs for the programme of cooperation, subject to approval by the Executive Board. The Administration further stated that the review included ensuring that appropriate system support was also available in respect of the contributions in kind.

31. The Board notes the action being taken by the Administration on this matter but considered that with the increasing materiality of contributions in kind in UNICEF programme activities, the ongoing review should be accorded priority.

2. Write-offs of losses of cash, receivables and property

32. In accordance with UNICEF financial rule 113.9, the Administration provided the Board with the details of cash, stores and other assets written off during the biennium ended 31 December 1999. A total amount of \$18.5 million was written off in the financial statements in respect of losses of cash accounts receivable and other assets in compliance with financial rule 112.26, as identified below (in millions of United States dollars):

| <i>Pledges</i> | |
|-------------------------------------|--------------|
| General resources | 2.09 |
| Supplementary funds | 6.49 |
| Emergency relief and rehabilitation | 6.93 |
| Cash losses | 0.37 |
| Accounts receivable | 1.70 |
| Obsolete items | 0.79 |
| Advances to trust fund projects | 0.13 |
| Total | 18.50 |

3. Ex gratia payments

33. The Administration informed the Board that no ex gratia payments had been made during the biennium 1998-1999.

C. Management issues

1. Programme management

Programme implementation

34. In order to improve its programme implementation, UNICEF has introduced into the country programme process the review of programme implementation by all offices together with all national partners on a regular basis during annual and midterm reviews as well as through office management plans. During these reviews, factors contributing to low implementation levels were determined by management and appropriate steps were taken to address them.

35. The Board's review of the level of country programme implementation, expressed in terms of expenditure as a proportion of the budget, disclosed that global implementation of programmes utilizing regular (general) resources and other resources (supplementary funds) combined increased from 72 per cent in 1998 to 77 per cent in 1999. For programmes under regular resources, the level of implementation increased from 82 per cent in 1998 to 87 per cent in 1999. The implementation rate of programmes under other resources increased from 66 per cent in 1998 to 72 per cent in 1999. In spite of these achievements, programme implementation during the biennium 1998-1999 fell below the UNICEF implementation benchmark of 80 per cent.

36. The Board recommends that the Administration closely monitor the level of programme implementation so that the desired implementation benchmarks can be achieved.

37. UNICEF informed the Board that resources were not received in a uniform manner and that funds were allocated as and when received; funds received in the last quarter of the year were shown as having been allocated for that year. There is insufficient time to utilize funds received late in the year during the same year, which has a significant effect on expenditure rates, thus affecting overall financial implementation rates.

38. The Board considers that financial benchmarks were not an accurate means of measuring the success of UNICEF programme implementation, and **recommends that UNICEF develop non-financial performance indicators as a basis for assessing its programme performance.**

Expanded Immunization Programme

39. The goal of the Expanded Immunization Programme is to vaccinate children during their first year of life against diphtheria, measles, pertussis, polio, tuberculosis and tetanus. UNICEF launched the programme in 1974 in partnership with the World Health Organization (WHO) and with the support of Governments and non-governmental organizations. The year-2000 target of the programme was fixed at 90 per cent coverage. The UNICEF report entitled "The State of the World's

Children 1999” disclosed that between 1995 and 1997, the year-2000 target of 90 per cent coverage was nearly attained by all regions except for sub-Saharan Africa, where the coverage rates were only between 51 per cent and 66 per cent.

40. The report stated that the low coverage rates in the sub-Saharan Africa region were due mainly to political instability leading to poor management of the programme, inadequate funding and weak donor support. Consequently, the global expenditure on this programme declined from \$75.9 million in 1997 to \$60.5 million in 1998, representing a decline of 20 per cent.

41. While acknowledging the good progress made by UNICEF in the other five regions, the Board trusts that UNICEF will continue its efforts to improve implementation of the Expanded Immunization Programme in the sub-Saharan Africa region.

2. Internal audit

42. The Board carried out a review of the UNICEF Office of Internal Audit focusing on the following areas:

- (a) Organization and mandate;
- (b) Audit work plan and coverage;
- (c) Working papers;
- (d) Internal audit committee;
- (e) Follow-up of audit findings and recommendations;
- (f) Internal audit reports.

Organization and mandate

43. The UNICEF Office of Internal Audit has 23 posts comprising 19 Professionals, including staff with 200-series appointments and 4 General Service staff. Whereas 1 Professional post was vacant, the 22 other posts were filled as at 31 December 1999. During the biennium 1998-1999, the expenditure of the office amounted to some \$5.76 million. The Board of Auditors acknowledges the generally sound organization and mandate relating to the functioning of the Office. The Board notes that the Office of Internal Audit is independent of the divisions and offices audited and that audit reports are issued directly to the Executive Director of UNICEF. The Office of Internal Audit also maintains a close relationship with the Board of Auditors, which helps to avoid duplication of auditing effort.

44. In 1999, the Office of Internal Audit submitted a comprehensive annual report to the Executive Board. The Board noted, however, that the mandate of the Office, issued in August 1992, had not been amended to reflect the annual reporting to the Executive Board.

45. The Board recommended that the mandate of the Office of Internal Audit be revised to reflect the annual reporting to the Executive Board. The Administration agreed with this recommendation.

Internal audit work plan and coverage

46. The Board reviewed the 1999 work plan of the Office of Internal Audit against the background of the Office's policy of devoting 80 per cent of its resources to the coverage of field offices and 20 per cent to headquarters and global issues, and noted that the plan was to cover 28 field offices, including the 10 largest offices, or 30 per cent of 95 field offices and selected headquarters divisions.

47. In 1999, the Office of Internal Audit covered 38 field offices, thereby exceeding the target of 28 offices by 10 (35.7 per cent). The overall field coverage in 1999 was higher than in 1998, in which 36 field audits were undertaken. Headquarters coverage remained at six audits each in 1998 and 1999. The Board noted that selected field audits were performed by external contractors because of limited in-house capacity. Expenditure incurred by UNICEF on such contracts in 1999 amounted to \$285,251, as compared with \$242,916 in 1998.

48. The Board also noted that the Office of Internal Audit had pioneered and adopted the internal control integrated framework approach and had promoted its use as a tool for internal control self-assessment in UNICEF. In addition, the Office had developed a self-assessment tool to support UNICEF Field Offices in assessing their key work processes. The Board acknowledged the good progress made by the Office during the biennium 1998-1999.

49. UNICEF informed the Board that in increasing the Office's coverage of field offices it had obtained good value from consultancy contracts, from both individual contractors and a firm selected competitively to provide support to internal auditors on particular assignments.

Working papers

50. The internal auditing standards on the preparation and use of internal audit working papers reaffirm the need for consistency in their preparation to facilitate the review of audit reports.

51. The Board's review of 10 sets of working papers on audits completed in 1998 and 1999 showed that they were not indexed and cross-referenced to provide the audit trail necessary to facilitate review. The Board also did not see any evidence of a supervisory review of the working papers. In addition, some of the working papers were not organized so as to permit a comprehensive review, from summary to supporting details. The Board considers that the cause of these inconsistencies was the absence of a formal policy guideline on the preparation of working papers. The Office of Internal Audit also attributed the shortcomings to the pressure of field audits in the face of several vacancies, which left little time for this task.

52. The Office of Internal Audit informed the Board that it was aware of the need for establishing standards for the maintenance of working papers, and the issue had been under discussion at its workshops in January 1999 and January 2000. The Office further indicated that the task had been assigned to an auditor and that the policy would be discussed in the next workshop.

53. The Board recommends that the UNICEF Office of Internal Audit formulate policy guidelines on the preparation of working papers in compliance with accepted internal auditing standards. The Board also

recommends that evidence of a supervisory review be shown on all working papers to confirm that they have been subject to the proper level of review.

54. UNICEF welcomed the Board's recommendations and assured the Board that appropriate standards would be established by the end of the year 2000. UNICEF also indicated that the working papers were indeed reviewed by supervisors, but that the new standards would require evidence of such review on the working papers.

Internal audit committee

55. Internal auditing standards require that the entity responsible for following up audit reports be defined in an internal audit's written mandate. The Board of Auditors notes that the mandate of the Office of Internal Audit assigns this responsibility to the UNICEF Internal Audit Committee, which comprises senior officials of UNICEF, including the Executive Director and the Director of the Office of Internal Audit.

56. The Board's review disclosed that, although the Committee followed up on selective internal audit reports, especially those involving malpractice, there was a need for the Committee to develop a formal working policy for follow-up action on internal audit recommendations.

57. The Board noted that the membership of the Internal Audit Committee excluded outside representation. The commonality of the United Nations system offers significant opportunities for organizations to learn from each other through more active identification of good practices. In line with the representation of the Under-Secretary-General for Internal Oversight Services on the UNDP Management Review and Oversight Committee, **the Board recommends that UNICEF consider including a representative from another United Nations organization on its Internal Audit Committee.**

58. UNICEF informed the Board that it would consider the question of external representation from another United Nations organization on its Internal Audit Committee.

Internal audit reports

59. Internal auditing standards require that a formal audit report be issued to the auditee on a timely basis. The Board of Auditors compared the dates on which the audits were completed and those on which reports were issued and noted delays in the issuance of reports. The Board noted that as against the Office of Internal Audit's target of 35 days for the finalization of reports, 27 of the 42 reports (64 per cent) finalized in 1998 and 23 of the 40 reports (57 per cent) finalized in 1999 were issued more than 100 days after the audits were concluded. The Board was concerned that in the biennium 1998-1999, the Office failed to meet its own target of 35 days for any of the reports issued in the biennium.

60. The Board noted from the Office of Internal Audit's summary statistics on the timeliness of audit reports that there had been an improvement between 1998 and 1999. In 1998 the average number of days taken to issue an audit report was 155, compared with 111 in 1999, a decrease of 44 days.

61. The Office of Internal Affairs informed the Board that the major causes of the delays were the Office's objective of maintaining field audit coverage despite

several vacancies during the biennium, together with the absence of a Deputy Director to support the management of the Office and to share the workload with the Director. The Office of Internal Affairs further stated that although the final reports had been delayed, the Office ensured that a draft audit report was issued at the location after completing the audit in order to speed up the reporting process.

62. The Office of Internal Audit has set a new benchmark of two months for finalizing audit reports after the completion of fieldwork, effective January 2000. To minimize delays, it has also decided on a six-week interval between major assignments. The Office of Internal Audit stated that with these measures in place it expected further improvements in the timeliness of audit reports during 2000.

Follow-up of audit recommendations

63. The Board of Auditors reviewed the system of follow-up established by the Office of Internal Audit to ensure implementation of its recommendations. The Board is pleased to note that the Office has established a database tracking system to monitor implementation of recommendations. The Board noted, however, that the database facility had so far been made available only to the New York headquarters office and one regional office.

64. The Board's review of data from the database showed that 9,971 recommendations were made in the 240 audit reports issued between 1994 and 1999, 6,241 (63 per cent) of which had been implemented or closed as at 4 May 2000, leaving 3,730 recommendations (36 per cent) yet to be implemented. The Board acknowledges that the recommendations outstanding are mostly those on audits carried out in 1998 and 1999.

65. The Board recommends that UNICEF take expeditious action to extend the database tracking system to all regional offices and headquarters divisions to enhance the capacity for monitoring internal audit recommendations.

66. The Administration informed the Board that the Office of Internal Audit had addressed this issue in the office management plan for 2000, and stated further that the Office was developing a module for use of the audit database by regional offices other than the one for Eastern and Southern Africa. Once it is determined to be successful, it will be extended to other regional offices. The Administration also indicated that the module's extension to headquarters divisions and field offices was planned as well, but that it would be done in phases.

3. Private Sector Division, Supply Division and regional and field offices

67. The Board's audit of the Private Sector Division, the Supply Division and regional and field offices disclosed weaknesses, which are discussed below.

Private Sector Division

68. In February 1998, the name of the Greeting Card Operation was changed to Private Sector Division. In accordance with paragraph 5 of Executive Board decision 1996/22 C of 19 June 1996, the Division's financial period was changed from 1 May to 30 April to 1 January to 31 December in order to align it with the financial period of the rest of UNICEF. This change in the financial period took effect on 1 January 1998.

69. The Board's review of the operation of the Private Sector Division for the year ended 31 December 1999 disclosed that its net consolidated income from regular and other resources of \$356.4 million exceeded its approved budgeted income of \$311.2 million by \$45.2 million and was \$83.8 million higher than the actual income of \$272.6 million recorded for 1998.

70. The Board's validation of the statement of assets, liabilities and reserves and fund balances as at 31 December 1999 disclosed that current assets amounted to \$197.8 million while current liabilities totalled \$12.7 million, showing favourable working capital of \$185.1 million. However, the composition of current assets, which included accounts receivable of \$193.4 million (98 per cent) due from National Committees as at 31 December 1999, rendered its working capital dependent on the recovery of that amount.

71. In its report for the biennium ended 31 December 1997, the Board expressed concern about the system whereby the National Committees were not required to transfer sales proceeds to UNICEF until six months after the end of their fiscal year.

72. The Board is pleased to note that in April 2000 UNICEF secured the general agreement of the National Committees to transfer their net sales proceeds quarterly to UNICEF. This requirement, which formed part of the new recognition and cooperation agreements, would be concluded with individual National Committees during 2000.

73. The Board welcomes the action taken by UNICEF on this matter and trusts that it will be closely monitored to improve the working capital management of the Private Sector Division.

Supply Division

74. In the Supply Division, the Local Property Survey Board allowed pharmaceutical products valued at \$43,063 with expiry dates in January 2000 to be issued to field offices in December 1998. The Supply Division did not implement the recommendations of the Local Property Survey Board, and the items had remained in stock at the warehouse as at October 1999. Since the items had only three months until their expiry date, warehouse personnel informed the Board that they were awaiting authority from the Administration to destroy the items.

75. In addition, the Board's analysis of the Supply Division's inventory write-offs for 1997 and 1998 disclosed that pharmaceutical products, including medical and surgical equipment, constituted the major component of the write-offs. Out of overall stock of \$1,436,717 written off for 1997 and 1998, \$553,557 (39 per cent) represented expired pharmaceutical products.

76. The Board is concerned that pharmaceutical products were not distributed on a timely basis and had to be destroyed, resulting in the loss of valuable resources.

77. The Administration informed the Board that it had established a procedure for monitoring the expiry dates of pharmaceutical products and notifying field offices of the availability of surplus drugs. The Administration was closely reviewing reorder levels and field office demand to reduce the risk-related write-off of drugs. As part of the measures taken to minimize losses due to expired drugs, the Administration appointed a quality control officer to focus on all aspects of drug quality, including appropriate warehousing procedures.

78. The Board trusts that the Fund's revised procedures for the control and monitoring of pharmaceutical products will address the deficiencies noted. The Board will continue to monitor this issue.

79. The Board noted that the Supply Division did not have a roster of consultants, experts and temporary assistants to facilitate their selection for temporary assignments. In addition, the Board's test examination of 52 special service agreements revealed that in 32 cases (62 per cent), consultants were paid their fees without the required evaluation reports.

80. The Board recommended that the Administration establish a roster to guide its selection of consultants; the Administration agreed with that recommendation. The Board also recommended that the Supply Division fully comply with established procedures relating to the evaluation of consultants.

Americas and Caribbean Regional Office

81. The Board test examined 80 special service agreements concluded during the biennium 1998-1999. In 53 cases (66 per cent), the agreements were signed after the commencement of the contracts, contrary to established procedure. There were delays of up to four months in signing the agreements. In 17 cases, the requisitioning sections submitted the requests for the engagement of consultants for a period of up to four months after the consultants had signed agreements, thus circumventing the clearance and approval procedures set out in administrative circular 2/97, which requires at least one week of advance notification.

82. The Americas and Caribbean Regional Office attributed the late signing of the special service agreements to inadequate planning and in some cases exigency, where needs could not be determined in advance, and intended to address the issue during the December 1999 regional management session.

83. The Board recommended that the management of the Americas and Caribbean Regional Office ensure full compliance with administrative instructions relating to the engagement of consultants; the Office agreed with the recommendation.

Integrated monitoring and evaluation plan

84. In accordance with instructions issued in September 1998, all UNICEF country offices are required to report on overall monitoring and evaluation and research activities carried out during the year, especially the design, management, implementation and/or adaptation of the integrated monitoring and evaluation plan. The Board noted that in 1998 UNICEF headquarters had prepared broad policy guidelines on monitoring and evaluation to enable each country office to adopt the plan.

85. The Board's audit of the Americas and Caribbean Regional Office disclosed that although the integrated monitoring and evaluation plan project activity was included in the Regional Office's work plan for 1998-1999, only 4 of the 27 country offices had fully adopted and implemented the plan as at October 1999.

86. The Board recommended that the Americas and Caribbean Regional Office ensure that the integrated monitoring and evaluation plan is implemented in the remaining 23 country offices in order to enhance monitoring and evaluation of programmes in the region; the Office agreed with the recommendation.

Country offices

87. At the Brasilia office, the Board test examined 66 purchase orders with a total value of \$402,568 to obtain assurance that the purchase orders had been effectively monitored. The Board noted that the delivery in respect of 22 cases valued at \$120,404 had been delayed for periods of up to four months as at October 1999.

88. The Board recommended that the management of the Brasilia field office closely monitor orders to ensure that vendors deliver goods on a more timely basis; the Brasilia field office agreed with the recommendation.

89. At the Jakarta office, three procurement contracts involving a total of \$718,200 for the supply of food were awarded to a sole supplier without recourse to competitive bidding. In the case of one contract with a value of \$532,000, the purchase order was issued in September 1998, 87 days after its approval by the Contract Review Committee, and the delivery of the food started in February 1999. The Board considered that the award of this contract could not be considered an emergency in view of the time lag involved in processing the purchase order and the delivery of the goods.

90. The Board recommended, and management agreed, that the procurement procedures relating to competitive bidding be complied with fully.

4. Cases of fraud and presumptive fraud

91. During the biennium ended 31 December 1999, 29 cases of fraud and presumptive fraud involving \$518,632.95 were reported to the Board. Twenty-three of the reported cases involved staff members, including three heads of offices; two were non-staff members; and the perpetrators of the remaining four cases could not be identified.

92. The Board's analysis disclosed that in 25 cases the organization suffered losses totalling \$467,941.25, and in another 4 cases no financial losses were incurred by UNICEF. The Board noted that the Administration had recovered \$151,467.85 as at 31 December 1999, a total amount of \$152,419.40 would be recovered from the entitlements of six staff members, and the recovery action on the balance of \$164,054 was ongoing.

D. Acknowledgement

93. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of the United Nations Children's Fund.

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

30 June 2000

Notes

¹ *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5B* (A/51/5/Add.2), chap. II.

² *Ibid.*, *Fifty-third Session, Supplement No 5B* (A/53/5/Add.2), chap. II.

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1997^a

Recommendation 11 (a)

1. UNICEF should strengthen the oversight responsibilities on the review of liquidation statements in respect of cash assistance to Governments to ensure that they are properly supported with complete details.

Measures taken by the Administration

2. The Administration informed the Board that it had introduced measures, including regular and periodic monitoring and review of the quarterly reports submitted by the field offices, formal and informal training conducted by UNICEF for government counterparts and follow-up with government ministries. The Administration had issued guidelines to government counterparts and defined the responsibilities of the programme/project officers handling cash assistance to Governments.

Comments of the Board

3. The Board will keep this matter under review in its subsequent audits.

Recommendation 11 (b)

4. UNICEF should expand and intensify its fund-raising activities, particularly in the area of general resources, and strengthen the monitoring and control of expenditures.

Measures taken by the Administration

5. In January 1999, the Executive Board of UNICEF approved a resource mobilization strategy that aims at increasing the Fund's core resources. At the 2000 pledging conference, out of 67 Governments, 28 announced increases in their pledges over the 1999 amounts, 32 were at the same level and the remaining 7 pledged less than in 1999. As a result, general resources income has increased in comparison with the 1999 amount. The Administration will use the systems to monitor and control its expenditures.

Comments of the Board

6. The Board notes the action taken by the Administration in this important area.

Recommendation 11 (c)

7. UNICEF should strengthen its efforts to obtain formal receipts from Governments as evidence that supplies and equipment have been received.

Measures taken by the Administration

8. The Administration continues to emphasize this requirement during field visits of secretariat staff, in seminars and workshops conducted in the regional and field offices and in follow-up visits by the Office of Internal Audit.

Comments of the Board

9. The Board, during its audit of regional and field offices, noted an improvement in the acknowledgement of receipt of supplies and equipment by Governments.

Recommendation 11 (e)

10. UNICEF should ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies.

Measures taken by the Administration

11. The Administration successfully undertook a live test of all standard information technology systems and made the transition without a problem to the year 2000.

Comments of the Board

12. The recommendation has been implemented.

Recommendation 11 (f)

13. The Administration should ensure that the recruitment of consultants complies fully with established rules and procedures.

Measures taken by the Administration

14. In November 1998, the Administration issued an addendum to the existing administrative instruction on the use of special service agreements, which emphasizes the policies and procedures pertaining to the use of special service agreements, including those relating to competitive selection and performance evaluation. The instruction also underlines that heads of offices are accountable when their staff fail to observe the rules regarding the use of special service agreements, and that headquarters will revoke the delegation of authority to issue them for offices that fail to comply with the policies governing their use.

15. The human resources manual, which deals with temporary assistance, including special service agreements, is accordingly being reviewed to further develop and/or refine relevant policies and guidelines on competitive selection, conditions of service and the administration of special service agreements. The Administration scheduled this project to be completed by the end of November 2000.

Comments of the Board

16. The Board notes the action taken by the Administration and will review its impact in future audits.

Recommendation 11 (g)

17. UNICEF should develop, in order to improve the financial performance of its greeting card and related operations, new marketing, advocacy and sales promotional strategies in order to increase the volume of its product sales and also increase its fund-raising.

Measures taken by the Administration

18. The Administration indicated that to improve its financial performance, the Private Sector Division (formerly known as the Greeting Card Operation) has focused on key markets, introduced a harmonized product mix and expanded private sector fund-raising activities. These efforts have helped to increase private sector income from \$310.7 million in 1998 to \$383.0 million in 1999.

Comments of the Board

19. The Board will monitor this matter in its future audits.

Recommendation 11 (h)

20. The Administration should establish a more frequent interval for the transfer of sales proceeds to UNICEF by the National Committees to improve the recovery rates of sales proceeds.

Measures taken by the Administration

21. As part of the joint planning process, National Committees had agreed to make quarterly transfers to UNICEF. This requirement would form part of the new recognition and cooperation agreement formally accepted in the meeting of National Committees in April 2000. The Administration expects the new agreements to be finalized and signed in 2000.

Comments of the Board

22. The Board notes the actions being taken by the Administration on the transfer of remittances from National Committees.

Recommendation 11 (i)

23. The Administration should ensure that all National Committees comply with the cash accounting reporting requirements.

Measures taken by the Administration

24. The implementation of the recommendation is covered in the joint planning process. The Administration further reiterated the Fund's reporting requirements to the chief financial officers of the National Committees in October 1999.

Comments of the Board

25. The Board will monitor this matter in its future audits.

Recommendation 11 (j)

26. The Administration should recover a total of \$1.45 million not accounted for by five National Committees.

Measures taken by the Administration

27. The Administration has reviewed the transactions that gave rise to the \$1.45 million. The amount represented support funds provided to the National Committees that were not intended to be recovered. The National Committees had submitted their reports confirming utilization of the funds, and the records pertaining to them have now been reconciled.

Comments of the Board

28. The Board is pleased to note the action taken by the Administration on this issue.

Recommendation in paragraph 43

29. The Administration should review the format of the reports that are submitted to the Executive Board for uniformity in presentation and ensure that the required information is provided.

Measures taken by the Administration

30. To improve on the quality and content of the summary reports, the Administration in October 1997 issued guidelines on the report sections of selected major country evaluations, which were subsequently reconfirmed in October 1998 and September 1999. In addition, a comprehensive report on the process of implementing Executive Board decision 1995/8 was submitted to the Executive Board (E/ICEF/1998/P/L.22).

Comments of the Board

31. The Board will monitor this matter in its future audits.

Recommendation in paragraph 50

32. The Administration should consider the inclusion of a termination clause in future negotiations for office space lease agreements.

Measures taken by the Administration

33. The Administration has ensured, since September 1996, that a termination clause in accordance with the standard approved by the United Nations Office of Legal Affairs is included in all lease agreements for office space.

Comments of the Board

34. The recommendation has been implemented.

Recommendation in paragraph 80

35. The Administration should ensure that established procedures relating to the evaluation of the performance of consultants are fully complied with.

Measures taken by the Administration

36. As commented on earlier in the present annex, the Administration has revised existing instructions on the use of special service agreements. The new instructions hold heads of offices accountable when their staff fail to observe the rules regarding the use of special service agreements. Headquarters would revoke the delegation of authority to issue special service agreements for offices that fail to comply with the policies governing their use.

Comments of the Board

37. The Board notes the action taken by the Administration and will keep this matter under review in its future audits.

Recommendation in paragraph 90

38. The Administration should ensure that National Committees and field offices operate within the established limits. In addition, the Administration, in concert with the sales partners, should develop new marketing strategies in order to boost the sales volume of the partners in order for desired profit targets to be achieved.

Measures taken by the Administration

39. The Administration reviewed the performance of National Committees and field offices. Where necessary, discussions were conducted to ensure that operations were within established limits and that net profit targets were met. Further, the Administration has expanded fund-raising activities through successful direct-mail campaigns and emergency appeals.

Comments of the Board

40. The Board will monitor this matter in its future audits.

Recommendation in paragraph 97

41. The Administration should monitor the activities of the sales partners to ensure strict compliance with established sales promotion procedures.

Measures taken by the Administration

42. The Administration informed the Board that periodic monitoring of the activities of sales partners was being done.

Comments of the Board

43. The Board will monitor this matter in future audits.

Notes

- ^a *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5B*
(A/53/5/Add.2), chap. II.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to VIII, schedules 1 to 12 and the supporting notes, of the United Nations Children's Fund for the biennium ended 31 December 1999. These financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the United Nations Children's Fund's stated accounting policies, set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the United Nations Children's Fund that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the United Nations Children's Fund's financial statements.

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Celso D. **Gangan**
Chairman, Philippine Commission on Audit

30 June 2000

Chapter IV

Financial statements for the biennium ended 31 December 1999

A. Financial statements

B. Schedules to the financial statements

Annex I

Notes to the financial statements

Note 1

Statement of the objectives and activities of UNICEF

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

Note 2

Summary of significant accounting policies

2. Until 31 December 1987, UNICEF accounts were maintained in accordance with the Financial Regulations of the United Nations, with such modifications as required by the nature of the work of UNICEF. By its decision 1987/13, the Executive Board adopted the UNICEF Financial Regulations and Rules in accordance with Economic and Social Council decision 1986/1981 of 23 July 1986, as approved by the General Assembly in its decision 41/461 of 11 December 1986.

3. In line with the goal of achieving harmonization of the presentation of the accounts by the agencies in the United Nations system, statements I, II, III and VII are now shown in line with the formats agreed upon by the Administrative Committee on Coordination.

Accounting period

4. By its decision 1987/2, the Executive Board decided that effective 1 January 1988 UNICEF would commence its financial reporting on a biennial basis. Since 1 January 1988, the accounts have been maintained on a biennial basis in accordance with the UNICEF Financial Regulations and Rules.

Unit of account

5. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rate of exchange.

Translation of currencies

6. Differences between the valuation of the currencies when entered into the accounts and when actual transactions are completed are accounted for as gains or losses on exchange transactions.

7. Periodically, assets and liabilities in currencies other than United States dollars are revalued for accounting purposes at the prevailing United Nations operational rates of exchange. Any variance due to fluctuation of those rates is accounted for as income or loss and is shown separately in the statement of income and expenditure. In accordance with UNICEF Executive Board decision 1990/28, differences

resulting from the payment of contributions pledged in currencies other than United States dollars are recorded against the contributions.

Income

8. Income consists of regular resources, supplementary funds and emergency relief and rehabilitation. Regular resources include funds from the voluntary annual contributions of Governments, intergovernmental organizations, non-governmental organizations, the net income from the Private Sector Division, unearmarked funds contributed by the public and other income. Supplementary funds are those contributed to UNICEF by Governments, intergovernmental organizations, non-governmental organizations and the United Nations system for specific purposes within the programmes approved by the UNICEF Executive Board. Emergency relief and rehabilitation funds include those contributed for emergency operations.

9. Income is recorded on the basis of funds or pledges received for the current year. Pledges received for future years for purposes specified by donors are considered deferred income and are recorded as "pledged and received in advance".

10. Contribution income received from National Committees for UNICEF and non-governmental organizations is accounted for on a cash basis of accounting, with the exception of contributions for supplementary funds and for emergency relief and rehabilitation, which may be recorded on the basis of a valid pledge from a National Committee. The validity of the pledge is determined by the existence of funds raised and a statement from the National Committee that it is committing funds to UNICEF in the form of a pledge.

11. All other income received by UNICEF is classified as miscellaneous income and is credited as regular resources.

12. The statement of income and expenditure does not include funds received and expenditures made from trust funds. Those transactions which do not require commitments by the Executive Board are maintained as trust funds.

13. Donations in kind, which are recorded as memorandum entries in the books of accounts, are not part of UNICEF income.

Expenditure

14. All expenditure of UNICEF is accounted for on an accrual basis, except for that relating to staff entitlements, which is accounted for on the basis of cash disbursements only.

15. Deferred charges comprise expenditure items which are not properly chargeable in the current financial period and which will be charged as expenditure in a subsequent financial period.

16. No provision is made for staff entitlements such as repatriation that will take place in the future or to meet contingencies under appendix D of the United Nations Staff Rules, as funds are provided in the budget appropriations as required.

Assets

17. All funds received are deposited into UNICEF bank accounts, including those under trust fund arrangements, and reflected as cash holdings.

18. All outstanding pledges for contributions are recorded as receivables (see para. 9 above).

19. Prior to 1989, certain buildings purchased by UNICEF and considered as capital assets were valued at cost less accumulated depreciation. In 1989, the unamortized value of UNICEF capital assets was expended against the 1988-1989 budget, resulting in a fully depreciated UNICEF capital asset account as of 31 December 1989. Future acquisitions of UNICEF capital assets will be included in the capital asset fund (see para. 24 below).

20. The stock of programme supplies at the UNICEF Supply Division warehouse at Copenhagen is shown at average cost. Goods in transit to the warehouse are valued at actual cost. Freight paid for shipping supplies to the warehouse is considered part of the cost of supplies.

21. The Private Sector Division's inventory of raw materials, products in process and finished goods is valued at standard cost.

22. Furniture, equipment and other non-expendable property are not included in the assets of the organization. Acquisitions are charged against budgetary accounts in the year of purchase.

Liabilities and reserves

23. The liabilities of UNICEF include contributions received in advance, trust funds, unliquidated obligations, other accounts payable, credit balances in asset accounts and accrued expenses.

24. By its decision 1990/26, the Executive Board approved the establishment of a capital asset reserve fund to better control the future purchase of UNICEF capital assets, mainly buildings to be purchased for office accommodations and staff housing in the field. At such time as may be necessary, additional authorized appropriations will be made to replenish the capital asset reserve.

Consolidation of Private Sector Division accounts

25. The financial report and accounts reflect UNICEF income, expenditure, assets and liabilities, including the net operating income, assets and liabilities of the Private Sector Division. The principles of consolidation reflect the following accounting policies:

(a) Effective in 1997, the reporting period and accounts of the Private Sector Division are maintained on a calendar-year basis. For consolidation purposes, the UNICEF financial statements now include the Division's accounts as at 31 December;

(b) The financial effect of consolidating the Private Sector Division's accounts on a calendar-year basis is reflected, most notably, in the receivables and earnings of the Division. Inter-office transactions between UNICEF and the Division are eliminated for consolidation purposes.

Note 3

Income

26. Total income from contributions for the biennium ended 31 December 1999 was \$1,620,113,000, an increase of \$138,619,000 compared with the biennium ended 31 December 1997. Contributions consisted of \$694,043,000 for regular resources, \$612,384,000 for supplementary funds and \$313,686,000 for emergency relief and rehabilitation.

27. Net income from the Private Sector Division for the biennium ended 31 December 1999 was \$382,966,000, broken down as follows (in thousands of United States dollars):

| | 1998 | 1999 | Total |
|-----------------------------|----------------|----------------|----------------|
| Income | | | |
| Gross proceeds from sales | 137 873 | 141 608 | 279 481 |
| Private sector fund-raising | 138 396 | 162 384 | 300 780 |
| Other income | 5 886 | 6 787 | 12 673 |
| Total | 282 155 | 310 779 | 592 934 |
| Expenditures | 102 083 | 107 885 | 209 968 |
| Net income | 180 072 | 202 894 | 382 966 |

28. Income from miscellaneous sources for the biennium ended 31 December 1999 was \$80,708,000 (schedule 2). The major item of \$56,614,000 is from interest on funds held in interest-bearing deposits and in current accounts with banks.

29. Changes in the value of the United States dollar (the accounting unit) in relation to other currencies in which assets and liabilities were held resulted in a net increase of \$56,000 in the accounting value of these assets and liabilities during the biennium ended 31 December 1999, composed, for the most part, of the following (in thousands of United States dollars):

| | |
|--|--------------|
| Decrease in the revaluation of contributions receivable | 1 578 |
| Increase in the revaluation of the call and investment accounts and other accounts | <u>1 634</u> |
| Net increase | 56 |

Note 4

Donations in kind

30. Donations in kind valued by donors and accepted by the Executive Director at \$210,082,000 were delivered by UNICEF to projects during the biennium 1998-1999. These are recorded as memorandum entries in the books of accounts and are not part of UNICEF income.

Note 5

Expenditures

31. Total expenditures for the biennium 1998-1999 amounted to \$1,926,941,000, which is \$92,386,000 higher than the total expenditures of the preceding biennium. Expenditures for programme cooperation during the present biennium totalled \$1,755,939,000, or \$96,005,000 higher than that for the biennium 1996-1997.

32. Expenditures for management and administration in 1998-1999 were \$171,002,000. In the biennium 1996-1997, the comparative amount was \$174,621,000.

Note 6

Write-offs

33. The amount of \$18,482,000 shown on statement I includes the write-off and adjustment of pledges for the biennium ended 31 December 1999 totalling \$15,503,000. Adjustments for write-offs of other assets and losses amounted to \$2,979,000. The write-off and adjustment of pledges consist of the following (in thousands of United States dollars):

| | <i>Regular resources</i> | <i>Supplementary funds</i> | <i>Emergency relief and rehabilitation</i> | <i>Total</i> |
|---|------------------------------|--------------------------------|--|---------------|
| Supplementary funds cancelled by donors | | 827 | 849 | 1 676 |
| Supplementary funds cancelled on completion of projects | | 3 285 | 2 894 | 6 179 |
| Unpaid pledges | 2 086 | 2 379 | 3 183 | 7 648 |
| Total write-off and adjustments | 2 086 | 6 491 | 6 926 | 15 503 |

Note 7

Provision for uncollectible contributions receivable

34. In line with the recommendation of the external auditors (A/51/5/Add.2, para. 35), a \$5 million provision for potentially uncollectible contributions receivable has been set up with a transfer from the regular resources fund balance.

Note 8

Assets

35. As at 31 December 1999, cash totalled \$558,726,000 (see statement III). Included in this amount are \$104,961,000 held on behalf of donors, mainly for the procurement of goods and services on a reimbursable basis. Cash details are given in schedule 3.

36. Contributions receivable for current and prior years totalled \$202,516,000 as of 31 December 1999 (see statement II). Included in contributions receivable are \$142,303,000 for supplementary funds and \$57,836,000 for emergency relief and rehabilitation, payment of which is normally related to the progress in implementing specific projects and which occurs in accordance with payment schedules agreed upon with donors.

37. The aggregate of accounts receivable, advances and deposits as at 31 December 1999 totalled \$261,697,000, including the accounts of the Private Sector Division, which totalled \$193,576,000.

38. The aggregate value of inventory as at 31 December 1999 totalled \$26,362,000, consisting mainly of programme supplies in stock at the UNICEF Supply Division warehouse at Copenhagen and Private Sector Division stock.

39. Capital assets reflected in the financial statements of 31 December 1999 consist of office buildings and staff housing presented at their acquisition cost of \$12,675,000, as well as Private Sector Division machinery and equipment that are depreciated over the estimated useful life of these assets. The depreciated value of the Private Sector Division's capital assets is \$602,000. Details of UNICEF capital assets, except the Private Sector Division, are given in statement VIII.

40. The cost of non-expendable property as at 31 December 1999 totalled \$59,282,000. Computer equipment acquired in 1998-1999 has been charged against the administrative budget, a procedure consistently applied since 1986, and is not reflected in the statements.

41. As at 31 December 1999, the organization's call accounts and time deposits were valued at \$532,130,000. The application of the United Nations rates of exchange at 1 January 2000 will result in a foreign exchange gain of \$33,000 and increase the value of the call accounts and time deposits to \$532,163,000.

Note 9 Reserves

42. In 1950 the Executive Board authorized the establishment of a reserve for insurance of \$200,000 to absorb losses of UNICEF programme supplies and equipment not covered by commercial insurance. Up to 1992, the reserve was restored to its authorized limit by a transfer from income. There were no movements in the reserve for the biennium 1998-1999, as shown below (in United States dollars):

| | |
|--|----------------|
| Balance, 1 January 1998 | 104 010 |
| Charges against the reserve in 1998-1999 | _____ - |
| Balance, 31 December 1999 | 104 010 |

43. In 1987, UNICEF established a reserve of \$100,000 to self-insure against property losses. This reserve was funded equally from the biennium 1987-1988 and the biennium 1988-1989. Up to 1992, the reserve was restored to its original amount by a transfer from income. There were no movements in the reserve for the biennium 1998-1999, as shown below (in United States dollars):

| | |
|--|---------------|
| Balance, 1 January 1998 | 26 399 |
| Charges against the reserve in 1998-1999 | _____ - |
| Balance, 31 December 1999 | 26 399 |

Note 10
Contingent liability

44. UNICEF has not specifically accrued for liabilities for after-service health insurance costs or liabilities for other types of end-of-service benefits that will be owed when staff members leave the organization.

45. In order to gain a better understanding of the financial dimensions of the organization's liability for after-service health insurance, a consulting actuary was engaged in 1999 to carry out an actuarial valuation of post-retirement health insurance benefits as at 1 January 1999. On the basis of that study, it has been estimated that UNICEF liability as at 31 December 1999 for after-service health insurance benefits covering all participants is as follows (in United States dollars):

| | <i>Present value of future benefits</i> | <i>Accrued liability</i> |
|----------------------|---|--------------------------|
| Gross liability | 260 166 000 | 189 492 000 |
| Offset from retiree | 51 095 000 | 37 787 000 |
| Net liability | 209 071 000 | 161 705 000 |

46. The present value of future benefits figures shown above are the discounted values of all benefits to be paid in the future to all current retirees and active employees expected to retire in the future. The accrued liabilities represent those portions of the present values of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued when the staff members have reached their date of full eligibility for benefits.

47. The net contingent liability for staff benefits as at 31 December 1999 is estimated at \$54,771,000, consisting of the following (in thousands of United States dollars):

| | |
|--------------------|---------------|
| Accumulated leave | 26 416 |
| Repatriation grant | <u>28 355</u> |
| Total | 54 771 |

48. There is no provision in the accounts for the above amount. The expenditures will be charged against the budget appropriations of the periods when actual payments are made.

Annex II

Glossary of selected terminology

accounts, audited. The financial statements of the organization for a specified period or at a specified date audited by the United Nations Board of Auditors.

accrual basis of accounting. The accrual basis of accounting for revenue in each financial period means that income is recognized when it is due and not when it is received. Accrual of expenditures in each financial period means that costs are recognized when obligations arise or liabilities are incurred and not when payments are made.

asset. An asset is a resource owned by or due to the organization as a result of past events.

budget. A plan in financial terms for carrying out proposed activities in a specified time. The term “budget” is used to refer to UNICEF programme support, management and administrative costs and programme assistance as well as to the Private Sector Division. However, the Executive Board approves an appropriation of funds only for the UNICEF support budget.

budget appropriation. The total appropriation of funds approved by the Executive Board for UNICEF programme support, management and administrative costs, and programme assistance against which obligations may be incurred for those purposes up to the amount so approved.

budget estimate. Estimate of the costs of proposed programme support, management and administration and programme assistance prepared for submission to the UNICEF Executive Board for the approval of relevant appropriations.

budget estimate, revised. Result of Executive Board approval of “supplementary estimates” proposed to adjust an approved budget.

cash holdings. The aggregation of all the funds of the organization, including coins, bank notes, cheques, balances in current and call accounts, savings accounts and interest-bearing deposits.

cash-in-transit. Cash transfers between one or more UNICEF bank accounts at a specified time.

cash in current bank accounts. The aggregate of money maintained in UNICEF bank accounts, as reflected in UNICEF books of account, to sustain operational requirements.

cash in interest-bearing deposits. Funds temporarily available, over those needed for immediate requirements, held in short-term, interest-bearing deposits and ready to be drawn down when needed.

cash on hand (also called “petty cash”). Cash kept on hand by authorized officers as a convenience for making small payments on behalf of the organization.

contributions, voluntary. Contributions to UNICEF that are offered and accepted without reference to a scale of assessment determined by any United Nations legislative body.

contributions receivable. Contributions pledged to UNICEF but not received until a future time.

currencies of “restricted use” for UNICEF. Currencies the use of which (mainly in respect of transferability and convertibility) is limited because of foreign exchange regulations or the donor’s wish. When those limitations do not exist, the currencies are considered by UNICEF as “unrestricted” because they are fully convertible.

earmark. To give expression to a restriction imposed by agreement or by administrative action on the use of an account or of an equivalent amount of assets.

expenditure. Expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriation or allocation of the period.

financial period. The operating period of the organization covered by the financial statements is the biennium.

financial regulations. Until 31 December 1987, UNICEF accounts were maintained in accordance with the Financial Regulations of the United Nations, with such modifications as were required by the nature of UNICEF work. Since 1 January 1988, UNICEF accounts have been maintained in accordance with the UNICEF Financial Regulations and Rules.

fund balance. Fund balances and reserves represent the difference between the assets and the liabilities of the organization. The fund balance consists of funds available for the implementation of programmes funded by regular resources and supplementary funds as well as funds available for the acquisition of capital assets.

income. Income for a financial period is defined as money or money equivalent received or accrued during the financial period that increases existing net assets. UNICEF income is recorded on the basis of funds or pledges received for the current year. It comprises funds classified as “regular resources”, “supplementary funds” and “emergency relief and rehabilitation”.

income, deferred. Funds received or pledges recorded as receivable, attributable to future financial periods and, therefore, not credited to the income account of the period reported on.

income, regular resources. Unearmarked income, which includes funds from voluntary annual contributions of Governments, the net income from the Private Sector Division, funds contributed by the public and certain other (or miscellaneous) income.

income, other. Also referred to as “miscellaneous income” for regular resources. Miscellaneous income is defined in the United Nations system as income other than: (a) the value of assessed or voluntary contributions; and (b) such other income items as may be excluded under the organization’s Financial Regulations and Rules. In UNICEF, this includes income other than the value of the voluntary contributions and the net income of the Private Sector Division.

income, supplementary funds. Specific contributions for programmes approved by the UNICEF Executive Board, in addition to regular resources, which then become part of UNICEF programmes. Consists of funds contributed to UNICEF by

Governments, non-governmental organizations and United Nations agencies for specific purposes.

income, emergency relief and rehabilitation. Consists of funds contributed to UNICEF by Governments, non-governmental organizations and United Nations agencies for emergency appeals.

inventory. The value of supplies and equipment for programmes owned by the organization, as well as private sector division materials at the end of an accounting or financial period.

liability. A liability is a present obligation of the organization arising from past events, the settlement of which is expected to result in an outflow of resources from the organization.

liquidity policy. Owing to the nature of programme implementation and UNICEF cash flows, there may occur, from time to time, short-term imbalances between cash disbursements from regular resources and cash receipts. The UNICEF liquidity policy allows these temporary imbalances to be offset by up to half of the balance of supplementary cash on hand.

liquidity requirement. In order to meet UNICEF liquidity requirements, convertible cash balances in regular resources at the end of each fiscal year are required to equal 10 per cent of projected regular resources income for the next fiscal year.

local currency. The currency of the country or area in which the local financial records of an activity are kept and/or in which its local financial transactions take place.

non-expendable property. Items of property and equipment charged to the administrative budget with an individual unit cost of at least \$1,500.

obligation. Obligations are amounts of orders placed, contracts awarded, services received and other transactions that involve a charge against the resources of the current financial period. Obligations may be maintained either for that period or until they are liquidated or cancelled.

pledge. A written commitment by a prospective donor to make a voluntary contribution to UNICEF. A written commitment which is subject to the need to secure an appropriate national legislative approval is considered a pledge.

procurement services. UNICEF assists Governments, United Nations agencies and non-governmental organizations working in the fields of benefit to children by undertaking, on request and on a reimbursable basis, the procurement of goods and services. A small handling charge is added by UNICEF to the cost of the supplies and services to cover the costs of extra administration and documentation (see **trust funds**).

rates of exchange. The UNICEF accounts are maintained in United States dollars. Transactions in other currencies are converted for recording purposes into United States dollars, in principle, at the United Nations operational rate of exchange.

reserve for insurance. A reserve of \$200,000 was established by the Executive Board in November 1950 when UNICEF adopted a policy of self-insurance for

programme supplies. UNICEF also has a reserve for third-party liability, which had a balance as of 31 December 1999 of \$26,399.

schedule. Explanatory or supporting analyses accompanying financial statements.

trust fund. Funds accepted by UNICEF mainly to cover the costs of procurement of supplies and services undertaken by UNICEF on behalf of others. They also include financing provided by sponsors to cover the costs of Junior Professional Officers as well as costs specifically approved by the Executive Board, such as those relating to the World Summit for Children and the World Conference on Education for All. These funds are not considered UNICEF income and are recorded separately and distinguished from funds that are part of income and are spent for programmes approved by the Board.

specific contribution. Programme recommendations are often prepared in excess of the input available from regular resources. These recommendations are approved by the Board as suitable for funding by supplementary contributions and contributions for emergency relief and rehabilitation from donors. When a contribution for specific purposes is made for such a programme, the corresponding commitment enters into effect (usually between Board sessions).

unencumbered balance. That portion of the approved budget that has not been expended at the end of the year. The unspent balance at the end of the biennium is cancelled and reported to the Executive Board.

write-off. An adjustment to the accounts in order to record the loss of or reduction in the value of an asset.