United Nations

United Nations Children's Fund

Financial report and audited financial statements

for the biennium ended 31 December 2001 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-seventh Session
Supplement No. 5B (A/57/5/Add.2)

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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.

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Annexes

Abbreviations

AGFUND	Arab Gulf Programme for United Nations Development Organizations
BPRM	Bureau of Population, Refugees and Migration (United States of America)
CDC	Centers for Disease Control and Prevention (United States)
CEB	Chief Executives Board (formerly Administrative Committee on Coordination)
CIDA	Canadian International Development Agency
FAO	Food and Agriculture Organization of the United Nations
GAVI	Global Alliance for Vaccines and Immunization
HABITAT	United Nations Centre for Human Settlements
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IOM	International Organization for Migration
NGOs	non-governmental organizations
NORAD	Norwegian Agency for International Development
OFDA	Office of Foreign Disaster Relief Assistance (USAID)
OPEC	Organization of Petroleum Exporting Countries
PSD	Private Sector Division (UNICEF)
SIDA	Swedish International Development Authority
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
UNJSPF	United Nations Joint Staff Pension Fund
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs

UNODCCP	United Nations Office for Drug Control and Crime Prevention
UNOIP	United Nations Office of the Iraq Programme
UNOPS	United Nations Office for Project Services
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

21 May 2002

Pursuant to financial regulation 11.4, I have the honour to submit the financial report and statements for the biennium ended 31 December 2001. These statements have been prepared and signed by the Comptroller.

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

(*Signed*) Carol **Bellamy**
Executive Director

The Chairman of the
Board of Auditors
United Nations

27 June 2002

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 ended 31 December 2001, 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.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
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 2001

Introduction

1. The Executive Director of the United Nations Children's Fund (UNICEF) submits herewith the financial report of UNICEF, accompanied by 12 statements and supported by 4 schedules. Of these, statements I, II, III and IV are presented in line with the formats agreed upon by the United Nations System Chief Executives Board 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 2000 and 2001. Highlights are summarized in the following paragraphs.

Income

2. UNICEF income in the biennium 2000-2001 totalled $2,349 million. Virtually all Governments of both industrialized and developing countries contributed to UNICEF in the period 2000-2001. Income comprised $1,099 million for regular resources, $816 million for supplementary funds and $434 million in emergency contributions. The breakdown of UNICEF income by source is as follows: 63 per cent ($1,500 million) from Governments; 31 per cent ($723 million) from fund-raising campaigns, sale of greeting cards and individual donations; and 4 per cent ($84 million) from miscellaneous sources, including interest and exchange rate revaluation of assets and liabilities. A total of $42 million (2 per cent) was contributed under inter-organizational arrangements.

Expenditures

3. UNICEF expenditures in the biennium 2000-2001 were $2,335 million. This amount consisted of $1,023 million for programme cooperation from regular resources, $746 million for programme cooperation from supplementary funds and $411 million for emergency relief and rehabilitation. The remaining expenditures of $155 million were for management and administration.

Donations in kind

4. Donations in kind valued by donors at $30 million were delivered by UNICEF to projects during the biennium. These 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 2000-2001, UNICEF received cash of $612 million for these trust funds. Disbursements and obligations totalled $582 million.

Cash holdings

6. UNICEF had total cash of $645 million (which includes the unspent balances from trust funds in the amount of $198 million). An amount of $643 million is held in first-class banks, comprising $620 million in interest-bearing term deposit accounts and $23 million in current bank accounts. Cash on hand amounted to $2 million.

Approved programmes

7. During the biennium 2000-2001, the Executive Board approved the amount of $2,969 million for new programmes for children in countries with which UNICEF cooperates, as well as for regional and interregional projects. This total includes $1,732 million in programmes to be funded from UNICEF regular resources and $806 million for projects that the Board approved as worthy of support and that were financed by pledges of supplementary funds made in 2000-2001. The total also includes $431 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 reviewed the operations of the United Nations Children's Fund (UNICEF) and audited its financial statements for the biennium ended 31 December 2001. Operations have been reviewed at UNICEF headquarters in New York, Copenhagen and Geneva and in 11 regional and field offices.

The Board's main findings are as follows:

(a) The financial operations of UNICEF for the biennium 2000-2001 ended with an excess of income over expenditures of $90,000, down from $138 million for the biennium 1998-1999. Trust fund resources, which are not included in UNICEF income, increased by 55 per cent, to $612 million;

(b) The Private Sector Division's net consolidated income amounted to $324 million, a shortfall of $93 million in relation to its target;

(c) At the end of the biennium, UNICEF's cash totalled $645 million; in view of the interest amounts at stake, its treasury management might be improved;

(d) The programme implementation shows a concentration of expenditures during the last quarter of the year;

(e) Cash assistance to implementing partners still presented some accounting issues;

(f) The Supply Division has endeavoured to improve procurement planning, but with limited results.

The Board recommended that UNICEF finalize the review of contributions-in-kind policy, improve the management of accounts receivable, review more thoroughly unliquidated obligations, disclose recovery charges with the programme support expenditures, modify the financial regulations relating to cash assistance, and improve the monitoring of cash assistance at headquarters, the monitoring of programme expenditures and treasury management.

A list of the main recommendations is presented in paragraph 14 below.

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 2001 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 to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000-2001 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 2001 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. The audit was carried out during the biennium at UNICEF headquarters in New York, Copenhagen and Geneva, at the Americas and the Caribbean Regional Office in Panama, at the South Asia Regional Office in Nepal and at the field offices in Bosnia and Herzegovina, Cambodia, the Democratic Republic of the Congo, Cuba, Ethiopia, Jamaica, Mexico, Nepal and the Niger.

5. 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. Reports of the Office of Internal Audit have been carefully taken into account.

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. A total of 20 management letters were issued to the Administration in respect of the audit of UNICEF for the financial period ended 31 December 2001. This practice helped to maintain an ongoing dialogue with the Administration on audit issues.

7. The present report also addresses, in paragraphs 96 to 135, the special recommendation made by the Advisory Committee on Administrative and Budgetary Questions to the Board in document A/55/487, and endorsed by the General Assembly in resolution 55/220, to ascertain the extent to which the various control, reporting and certification functions for cash assistance are being adequately performed.

8. 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 covered 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 main parts, one covering financial issues and the other covering management issues.

9. A summary of the Board's main recommendations is contained in paragraph 14. The detailed findings are reported in paragraphs 16 to 203.

1. Previous recommendations not fully implemented

10. 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 1997[1] and confirms that there is no outstanding recommendation.

11. 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 1999.[2] A summary of the status of implementation of the recommendations and the comments of the Board are set out in the annex to the present report.

12. 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 that resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (see 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.

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

2. Main recommendations

14. The Board's main recommendations are that UNICEF should:

(a) Review, in conjunction with United Nations Headquarters, the funding mechanism and targets for end-of-service liabilities, in line with other United Nations organizations (para. 23);

(b) Manage more proactively its accounts receivable from donors, National Committees and staff (paras. 38, 42 and 44);

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

[2] Ibid., *Fifty-fifth Session, Supplement No. 5B* (A/55/5/Add.2), chap. II.

(c) Disclose recovery charges as programme support and management and administration costs borne by other resources (para. 60);

(d) In consultation with other United Nations agencies, finalize without further delay the review of its policy on contributions in kind with a view to fully disclosing those used in the normal course of activities, and for which a fair value can be reasonably estimated (para. 64);

(e) Consolidate summary performance indicators, at the regional and global levels, possibly through automatic data extraction from the UNICEF Programme Manager System (para. 95);

(f) Take the opportunity of the triennial comprehensive policy review to consider the option of changing its Financial Regulations, as requested by the Advisory Committee, to the effect that cash advances do not become programme expenditure until the appropriate financial utilization reports have been received (para. 113);

(g) Integrate supply planning in the programme planning process (para. 138);

(h) Adopt a consolidated treasury manual, review the opportunity to include external members in its Financial Advisory Committee and consider investing in a more diversified portfolio and using external fund managers (paras. 150, 154, 163 and 165);

(i) Improve its information technology security by finalizing its corporate information security policy and, in consultation with other United Nations organizations, complete its disaster recovery plan as soon as possible (para. 178);

(j) Review and monitor more closely the appropriateness of the means of its Private Sector Division to reach its strategic targets, such as the recovery of sales proceeds and the development of fund-raising (para. 185).

15. The Board's other recommendations are shown in paragraphs 28, 30, 32, 35, 49, 51, 54, 56, 67, 73, 78, 82, 89, 119, 125, 128, 130, 135, 141, 143, 146, 152, 167, 169, 172, 187, 190, 192, 194, 198, 200 and 202.

B. Financial issues

1. Financial position

Overall financial position

16. The total combined income for the biennium ended 31 December 2001 was $2,349 million for regular and other resources, an increase of 13 per cent relative to the previous biennium. This does not include trust fund resources ($612 million), which are not treated as income. Total combined expenditure increased by 21 per cent, to $2,348 million. Therefore, the financial operations of UNICEF for the biennium 2000-2001 ended with a small excess of income over expenditure, $90,000, compared with an excess of $138.4 million for the biennium 1998-1999.

17. Regular, unearmarked resources decreased by 5 per cent, to $1,098 million, for the biennium 2000-2001, and for the first time represented less than half of UNICEF

income (47 per cent). This is mainly due to a decrease of 15 per cent in the Private Sector Division income and to a stabilization of governmental voluntary contributions to regular resources. The share of unearmarked contributions from Governments in UNICEF income dropped from 39 per cent in 1996-1997 to 29 per cent in 2000-2001. The regular resources recorded a shortfall of income relative to expenditure of $83.9 million, compared with an excess of $95.1 million for the biennium 1998-1999. The Board notes that the budget encompasses only administrative expenditure ($438 million), the remainder of regular resources ($740 million) being allocated through individual country programme recommendations.

18. Other, earmarked resources increased by 35 per cent, to $1,250 million, for the biennium 2000-2001. The income of supplementary funds and emergency relief and rehabilitation funds exceeded expenditure by $66.5 million and $17.5 million respectively, compared with excesses of $6.9 million and $36.3 million respectively for the previous biennium.

19. The current assets of UNICEF ($969 million) exceeded current liabilities ($769 million) by $200 million. UNICEF discloses in statement IX a liquidity ratio of 1.26:1 as at 31 December 2001, as compared with a ratio of 1.43:1 as at 31 December 1999. UNICEF has adopted a target of 1.25:1 after reviewing its liquidity policy in 2001.

20. The Board notes that these ratios include inventories, and are therefore more a current asset ratio than a pure liquidity ratio. Without the $25.7 million in inventories, the liquidity ratio would have been 1.23:1. However, the share of the inventories has been significantly decreased, from 6.3 per cent of short-term assets in 1994-1995 to 2.7 per cent in 2000-2001.

Contingent liability

21. UNICEF liability for staff benefits and after-service health insurance, disclosed in note 17 to the financial statements, amounted to $252.9 million, including $196.4 million in accrued liability for after-service health insurance. The amount accrued as at 31 December 2001 represented some 67 per cent of the present value of future benefits ($291.8 million). Reserves and fund balances at the end of 2001 amounted to $705.8 million, of which $522 million was earmarked for specific purposes, leaving a regular resources funds balance of $183.8 million to cover part of the regular resources programmes already adopted. It does not cover the contingent liability.

22. UNICEF is aware of the after-service health insurance unfunded liability, which is a United Nations system-wide problem currently under review, and discloses in note 17 that “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.”

23. **The Board recommends that UNICEF, in conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service liabilities, in line with other United Nations organizations.**

2. United Nations System Accounting Standards

24. The Board assessed the extent to which financial statements of the United Nations Children’s Fund for the biennium ended 31 December 2001 conformed to

the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards, except in relation to the issues raised in the present report in paragraphs 25 to 27.

Private Sector Division allowance for exchange rate fluctuation

25. Differences in exchange rates are recorded in the financial period in which they arise. The Private Sector Division financial statements, consolidated into the UNICEF financial statements, include a provision for exchange rate fluctuation (para. 24 of the notes to the financial statements), established at 10 per cent of the total accounts receivable from National Committees denominated in currencies other than United States dollars, whereas UNICEF itself has no exchange rate fluctuation provision for its own accounts receivable. This provision has been applied and disclosed in Private Sector Division financial reports since 1987, to cover for the delay in the collection of outstanding contributions. The allowance amounted to $20.9 million as at 31 December 2001, against $21 million at the end of the previous biennium.

26. UNICEF has based this provision on the United Nations system accounting standards, paragraph 32 of which provides that for income from assessed contributions based on legislative resolutions, "based on its policy the organization may make a provision for delays in the collection of the outstanding contributions. The policy regarding provision for delays in the collection of the outstanding contributions shall be stated in the notes to the financial statements." The Board notes that:

(a) The Private Sector Division does not receive assessed contributions, but the net income of National Committee activities; paragraph 32 of the United Nations system accounting standards therefore does not apply;

(b) A provision for exchange rate fluctuations is not mentioned in the UNICEF Financial Regulations and Rules. This provision is neither in accordance with paragraph 29, of the United Nations system accounting standards which states that "Differences on exchange ... should be cleared into income and expenditure or into an authorized reserve account in the financial period in which they arise", nor with international accounting standard No. 4, on the effects of changes in foreign exchange rates. Therefore, the gains and losses related to Private Sector Division accounts receivable should be recorded during the period when they materialize (bearing also in mind that the accounts receivable are revalued at the end of each financial period at the prevailing United Nations operational rates of exchange).

27. To protect its budget against foreign exchange rate fluctuations, UNICEF has indeed developed such appropriate safeguards as annual cash flow plans, more frequent remittances by National Committees and a hedging strategy.

28. **The Board recommends that UNICEF record differences in exchange rates in the financial period in which they arise, while terminating the present $20.9 million provision.**

3. Presentation of financial statements

Cash and term deposit

29. The line on cash and term deposits is split in financial statement II between convertible currencies and non-convertible currencies. Some patently convertible currencies, such as the French franc, the Swiss franc or the Danish krone, have been included in the line as non-convertible. A calculation based on currencies of all countries that have adhered to article VIII of the International Monetary Fund Articles of Agreement, on convertibility, which was used by the Board as a benchmark, would yield a balance of $2.3 million for non-convertible currencies instead of $7.5 million.

30. **The Board recommended, and UNICEF agreed, that the classification of convertible and non-convertible currencies should be revised, which it could do in consultation with other United Nations organizations.**

Interest income

31. The interest income disclosed in UNICEF financial statements amounted to $65.6 million, an increase of 16 per cent since the previous biennium. This figure does not reflect the gross interest income credits, but is net of debits for bank charges and fees, which are recorded under the same general ledger account. Although these charges amounted to only $360,000, the Board considers that they should be recorded separately, in compliance with United Nations system accounting standard 24.

32. The Board recommended, and UNICEF agreed, that, for consistency, bank charges and fees should be recorded under the heading “bank charges” in the general ledger.

United Nations Joint Staff Pension Fund

33. UNICEF financial statements as at 31 December 2001 show $2.5 million as an account payable to the United Nations Joint Staff Pension Fund, while Pension Fund financial statements show $8.1 million as an account receivable from UNICEF. UNICEF paid $5.8 million in January 2002, which relates to the December 2001 payroll. The payment was recorded in the UNICEF books for December 2001, but had a bank value date of 3 January 2002 in the Pension Fund’s books. UNICEF then estimated its position at $2.5 million plus $5.8 million, i.e., $8.3 million, exceeding by $0.2 million the $8.1 million registered by the Pension Fund. Such a difference is subject to the annual reconciliation exercise, which takes place between the two entities with some delay during the following year.

34. The amounts UNICEF had paid for 1999 and 2000 were reconciled with the Pension Fund only in June 2001. UNICEF adjusted its $4.1 million overpayment from its July 2001 contribution. This overpayment was due to local staff pensions, for which a monthly estimated amount is paid on a basis that is currently being reviewed. Until the conclusions of the review are implemented, the Board has no assurance as to the accuracy of the amount payable by UNICEF to the Pension Fund.

35. **The Board recommended, and UNICEF agreed, that the pension calculation should be improved to further reduce discrepancies with the United Nations Joint Staff Pension Fund statements.**

Contributions receivable

36. The UNICEF provision for uncollectable contributions, set at $5 million, has remained unchanged since 1997. UNICEF informed the Board that this amount was based upon average experience and had proved to be adequate. There is, however, no audit trail indicating that this provision reflects specific amounts of outstanding receivables known to be in doubt, or that a prudent percentage is applied on their balance.

37. The files on outstanding contributions maintained in the Division of Financial and Administrative Management are of uneven quality. They contain little documentation to show that UNICEF has taken any action to obtain payment or actively investigate the reasons for non-payment by donors. The files do not reflect a proper monitoring of contributions receivable for each country. Moreover, while the Programme Funding Office is in charge of donor liaison, the Division of Financial and Administrative Management monitors receivables so that it and/or the Programme Funding Office can take appropriate action. The coordination between the two services could be improved. The deficiencies in the system for monitoring contributions receivable make it difficult to reconcile data in UNICEF financial system with supporting documents.

38. **The Board recommends that UNICEF implement new procedures so that files and documents will provide reliable information for the management and control of contributions receivable.**

National Committee receivables

39. UNICEF "other accounts receivable" include $208.7 million relating to Private Sector Division activities, of which $125.4 million is due from National Committees (60 per cent of the total, before exchange rate adjustments). UNICEF has achieved significant improvements in its relations with the National Committees, to the extent that accounts receivable have decreased by 35 per cent since 1999. However, $8.4 million (67 per cent) of the receivable amount is related to sales campaigns for 1998 and prior years.

40. According to the Private Sector Division finance manual, an allowance is to be set up for the full amount of accounts receivable of doubtful collectability. The amount of the allowance at 31 December 2001 was $3.7 million, which covers only 44 per cent of the accounts receivable related to campaigns for 1998 and earlier years.

41. A fund-raising receivable from one National Committee dates back to 1999 and is for an initial $6.5 million. UNICEF had taken no action to recover the funds as at April 2002. As at 31 December 2001, the value of this account receivable was down to $5.2 million due to the revaluation of the dollar, which means that UNICEF had at that time lost $1.3 million on this receivable.

42. **The Board recommended, and UNICEF agreed, that its accounts receivable from National Committees should be managed more proactively.**

Staff receivables

43. As at 31 December 2001, UNICEF had recorded $17.9 million in personal advances to 2,253 international and New York staff members (i.e., to 93 per cent of

that category), a decrease in receivable value of 21 per cent since December 1999. In May 2002, 14 per cent of the transactions, representing 4.4 per cent in value, had been outstanding for over 24 months. Many of these amounts date back to 1998 or earlier, for a net total of $767,911 ($1,220,199 credit and $452,288 debit); a change in the accounting system was made in 1998. In January 2002, the Comptroller put in place new write-off guidelines. The Board expresses its concern that the operations dating back to 1998 and earlier are not yet cleared.

44. **The Board recommended that UNICEF, (a) review the recoverability of all outstanding advances and endeavour to recover them and (b) reduce the volume of personal advances recoverable outstanding for more than 24 months, and UNICEF agreed to do so.**

Emergency funds

45. UNICEF has an Emergency Programme Fund (EPF) for emergency intervention before donations arrive. It also relies on the Central Emergency Revolving Fund (CERF), managed by the Office for the Coordination of Humanitarian Affairs, to advance funds to United Nations agencies. The agencies reimburse CERF upon receipt of donors' contributions. Although the purposes of EPF and of CERF are similar, their accounting treatments differ.

46. UNICEF considers that, since disbursements funded with a loan from CERF are not covered by UNICEF Executive Board decisions on the allocation of funds, they are not expenditure. CERF is a cash-flow mechanism; the real allocation of funds is made only when a donor's contribution is pledged. The consequence of the definition of expenditure in paragraph 37 of the United Nations system accounting standards ("expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriation/allocation of the period") is that CERF expenditures are not expenditures for the biennium if there is no donor contribution, and therefore no allocation, during the biennium. Therefore, the charges are recorded as deferred charges. The total deferred charges at year's end ($1.6 million as at 31 December 2001) are equal to the emergency expenditures financed with funds from CERF for which UNICEF did not receive a pledged contribution.

47. Expenditures funded through EPF are recorded as soon as they are incurred. The majority of EPF allocations are to be replenished by contributions, or charged to regular resources. With a ceiling of $25 million for the biennium, the UNICEF Executive Director set an annual gross allocation ceiling of $16 million for 2000 and $9 million for 2001, and decided that a maximum of $5 million per year would be charged to regular resources.

48. The CERF operating rules (see ST/SGB/251) dictate that if an organization has failed to reimburse CERF with donor contributions, the Humanitarian Coordinator may require the organization to repay any outstanding balance within two years of the date of the advance. In 1995, UNICEF management indicated to its Executive Board that using EPF to reimburse CERF was within the UNICEF Financial Regulations and Rules and that this action was a last resort when funds were not forthcoming from donors for specific projects. The Board notes that the UNICEF accounting treatment of CERF advances is not consistent with the treatment adopted by other United Nations entities, and considers that it would be prudent to record CERF expenditures when they are incurred, and not when a donor's contribution is

received. Since the advance from CERF is only a loan, and therefore not income, UNICEF would have to record these expenditures temporarily against EPF.

49. **The Board recommended that UNICEF consult with other United Nations entities to determine a common accounting treatment of Central Emergency Revolving Fund expenditures, and UNICEF agreed to do so.**

50. The guidelines for the use of EPF, which were enacted in 1995, do not mention CERF. No document states the criteria to determine when EPF or CERF should be used. UNICEF indicates that CERF is used for emergencies with United Nations system-wide implications and when UNICEF plays a particular role in the response to the emergency, such as in Operation Lifeline Sudan. In several instances, the two tools have been used: Ethiopia ($1.55 million from EPF and $4 million from CERF), Eritrea ($0.65 million and $1.6 million), the Sudan in 2000 ($4 million and $2.745 million), and the Sudan again in 2001 ($3.5 million and $5.245 million).

51. **The Board recommended that UNICEF establish clear guidelines, within the operations emergency manual that is being drafted, to determine when EPF or CERF should be used, and UNICEF agreed to do so.**

Unliquidated obligations

52. UNICEF unliquidated obligations amounted to $173.2 million as at 31 December 2001, a decrease of 10 per cent from the previous biennium. The Board is of the opinion that unliquidated obligations worth $5.1 million were not valid at end of the biennium, for the following reasons:

(a) Contracts, memorandums of understanding or purchase orders totalling $1,621,805 signed in January 2002 were used to create obligations for 2001;

(b) A purchase order for oral polio vaccines worth $2,592,000, to be used during National Immunization Days in July and September 2002 in Bangladesh, was signed on 21 December 2001, but was sent to the provider only in January 2002; therefore, no legal obligation existed at year’s end;

(c) Unliquidated obligations of $403,539 did not have valid supporting documents, but were supported by internal cash requisitions or simple e-mails;

(d) Five unliquidated obligations were supported by documents with a lower amount, resulting in an overstatement of obligations amounting to $357,803;

(e) For eight obligations totalling $120,700, no supporting documents were provided.

53. The above figure of $5.1 million does not include obligations totalling $791,829 created for special service agreements after the deadline set in accounting instruction 2001/02, but within the accounting period: UNICEF considers them as valid obligations in accounting terms.

54. **The Board recommended that UNICEF (a) review more thoroughly its unliquidated obligations at year’s end, in compliance with the Financial Regulations; and (b) amend the reports to the donors where appropriate, and UNICEF agreed to do so.**

Programme assistance expenditures

55. The Board has found errors amounting to $33 million in the breakdown of programme assistance expenditures by nature of expenditure. While the errors do not affect the total amount of programme expenditure, and therefore have no impact on UNICEF financial statements (presented at an aggregate level), they could affect the accuracy of reports sent to donors on the use of funds received by UNICEF. Several accounting instructions were sent to the field in 1999, when UNICEF changed the way field expenditures were recorded. However, UNICEF does not have a complete, updated accounting manual for the field offices. Moreover, UNICEF's local Programme Manager System has online documentation only in English, while a large number of its users speak mainly French or Spanish and might not fully understand the English description of the items to be included in an account.

56. **The Board recommended that UNICEF (a) issue a consolidated field accounting manual and (b) evaluate the cost-effectiveness of having its Programme Management System documentation translated into languages widely used by its staff, and UNICEF agreed to do so.**

57. UNICEF Regulation 9.3 requires that expenditures for programme support and management and administration of the organization shall be financed from regular resources. However, the programme assistance expenditure disclosed in financial statement I ($1,897.4 million) includes $52.9 million for the recovery of support and management costs charged to supplementary and emergency funds. The corresponding income is subtracted from the gross support budget expenditures to yield the amount of net support budget expenditures (see statement IV).

58. The Board expresses its concern that, in this way, UNICEF overstates by $52.9 million what has been spent directly for programmes and understates by the same amount the programme support and management and administration costs.

59. This accounting treatment is not consistent with the definition of recovery charges included in the report to the Executive Board on recovery policy (E/ICEF/1998/AB/L.6), which stated that recovery charges on supplementary-funded programmes cover the costs for support, management and administration, i.e., programme support costs in field offices and support costs for supplementary-funded programmes at headquarters. Financial statement I includes a line headed "programme support"; therefore, all expenditures appearing under programme assistance should relate only to what has effectively been spent for programme implementation, and not include support costs. There is no impact on the net annual result, but this accounting treatment does not provide an adequate disclosure of administrative costs. The UNICEF Programme Division itself deducts these recovery charges when establishing its annual programme operating statistics. UNICEF is currently preparing a paper for submission to its Executive Board, taking into consideration the recently completed Joint Inspection Unit study on United Nations system-wide practices for the recovery of support costs.

60. **The Board recommends that UNICEF disclose recovery charges as programme support and management and administration costs borne by other resources.**

Accounting for contributions in kind

61. 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: they amounted to only $0.2 million in the biennium 2000-2001. Contributions in kind received from donors but not specifically requested by UNICEF are kept outside the mainstream accounting system; these amounted to $29.7 million for the biennium. The value of donations in kind was not disclosed in a note to the financial statements, as was done for the previous biennium, but was mentioned in the Executive Director's financial report.

62. During the biennium 1998-1999, the Board was informed that a review of contributions in kind was ongoing. The Board considered that the review should be accorded priority in view of the increasing materiality of contributions in kind in UNICEF programme activities. Two years later, the review of UNICEF policy on contributions in kind is still ongoing. UNICEF anticipates releasing the policy and procedures document this year.

63. The Board notes that UNICEF financial regulation 4.6 is more restrictive than paragraph 34 of the United Nations system accounting standards, which says, "Significant voluntary contributions in kind, which can be used in the normal course of an organization's programme activity, and provided that a fair value can be reasonably estimated, should be reported in the organization's financial statements".

64. **The Board recommends that UNICEF review, in consultation with other United Nations agencies, its contributions-in-kind policy with a view to fully disclosing contributions in kind used in the normal course of activities, and for which a fair value can be reasonably estimated.** UNICEF plans to issue a new policy by the end of 2002.

Non-expendable properties

65. Note 19 to the UNICEF financial statements discloses a total amount of non-expendable property of $52.3 million, which includes only the equipment charged to the support budget. Equipment charged to the programme budget is not included in that note. UNICEF's disclosure of non-expendable property is not consistent with the practice of other organizations of the United Nations system. Not all non-expendable properties are transferred to the recipient country; some are used by the country offices. For items of non-expendable property left in the custody and, in substance, control of UNICEF, the necessary property records are normally maintained, and a disclosure could thus be made.

66. The Board also noted that one office disclosed no equipment at all, and that six country offices have no computer equipment funded from the support budget, which means either that the inventory for these offices is inaccurate or that the purchases of general office equipment were made with programme assistance funds instead of programme support funds.

67. **The Board recommended that UNICEF disclose all the non-expendable property under its custody, regardless of the source of funding, and expand the note on its policy regarding non-expendable property disclosure, and UNICEF agreed to do so.**

4. Trust funds

68. UNICEF "income" (used for projects and expenditure submitted to the Executive Board) 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. Trust fund resources are not presented as income, but as receipts in financial statement V, with the trust funds balance as a liability in statement II. Receipts are held in trust until spent for purposes agreed with the donors, without approval of the Executive Board.

69. Trust fund resources have tripled over the last three bienniums, their share of UNICEF total resources having increased from 9.9 per cent in 1996-1997 ($202 million) to 20.7 per cent in 2000-2001 ($612 million). According to UNICEF financial circular 24, the use of trust funds is not subject to Executive Board decisions. These funds are made available to UNICEF for purposes other than those related to implementing programme commitments approved or noted by the Board and UNICEF budgets; they provide an extension of the form of cooperation for services for children. The Advisory Committee on Administrative and Budgetary Questions commented that "while the Committee does not object to this treatment, it stresses that all funds in the custody of the Executive Director and contributed for activities in the programme of work approved by the Executive Board should be recorded as income" (E/ICEF/2001/AB/L.11, para. 16). The Board concurs with the Advisory Committee.

Establishment of vaccine trust funds

70. The Global Alliance for Vaccines and Immunization was initiated in 1999 by the World Health Organization, UNICEF, the World Bank, Governments, foundations, associations and pharmaceutical companies. A Board composed of representatives of the founding members coordinates the activities funded by the Alliance. In October 1999 the Alliance created the Global Fund for Children's Vaccines as a non-profit corporation and charity. UNICEF manages two trust funds for the Global Alliance: one for the latter's secretariat, established by an agreement signed by UNICEF and the Board of the Alliance in June 2000, and the other for the Global Fund for Children's Vaccines, established by an agreement signed between UNICEF and the Fund in October 2000. The Board noted two shortcomings in the establishment of the trust funds:

(a) The two agreements were signed by the Director of the Programme Funding Office. UNICEF Financial Regulations and Rules and UNICEF financial circular 24 stipulate that trust funds can be established only by the Executive Director, who, in turn, delegates this authority to the Comptroller. There was no written delegation from the Executive Director to the Director of the Programme Funding Office on this matter;

(b) The audit of one of the two trust funds by the Board of Auditors is not mentioned in the relevant agreement, which is not in compliance with UNICEF Financial Regulation 14.1.

71. The Global Fund for Children's Vaccines received $137.5 million from donors in 2000-2001 and disbursed $116.3 million. All the funds are distributed on instruction of the Board of the Global Alliance, either to Governments as grants or to support the purchase of vaccines on their behalf. UNICEF states that it has no

control over the use of the funds and that it only acts as the trustee, or custodian, for the donors, receiving contributions into the fund and disbursing funds as directed by the Board of the Alliance.

72. UNICEF considers that the only funds it would be entitled to receive under the heading “income” would be funds directed to UNICEF by the Board of the Global Alliance from the trust account as contributions against a programme approved by the UNICEF Executive Board. UNICEF indicates that it has not received any funds from the trust account for that purpose. However, the Board notes that immunization development is one of the five principal objectives of the UNICEF mid-term strategic plan for 2002-2005. The country programme recommendations adopted by the UNICEF Executive Board during its second regular session of 2001 mention the Alliance in 11 country programme recommendations in terms of programme strategy (eight cases) or partnership (three cases); the intercountry programmes document (E/ICEF/2001/P/L.74) also highlights such initiatives.

73. **The Board recommends that UNICEF review all funds provided by the Global Alliance for Vaccines and Immunization and not recorded as income to make sure that they are made available for purposes other than those related to implementing programme commitments approved or noted by the Board.**

UNICEF’s financial contribution to the Global Alliance for Vaccines and Immunization

74. According to UNICEF financial regulation 5.2, agreements concluded between UNICEF and a donor should specify “the nature and cost of the services to be furnished by UNICEF and providing for full financing of all actual and incidental expenses connected with procurement”. The executive directive on procurement services requires that UNICEF recover its costs for procurement services through handling fees (normally 6 per cent of the price of supplies) to cover the incremental direct and indirect costs of the UNICEF Supply Division performing this service for the customer. For procurement of vaccines and supplies on behalf of the Global Alliance, UNICEF has agreed to waive the standard 6 per cent handling fee, which would have amounted to $7 million for 2000-2001. Instead, the Alliance contributed a total of $2.8 million directly to UNICEF budget costs.

75. UNICEF also pays a yearly contribution of $300,000 to the secretariat of the Global Alliance, like all the partners. It does so through an internal transfer to its trust fund. The UNICEF Regional Office at Geneva also provides the Alliance with offices, an additional contribution that is neither costed nor recovered.

76. UNICEF has returned $831,380 in interest to the Global Fund, calculated on the contributions received since October 2000, as provided for by the agreement mentioned in paragraph 70 above. Due to the lack of a written delegation of authority, this was formally not in compliance with UNICEF financial regulation 11.4, which states that “Unless otherwise authorized by the Executive Director, no interest shall be payable on funds administered by UNICEF,” and rule 105.10, according to which “any interest accrued on special accounts shall be credited to the UNICEF account as miscellaneous income”.

77. Among the trust funds listed in schedule 3, the only one with a sizeable debit balance is the Iraq oil-for-food trust fund ($66.5 million). The memorandum of understanding signed between UNICEF and the Office of the Iraq Programme in

November 2000 mentions that UNICEF will be reimbursed for actual cash disbursements. The fact that the Office of the Iraq Programme does not advance the funds to UNICEF is due to the UNICEF decision not to pay interest on the balance, in compliance with its financial rule 105.10.

78. **The Board recommends that UNICEF compute and disclose the value of its in-kind contributions to the Global Alliance for Vaccines and Immunization and, when applicable, in other, similar cases.**

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

79. A total of $13.8 million was written off in UNICEF financial statements in respect of losses of cash, accounts receivable and other assets, a decrease of 25 per cent from the previous biennium. This represented $10.4 million in contributions receivable, $47,908 in cash (mainly long-outstanding reconciling items in the bank accounts) and $3.3 million in obsolete supplies in the Copenhagen warehouse. Moreover, $4.6 million in obsolete inventory and $7.9 million in prior years' accounts receivable were written off against Private Sector Division income.

80. The Comptroller has approved the write-off of $1 million in pledges from one Government, recorded from 1996 to 2001 and still outstanding at the end of 2001. However, for 2000-2001, UNICEF both recorded a voluntary contribution of $400,000 from that country and wrote off the contribution. UNICEF should instead have reduced its voluntary contribution line by $400,000 and likewise reduced the write-off line by $400,000.

81. According to UNICEF financial rule 112.26, "The Comptroller may, after 'full investigation', authorize the writing-off of losses of cash, accounts and notes receivable deemed to be irrecoverable ... The investigation shall, in each case, fix the responsibility, if any, attaching to any official of UNICEF for the loss. Such official may be required to reimburse the loss either partially or in full." Supporting documents for the write-offs are of various kinds. In only one case did a short note for the record provide the background, recount the collection efforts in support of the approval memo and show that financial rule 112.26 had been fully adhered to. Pledged contributions written off dated back 1 to 10 years. No standard procedure is applied for the write-off of contributions in terms of timing or documents.

82. **The Board recommended that UNICEF consult with other United Nations organizations regarding their standard procedures and establish a formal, standardized procedure for contribution pledge write-offs, so as to reflect the "full investigation" requirement and timing criteria, and UNICEF agreed to do so.**

6. Ex gratia payments

83. In line with UNICEF financial rule 113.9, the Administration provided the Board with information on its 14 cases of ex gratia payments, totalling $85,665, made mainly to the children of two deceased staff members and to a lesser extent to staff members directly affected by the attack on the World Trade Center.

C. Management issues

1. Programme implementation

84. The Advisory Committee on Administrative and Budgetary Questions expressed concern that reported expenditures did not correlate appropriately with the level of implementation of the programme, and requested the Board "to pay particular attention to reported expenditures and their relationship to programme delivery" (A/55/487, para. 14). The Advisory Committee encouraged the organizations to continue to develop and improve performance measurement standards that could facilitate the task of the audit in assessing programme performance and the achievement of objectives and mandates.

Financial implementation of country programmes of cooperation

85. The UNICEF Programme Division produces annual programme operating statistics, which show the financial implementation rate of country programmes of cooperation. This financial rate of implementation reflects the ability of country offices to spend their funds; it increased from 77 per cent in 1999 to 83 per cent in 2000 and 89 per cent in 2001.

86. This financial implementation rate varies widely from country to country, from 65 per cent to 100 per cent in 2001. Two internal UNICEF studies confirmed that there was no systematic pattern of factors affecting the financial implementation rate; country-specific characteristics appeared to be determinant.

87. As shown in the table below, most of the spending is done during the last few months of the year:

	2001			*2000*		
	Total	*Last quarter*	*December*	*Total*	*Last quarter*	*December*
	(millions of United States dollars)			*(millions of United States dollars)*		
Programme supplies	275.6	119	62.9	264.9	118	69.2
Consultants	60.2	24	12.6	64.3	26	13.9
Cash assistance	202.8	85.5	33.2	174.2	80.5	36.6

Furthermore:

(a) 43 per cent of 2001 expenditures for programme supplies occurred in the last quarter (45 per cent in 2000) and 23 per cent in December (22 per cent in 2000). In the Bangladesh country office, 89 per cent of the total supply expenditures were made in December 2001;

(b) 40 per cent of expenditures for consultants occurred in the last quarter (41 per cent in 2000) and 21 per cent in December (22 per cent in 2000);

(c) 42 per cent of the cash assistance expenditures occurred in the last quarter (46 per cent in 2000) and 16 per cent in December (21 per cent in 2000).

These three areas represent 55 per cent of all programme assistance expenditures during the last biennium.

88. UNICEF explains this pattern of high expenditures in the last quarter by such factors as the delay between the dates when orders were raised and expenditures recorded. For example, expenditures on offshore supplies ordered in the first half of the year will normally be recorded in the last quarter of the year. The concentration of expenditure at the end of the year may also indicate a weakness in planning, with the risk of hasty spending and therefore of poor programme implementation and monitoring.

89. **The Board recommended that UNICEF undertake a review of the financial implementation rate in order to prevent a pattern of excessive concentration of expenditures during the last quarter, and UNICEF agreed to do so.**

Non-financial performance indicators

90. Consolidated performance indicators were unavailable until recently, with no global or regional overview of the results as compared to the initial objectives. The report of the Executive Director includes statistics but gives no such geographical information. This kind of weakness has been partially addressed by the results matrix introduced in the 2000 annual report[3] and by the medium-term strategic plan, through targets, indicators, core intervention areas and partnerships, arranged by organizational priorities but not by geographical areas. A policy paper on evaluation was submitted and endorsed at the June 2002 session of the Executive Board, with a view to strengthening the evaluation function. The results of country programme evaluations will be considered in the mid-term and annual reviews of country programmes and at the programme strategy meetings, with the aim of continuously realigning programmes and projects with the country programme objectives. Automatic data extraction from the UNICEF Programme Manager System to that end should be contemplated.

91. Each regional office has its own set of indicators for monitoring non-financial performance. The number of indicators varies from 6 in eastern and southern Africa to 24 in East Asia and the Pacific. All regions have management (financial, human resources, reporting) indicators, but some do not have a programme-related indicator like that of West Africa (percentage of projects in which achievement of planned annual objectives in the project is over 75 per cent). There is difficulty in collecting data from numerous country offices.

92. Country programme end-of-cycle evaluations have not been systematic to date, though this is now being addressed. Country programme evaluations, although optional, have now been performed in a few countries and are to become more frequent. Country offices carry out specific programme and project evaluations as part of the integrated monitoring and evaluation plan. These evaluations, and thematic evaluations, are fed into the mid-term reviews of country programmes and are influential in determining country programme adjustments and new projects.

93. In the field of evaluation, two executive directives, issued in 1993 and 1997, required that country offices submit all evaluation reports and studies to the regional office and headquarters regularly and on a timely basis. However, the number of reports and studies submitted to headquarters has decreased in recent years: 136

[3] *Official Records of the Economic and Social Council, 2000, Supplement No. 14* (E/2000/34/Rev.1-E/ICEF/2000/8/Rev.1).

reports or studies were submitted in 1997, 30 in 1999 and 13 in 2001. Management explained that although there is concern about how information on good practices resulting from evaluation findings has been shared in the past, the inauguration of the web-based evaluation database in January 2002 is responding to this concern. Information about good practices is also shared through other mechanisms, such as monitoring and evaluation workshops and the global meetings of regional planning, monitoring and evaluation officers. In addition, an annex to the country office annual reports sets out lessons learned, which are compiled annually in a publication of best practices that is distributed throughout the organization. A policy paper was to be submitted at the June 2002 session of the Executive Board in order to strengthen the evaluation function.

94. The use of programme implementation indicators has improved in the audited field offices. Two major weaknesses were still found: lack of measurable indicators and, when indicators existed, lack of targets by indicator. The Board is pleased to note that its recommendations have been implemented in this regard.

95. **The Board recommended that UNICEF consolidate an indicator reporting table in all country office annual reports, with automatic data extraction from the UNICEF Programme Manager System for non-financial performance indicators, and UNICEF agreed to do so.**

2. Cash assistance

96. The Advisory Committee on Administrative and Budgetary Questions addressed a special request to the Board to “ascertain the extent to which the various control, reporting and certification functions” for cash assistance “are being adequately performed” (A/55/487, para. 34), and the General Assembly endorsed that request in its resolution 55/220 A.

97. UNICEF may provide financial assistance to Governments either through disbursements to national authorities or civil society organizations in support of the implementation of programme activities or through reimbursement of incurred expenditure. Cash assistance to Governments and non-governmental organizations is only one of the forms of assistance provided to Governments — together with supply assistance and technical support — but with $368 million disbursed in 2000-2001, it represents 19 per cent of all programme assistance expenditures. Such assistance has long been a key component of the national capacity-building strategy implemented by UNICEF, which is one of the cornerstones of its operations. UNICEF indicates that cash assistance is given only for specified activities, as laid out in the master plan of operations and the project plans of action.

98. The Board has reviewed the accounting policy and the internal controls for cash assistance. It has concluded that headquarters monitoring should focus on the quality of procedures agreed with the implementing partners, on the quality of budget projections, on the criteria for the assessment of counterparts’ financial systems and on the implementation of the internal audit’s recommendation for country offices with unsatisfactory procedures relating to cash assistance. The Board has also noted that General Assembly resolution 56/201, on the triennial comprehensive policy review, provides an adequate framework for UNICEF to compare its cash assistance management with that of other United Nations entities, accounting policies included.

Accounting treatment of cash assistance

99. Since 1969, and on the recommendation of the Board of Auditors, UNICEF has treated the transfer of cash assistance as expenditure at the time of disbursement. In its report for the biennium ended 31 December 1995, the Board of Auditors modified its approach and stated that, in line with the definition of programme expenditures contained in UNICEF's Financial Regulation 1.1 (m),

> "such advances do not become programme expenditure until the appropriate utilization documentation has been received by programme officers to confirm that funds were spent for the intended purposes. However, as a policy, UNICEF records cash assistance to Governments as programme expenditure at the time funds are advanced to Governments. In the Board's opinion this contradicts the definition of programme expenditure in UNICEF's Financial Regulations. The Board has therefore, during the biennium, drawn the Administration's attention to this issue and recommended that to further enhance transparency in financial reporting, the policy on the accounting for cash assistance to Governments be reviewed."[4]

100. In September 1999, despite the Advisory Committee's disagreement with UNICEF management's proposal, the UNICEF Executive Board decided to maintain its accounting policy[5] and modified the UNICEF Financial Regulations to confirm it.

101. In October 1999, the Advisory Committee noted, not as a recommendation but under "Other matters", that

> "according to UNICEF, the payment of funds by UNICEF to Governments is taken as an expenditure because the ownership of the funds is transferred to the Government at the time the payment is made. The implication of accepting this view is far wider than may have been understood by UNICEF Administration, since the statement might be construed as implying that funds transferred to Governments are grants to be used by Governments in the manner of their choosing".[6]

In its resolution 54/13 B of 23 December 1999, the General Assembly endorsed the observations contained in the report of the Advisory Committee.

102. In January 2001, the Executive Board decided to revert to the issue of cash assistance to Governments during the first regular session of 2002 on the basis of a report by UNICEF on its current practice and Financial Regulations and Rules. It planned to do so at the second regular session, in September 2002. In this context, the Board of Auditors examined the effects of UNICEF accounting policy on the way UNICEF discharges its accountability to its Executive Board.

103. In 1998, the Consultative Committee on Programme and Operational Questions approved on behalf of the Administrative Committee on Coordination, guidelines on national execution and implementation arrangements. The guidelines indicate that national execution might entail cash advances to national authorities or non-governmental organizations, alternatively reimbursing actual expenditures in

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[4] *Official Records of the General Assembly, Fifty-first session, Supplement No. 5B* (A/51/5/Add.2), chap. II, para. 39.

[5] UNICEF Executive Board decision No. 1999/21, dated 10 September 1999.

[6] A/55/441, para. 9.

other cases. This would not detract from the separate responsibility of United Nations entities to be accountable to their governing bodies or funding sources for the proper reporting of expenditure and appropriate monitoring and evaluation.

104. The recipient of cash assistance is responsible for submitting financial and activity monitoring reports to UNICEF, and future payments are contingent on their submission. When the actual expenditures are lower than the disbursed amount, the remainder is either transferred to another activity or returned to UNICEF. To minimize this occurrence, at times UNICEF initially disburses only a portion of the costs of the activity and disburses the remainder to the implementing partner once the activities are completed.

105. Of the $186 million "outstanding" in cash assistance — i.e., for which no utilization report has been received to confirm the partner's use of the funds in accordance with the terms of the initial project — as at 31 December 2001, $181 million related to cash assistance disbursed in 2000-2001. Due to this lack of utilization reports, the Board is unable to obtain assurances as to the proper utilization, for the purposes approved by the Executive Board, of $181 million in expenditures recorded in 2000-2001.

106. The Board is of the opinion that disbursements by UNICEF have indeed been in accordance with UNICEF Financial Regulations and Rules. However, it is of the view that the Advisory Committee has properly stated, as endorsed by the General Assembly, that the treatment of cash assistance as expenditure when funds are transferred would imply that the funds transferred to Governments are grants to be used by Governments in the manner of their choosing. UNICEF does not consider that cash assistance is equivalent to standard grants.

107. Instead of taking such a view towards a complete decentralization to the implementing partner, the Executive Director rightly considers that UNICEF is accountable to its Executive Board for the relevance, quality and timeliness of its support and inputs for the benefit of children, and that it is responsible, together with the implementing partner, for the monitoring of the use of the resources provided to the latter, as specified in the basic cooperation agreements signed with Governments. The procedure is therefore a mix of decentralization of funding, deconcentration of the corresponding accountability to country offices and to implementing partners, and constant monitoring involving the ability to suspend payments and to request the reimbursement of unused moneys.

108. UNICEF has recently reinforced the coherence of its monitoring strategy with such tools as master plans of operations, project plans of action, small-scale funding agreements and memorandums of understanding, with annual and mid-term reviews. The project plans of action are the basic operational tools that are required to process operations for cash assistance to Governments through the computerized Programme Manager System for field operations.

109. This procedure has the merit of not delaying the accounting of the resource transfer when the action has likely taken place, and of not incurring the risk of delaying a final settlement until a time when the initial actors may have changed; it may, however, run contrary to the objective of very tight monitoring reflected by the tools mentioned above.

110. This procedure is therefore different from the one that had been applied until 1968, when disbursements were advances that were recorded as programme

expenditures in the financial statements only upon submission of such documents as mentioned above, as per the United Nations Financial Regulations and Rules.

111. If cash assistance were to be treated as an advance, the expenditures for one biennium would be only the amount of cash advances for which the organization had received financial utilization reports confirming the proper use of funds. The UNICEF Comptroller and the internal and external auditors would assess whether those reports gave reasonable assurance regarding the proper recording of expenditure incurred. This accounting treatment would be consistent with the fact that there is not a complete transfer of ownership of the funds since, as stated by UNICEF itself, "UNICEF does not transfer the responsibility for the allocation of its resources to the government or other partners for their sole decision, but remains jointly responsible with them for resource allocation and monitoring",[7] and with the fact that unused funds are reprogrammed to other activities with UNICEF's approval, or reimbursed by the implementing partner.

112. In its resolution 56/201, on the triennial comprehensive policy review, the General Assembly requested the United Nations funds and programmes and the specialized agencies to simplify and harmonize their rules and procedures. One of the aims of the review is to identify best practices that take into consideration accountability, efficiency and effectiveness. The concern raised by the Advisory Committee in its request to the Board may therefore be further addressed in that framework.

113. **The Board notes that the triennial comprehensive policy review will enable UNICEF to further compare its cash assistance policies with those of other United Nations funds and programmes and the specialized agencies. The Board recommends that UNICEF take this opportunity to consider again the option of changing its Financial Regulations, as requested by the Advisory Committee, to the effect that cash advances do not become programme expenditure until the appropriate financial utilization reports have been received.**

Cash assistance procedure

114. The Board has reviewed the controls in place at the various stages of the cash assistance procedure. Being a decentralized organization, UNICEF considers that the responsibility for planning, budgeting, disbursement, accounting and monitoring of cash assistance rests with the head of the country office. Monitoring at the headquarters level relates to internal audits at all stages, oversight of quarterly reports by the Comptroller and oversight of the cash assistance outstanding balance.

115. According to UNICEF guidelines on cash assistance to Governments, the agreed procedures for the requesting, receiving, accounting and monitoring of cash assistance should be outlined by field offices in the master plan of operations or in a written document addressed to the Government concerned. UNICEF does not know the exact percentage of plans that include a provision for cash assistance procedures. Regional offices are responsible for the clearance of the plans and should review the issue of the cash assistance procedures. There is little or no monitoring by headquarters of compliance with these guidelines.

[7] UNICEF programme instruction regarding national execution (CF/PD/PRO/2000-06).

116. Six of the 12 master plans of operations reviewed by the Board provided a complete description of the procedure for cash assistance, but in three cases the provision on the use of unspent balance of funds was not consistent with UNICEF official policy. In five of the other six plans, only a very limited description of the procedure was included, and in one case the procedure for cash assistance was not mentioned at all.

117. Guidelines on cash assistance recommend that standard rates and allowances for purposes such as subsistence allowance be defined by country to avoid the paying of different amounts for similar activities run by different ministries within the same country. This is a very sensitive issue because of the impact on the local economy and on the salary scales of all humanitarian organizations. Only 2 of the 12 master plans reviewed comply with the guidelines. UNICEF management does not know how many country offices have agreed on standard rates with the Government concerned.

118. A forthcoming revised Programme Policy and Procedures Manual is to include guidance for field and regional offices with respect to their roles and responsibilities relating to cash assistance monitoring and oversight. It will include a provision on standard rates, to be inserted in the master plans of operations, and with a quality assurance checklist for the review of the plan. Also, increasingly, representatives of United Nations organizations in various countries are harmonizing United Nations rates by issuing periodic circulars about daily subsistence allowance, transport, and honoraria to be paid to local counterparts.

119. **The Board recommended that UNICEF monitor the use of the future quality assurance checklist, and in particular the inclusion of standard rates in the master plans of operations, and regularly provide feedback to regional and field offices on the best practices relating to cash assistance procedures, and UNICEF agreed to do so.**

Planning of cash assistance

120. In 2000, UNICEF disbursed 46 per cent of its cash assistance during the last quarter and 21 per cent in December. In 2001, it disbursed 42 per cent in the last quarter and 16 per cent in December.

	Total cash assistance to Governments (millions of United States dollars)	*Last quarter (percentage)*	*December (percentage)*
Americas	18.6	42	15
Central and Eastern Europe	15.8	41	20
East Asia and the Pacific	18	51	30
Eastern and southern Africa	52.8	47	18
Middle East and North Africa	15.2	41	15
South Asia	48.9	39	14
West and Central Africa	32.6	37	10
Headquarters	0.3	75	43

121. Among the country offices that spent more than $1.5 million in cash assistance in 2001, the Board found that four expended a large share of their annual cash assistance during the last four days of the year: Zambia (13 per cent), China and Mauritania (33 per cent) and Thailand (68 per cent). Local special circumstances and the potential expiration of the budget allotment could explain this concentration, which is a matter of concern.

122. The table in paragraph 120 indicates that more than 40 per cent of the activities for which cash assistance is disbursed are concentrated over a period of three months. This may indicate inadequate planning of cash assistance, with the risk of hasty spending in the final weeks of a fiscal year and poor programme implementation and monitoring.

123. According to the guidelines on cash assistance, the annual project plans of action should include an estimation of the cost of cash assistance. However, UNICEF has not been able to indicate the expected total amount of cash assistance for 2002. There is no consolidated tool for assessing the quality of the initial budget projection by type of input (cash assistance, supply assistance, etc.).

124. Activities carried out by a Government can be delayed, cancelled or reduced. Unspent balances of cash assistance can either be reprogrammed by the field office, which thereby maintains a degree of control over the sums disbursed, and by the implementing partner to other activities, or returned to UNICEF. UNICEF has not been able to indicate the total amount of cash assistance refunded or reprogrammed during the biennium; this information has therefore not yet been processed as an indicator of the quality of the initial budgeting process.

125. **The Board recommended that UNICEF strengthen the analysis of patterns of disbursements by field offices as part of its oversight responsibility, and UNICEF agreed to do so.**

Monitoring of the use of cash assistance

126. UNICEF requires that a recipient of cash assistance deliver a financial and activity report within six months after the provision of funds. The type of documentation required to monitor the use of funds consists of payrolls, invoices, detailed certificates and other relevant documents. When, for governmental projects, the head of office is convinced that local conditions so justify and that existing Government controls are sufficient, the documentation may be left in the custody of the Government or an auditing institution, and UNICEF is provided with only a simplified “Government certificate”. The acceptance of simplified Government certificates is not based on a documented evaluation, based on predetermined criteria, of the Government accounting system and internal controls.

127. UNICEF has not been able to indicate how many country offices accept simplified Government certificates. There is no monitoring at the headquarters level of the way the evaluation of the government financial system is done by country offices. There is no current definition of the basic quality standards that a Government financial or audit system should meet in order for UNICEF to accept simplified certificates.

128. **The Board recommended that UNICEF collect information on the quality standards developed by other international institutions, and identify best practices, provide guidance to field offices and monitor the application of the**

guidance, and UNICEF agreed to do so. UNICEF further stated that the harmonization and simplification task force of the United Nations Development Group Executive Committee had taken up this issue as part of its exploration of national execution modalities.

129. The field offices submit to headquarters a quarterly report including a list of all cash assistance disbursements for which no valid utilization report has been received and an "explanatory note" on action taken for cash assistance provided more than six months earlier for which stipulated documentation has not been received. The Board noted that UNICEF has put in place a good monitoring system for the submission of these reports and that compliance with this requirement has improved over the period. Nevertheless, as at May 2002, the explanatory note for the last quarter of 2001 was still missing in 21 per cent of the cases.

130. **The Board recommended that UNICEF enforce the requirement for the submission of explanatory notes and that it closely monitor their submission and the quality of the information provided.**

131. After a review of the quarterly reports, the Comptroller sends to the Regional Office concerned an analysis of the situation of cash assistance outstanding in the region, and sends letters of warning to country offices with cash assistance of $100,000 or more than 10 per cent of the total outstanding for more than nine months. If no improvement is made during two or three quarters, the Comptroller can submit to the Executive Director a proposal to suspend the country office's ability to give cash assistance to counterparts. These controls and procedures represent an adequate incentive for country offices to reduce the outstanding cash assistance.

132. When the country office is unable to collect the supporting documents but can certify that the expenditures have been incurred for the purpose intended, the Comptroller has the authority to adjust a long-outstanding balance without the proper documentation. During the biennium 2000-2001, the adjustments amounted to less than 0.1 per cent of the total cash assistance expenditure.

133. After a sharp decline from $20.2 million as at 31 December 1996 to $9.6 million as at 31 December 1998, the balance of cash assistance outstanding for more than nine months increased significantly during the following year, to $18.8 million as at 31 December 1999. During the biennium 2000-2001, the amount outstanding for more than nine months decreased by 2 per cent, to $18.5 million. However, between December 1998 and December 2001, the balance outstanding for more than nine months increased by 93 per cent, while programme assistance expenditures increased by 54 per cent.

134. Accountability at UNICEF relies partly on the duties of its Comptroller to "monitor, report and provide feedback to regional and field offices on the quality of financial and administrative practices" (E/ICEF/Organization/Rev.3, para. 39 (h)). However, the Division of Financial and Administrative Management is not responsible at present for the assessment of the quality of the liquidation process; the Office of Internal Audit includes this subject in its audit plans. The Board reviewed 41 country office internal audit reports issued between 2000 and 2002. The Office of Internal Audit rated the overall procedure relating to cash assistance as satisfactory in 13 country offices (representing 32 per cent of the cash assistance disbursed by the country offices reviewed) and as unsatisfactory in 28 (representing

68 per cent of the cash assistance disbursed). No systematic and documented analysis of the implementation of internal auditors' recommendations is done when the Division analyses the cash assistance outstanding balances or before it sends reminders or letters of warning to country offices.

135. **The Board noted as a matter of concern the deficiencies registered in cash assistance reporting. The Board recommended that UNICEF include as part of its headquarters responsibilities oversight of the country office implementation of internal audit recommendations related to cash assistance, and UNICEF agreed to do so.**

3. Supply Division

136. The UNICEF Supply Division, based mainly in Copenhagen, oversees global procurement for UNICEF and operates a large central warehouse. It also handles procurement on behalf of other United Nations agencies, trust funds, Governments and non-governmental organizations. From 2000 to 2001 UNICEF's global procurement for country programmes increased by 27 per cent, from $502 million to $636.6 million. Supplies worth $103.3 million were obtained by the procurement service for other customers.

137. There have been surges in Supply Division activity at year's end. In order to improve planning and reduce the last-quarter activity peak, the Supply Division has requested country offices to provide yearly supply plans. In 2001, this procedure was handled separately for each region. The requests were sent quite late (in December 2000 and January 2001), and the Supply Division received only 52 plans, generally of poor quality. For 2002, the Supply Division requested plans earlier and provided country offices with their two-year history of critical supplies procurement. By April 2002, only 53 out of 99 potential plans had been received; some were incomplete or inaccurate. A task force is currently looking at methods to strengthen and monitor supply planning, including the use of the Programme Manager System for this purpose and the strengthening of training and documentation for the programme planning process.

138. **The Board recommended that UNICEF integrate supply planning in the programme planning process by using automatic data extraction and that it establish clear directives to obtain more realistic and accurate supply plans from country offices, and UNICEF agreed to do so.**

139. In 2001, the Supply Division developed a set of key performance indicators to monitor and evaluate performance on a monthly basis. By the end of 2001, some indicators had not been reached and some had been easily exceeded. In 2002, the Supply Division has launched a new strategy and defined an office management plan, and each Centre has defined a yearly work plan. However, in March 2002, an expected new set of indicators was still in the conception phase. UNICEF has since then informed the Board that the indicators have been completed as planned, made available to all staff and posted on the Supply Division shared local network, and that they are being reviewed regularly by management.

140. While either the office management plan or a work plan covers all relevant activities, objectives and targets assigned are not consistent with the office management plan. Furthermore, indicators developed by Centres are too numerous

and difficult to monitor, and cannot be linked with the Supply Division Office Management Plan.

141. **The Board recommended that UNICEF continue to improve the monitoring of key Supply Division performance indicators, and UNICEF agreed to do so.**

142. In what UNICEF describes as an isolated incident, a project has not been managed in compliance with regulations. Under the oil-for-food programme, UNICEF has supported a printing project in northern Iraq. Due to the fact that the first contractor for installation and training defaulted in 1999, in June 1999 and April 2000 UNICEF awarded two training contracts worth a total of $1.6 million to one supplier without a competitive selection process. In June 2000, it outsourced the whole procurement process for additional equipment and consumables ($4 million) to the same supplier, again without competitive bidding. The outsourcing of all the procurement is in contradiction with the Supply Division's overall responsibility for UNICEF procurement, as described in financial rule 112.14. It created problems, in that the procurement procedures put in place by the supplier did not comply with UNICEF procurement rules; at least two specific audits by the Supply Division were required to correct these problems.

143. **The Board recommended that UNICEF establish proper guidelines on outsourcing decisions and take action to ensure that outsourcing decisions are properly documented and compliant with United Nations regulations, and UNICEF agreed to do so.** UNICEF has also informed the Board that it will review the results of the recent Joint Inspection Unit study on outsourcing.

144. United Nations and UNICEF staff manuals, rules and regulations contain provisions regarding gifts and honours, but they do not address ethics per se. Supply Division guidelines and training contain useful guidance. Supply Division centralizes all gifts declared as received and disposes of them during an internal social function for a charitable cause. The proceeds of 9,800 Danish kroner for gifts raffled or auctioned in March 2001 were not documented and, instead of being directed to the designated recipient, were held in loose cash by the Staff Association. The Association, which has its own audit function, manages these gifts. However, this does not obviate the Supply Division's responsibilities regarding gifts that are made to staff in their official capacity. Recourse to a private entity to handle accepted gifts may be pragmatic, but in general does not guarantee that the rules applied by UNICEF are of the highest ethical standard within the United Nations system or elsewhere, and does not provide adequate and legitimate protection to all parties involved: staff, suppliers, customers, contributors, donors and the organization.

145. Staff rule 101.2 (n) requests disclosure of the measure of staff members' interest in supplier companies. Despite the sensitivity of the subject in a procurement organization, the Board found little proof of any emphasis on staff awareness of potential conflicts of interest.

146. **The Board recommended (a) that UNICEF review the present rules, with a view to raising them to the most demanding standards on ethics, gifts and offers of hospitality; (b) that a declaration of existing interests be obtained from the professional staff of the Supply Division; and (c) that staff members**

be reminded of existing rules and regulations regarding interest in supplier companies.

147. UNICEF agreed and further stated that it plans to strengthen ethical practices in procurement through regular communications with staff, information to suppliers regarding UNICEF practices and reviews of best practices in the United Nations and elsewhere; to foster ethical behaviour through compliance with disclosures of interest by employees, reiteration of United Nations rules in this regard and training on ethics in the workplace (in general) and in procurement (in particular), as already initiated in various regular training events.

4. Treasury

148. The Board has reviewed UNICEF's management of cash, which totalled $645 million at the end of the biennium. Its main conclusions are that UNICEF should consolidate and constantly update a treasury manual and that its investment performance could benefit from external representation on its Financial Advisory Committee, from a more diversified investment strategy, from improved cash forecasting and from the prudent use of external investment managers. The Administration is currently gathering information on these matters from United Nations and non-United Nations entities in order to adopt best practices.

Treasury rules and guidelines

149. Guidelines on cash management provided basic rules in 1995, but they are not in the form of an executive circular, directive or memorandum and have no formal status. Rules used for cash and investment management are, in fact, provided by scattered, non-consolidated documents from the Financial Advisory Committee, notes for the file, memorandums and e-mails. The guidelines have not been approved by the Financial Advisory Committee. The Administration plans to submit updated consolidated cash management guidelines to the Committee.

150. **The Board recommended that UNICEF submit to its Financial Advisory Committee a consolidated and streamlined treasury manual, and its updates.** UNICEF agreed to submit updated consolidated cash management guidelines to the Financial Advisory Committee.

Treasury staff and organization

151. The Board reviewed the internal control measures existing in the UNICEF treasury unit and was provided with information relating to seven cases of breaches in internal control, for payments over $106 million, with the same finance officer inputting and approving payments in the absence of two Professional finance officers who were on training courses or annual leave. Although of no practical consequence so far, this does not comply with financial rules 112.1 to 112.4. In 2000-2001, the aforementioned two Professional officers took leave at the same time on four occasions, totalling five days. Four other non-treasury unit staff members have authority to deal with banks in areas of investment and foreign exchange, but this is not in compliance with best practices in view of the amounts at stake.

152. **The Board recommended that UNICEF ensure strict compliance with rules and the availability of one treasury unit Professional on a daily basis, and UNICEF agreed to do so.**

The Financial Advisory Committee

153. The Financial Advisory Committee comprises exclusively UNICEF senior officials, who are not familiar, in their professional practice, with financial markets. The lack of outside expertise is questionable, considering the size of the UNICEF portfolio. Other United Nations entities, such as the United Nations Joint Staff Pension Fund and the Food and Agriculture Organization of the United Nations have external members who are professionally versed in investment matters appointed to investment committees. UNICEF has so far been deprived of the latest professional expertise on best investment practices and strategies to increase investment yield within accepted risk and investment parameters. After the audit, UNICEF informed the Board that a survey was being prepared to gather information from United Nations and non-United Nations entities in regard to external membership and functioning of investment committees and that modifications would be made in the light of the results of the survey.

154. **The Board recommended that UNICEF consider including external members in its Financial Advisory Committee, and UNICEF agreed to do so.**

155. In 2000, the Financial Advisory Committee decided to change the frequency of meetings from quarterly to three times per year. This may not be sufficient to keep abreast of changes in macroeconomic outlook, interest and foreign exchange rates, and hedging contracts. Moreover, supporting documents relating to the Committee's agenda are provided no more than two days before a meeting. In four cases, the documents were circulated on the day of a meeting. Forecasts are seldom circulated between meetings. At the Committee meeting in April 2002, the members discussed the timing of information and decided that information should be received at least two working days in advance of a meeting. In addition, Committee members will be informed of any significant deviations in forecasts between meetings.

Cash forecasts

156. For monthly cash strategy, the treasury relies on end-of-month management reports and historical patterns of disbursement by field offices or the Supply Division. During the biennium, the variance between the forecasts and the actual receipts and disbursements averaged 120 per cent for the receipts and 11 per cent for the disbursements. UNICEF concurs that cash forecasting must be improved and plans to review principles and assumptions in order to bring the forecasts closer to actual results. The expected implementation of a new, computerized cash management module is to improve day-to-day liquidity management.

Investment benchmark

157. In 1991, the Financial Advisory Committee approved a short-term investment performance indicator. In 1997, the Committee mentioned that an independent, longer-term performance indicator could be produced for investments in addition to the existing three-month indicator it had approved in 1991. However, such an indicator has not been systematically introduced. UNICEF builds the short-term benchmark with information from a private bank. Since it is almost an exact replication of the UNICEF portfolio, UNICEF performances are, unsurprisingly, very close to the benchmark. Such a "benchmark" cannot enlighten management on the desirability of alternate strategies. The portfolio should be compared to a professional benchmark, instead of having a benchmark adapted to the portfolio.

Following the Board's recommendation, the Administration has decided that in the future it will use the London Inter-Bank Offered Rate index as a benchmark for its short-term investments.

Investment performances

158. The guidelines on cash management limit investment to mostly short-term instruments. Time deposits are virtually the only type of investment vehicle used by UNICEF. During the biennium UNICEF invested 67 per cent of available funds in time deposits for less than three months on average, while 26 per cent had an average term of 3 to 12 months. These short-term instruments eliminate the risk of loss of principal due to interest rate fluctuations, if the investor holds the deposit to maturity, but a foreign exchange fluctuation risk remains.

159. This constraint is, however, not consistent with financial rule 111.13, which stipulates that the Comptroller may, after consultation with the Financial Advisory Committee, make long-term investments in instruments approved by the Committee. A 1998 decision allowed investments to be made for up to two years, but this provision has hardly been used ($17 million as at December 2001).

160. The monthly cash balance averaged $616 million in 2000-2001, with a monthly minimum of $496 million. Monthly disbursements averaged $109 million in 2000 and $123 million in 2001, with a peak of $195 million in December 2001. Considering the average cash balance and the rates of disbursements and receipts, there is room for investing in medium-term instruments.

161. Some longer-term investments would also be in order, considering, for instance, the excess of current medical insurance plan contributions over current expenditures (nearly $21 million), and other funds that are not intended to be disbursed in the short term. UNICEF concurs, and plans to review this issue.

162. The performance attained by UNICEF — returns of 6.67 per cent, before corresponding bank charges in 2000 and 5.56 per cent annualized as at the end of November 2001 — is not systematically compared with the performance of other United Nations organizations that have similar funding, objectives of preservation of capital, liquidity and income, and conservative policies on investing on fixed-return investments. One such organization, the World Food Programme, obtained a 7.21 per cent net return after fees in 2000 and an overall annualized investment return of 6.93 per cent for the period ending 30 November 2001. A slight gain in such rates at UNICEF would be translated into millions of dollars in additional income.

163. **The Board recommended that UNICEF examine opportunities to diversify its portfolio so as to increase yields while protecting the principal and hedging against market risks, and UNICEF agreed to do so.**

164. UNICEF does not rely on external investment managers to manage part of the funds, while other United Nations organizations have to some extent evolved from a hands-on, direct-dealing approach to a partial reliance on carefully monitored external investment managers.

165. **The Board recommended that UNICEF review the experiences of other United Nations organizations with respect to the costs and benefits of using external investment managers, and UNICEF agreed to do so.**

Bank relationships

166. UNICEF headquarters maintains relationships with 56 banks. No formal assessment of the actual banking requirements is available, although such a document would be a preliminary step towards streamlining such a diversified approach. Limited competition has recently been applied to open accounts in two banks. Out of a sample of six banks, only one had a written agreement in UNICEF files. Despite the size of its financial operations, UNICEF works mostly on the basis of standard banking terms and conditions, instead of having agreements tailored to the volume of its transactions.

167. **The Board recommended that UNICEF review its banking needs in order to streamline the number of operatives and that it develop banking agreements, and UNICEF agreed to do so.**

168. Country offices are not allowed to overdraw any of their current accounts. However, a spot check has shown a regional office current account overdrawn on nine days between January and July 2001. UNICEF also uses zero-balance accounts, which are sub-accounts of a master account, in which every debit operation is immediately covered by a corresponding credit from the master account. This optimizes the advantage of centralized cash management. Only one third of the 132 regional and country offices have zero-balance accounts.

169. **The Board recommended that UNICEF consider the cost-effectiveness of increasing the number of offices relying on zero-balance accounts, where appropriate, and UNICEF agreed to do so.**

Reconciliation of bank accounts

170. Financial rule 111.4 states, "All bank accounts shall be reconciled with the statements submitted by the banks on a regular basis as the Comptroller shall determine." No written instruction specifies the day-to-day procedure. There is an adequate segregation of functions between the unit managing banking relations and the section in charge of reconciliation. Treasury bank account reconciliations are fairly exhaustive, but the rate is much less satisfactory for reconciliation of the more numerous zero-balance and cashier bank accounts.

171. During its field visits, the Board found several shortcomings: long lists of old, unreconciled accounts in two country offices, reconciliation statements not signed by the officer-in-charge in one country office and an average delay of more than 43 days in reconciling bank statements in another one. Since October 2001, UNICEF has been working on a programme to ensure that all bank accounts are reconciled on a timely basis. For the 2001 closure of accounts, UNICEF emphasized reconciled headquarters accounts, which include cashier, treasury and field office zero-balance accounts. UNICEF now plans to review existing bank reconciliation procedures and, where necessary, update the existing guidelines.

172. **The Board recommended that UNICEF improve its bank reconciliation procedures, and UNICEF agreed to do so.**

Foreign exchange issues

173. For the biennium, receipts and disbursements in United States dollars averaged 53 to 57 per cent of receipts and 83 to 87 per cent of disbursements. In 2001, about

69 per cent of cash and receivables were in United States dollars. In contrast to the above percentages, 93 per cent of the investment portfolio was in United States dollars in 2000 and 95 per cent in 2001. While European operations account for 20 per cent of the receipts and 9 per cent of the disbursements, European currencies are seldom used (3 per cent of the portfolio as at 31 December 2001). This reflects a conservative approach in the determination of portfolio holdings, in which the collection of receivables is a factor. UNICEF rightly states that it has recently preserved millions of dollars in purchasing power since the United States dollar has mostly strengthened over the period; however, this has not always been the case over the longer term.

174. The Board will keep this matter under review.

5. Information and communication technologies

175. The Board of Auditors reviewed the organization of UNICEF's information system and reported its detailed audit observations to UNICEF in two management letters. The Board is glad to note a significant degree of implementation of its recommendations, and an improvement in the management of information and communication technologies. However, it is concerned about the lack of resources in information security.

176. UNICEF has yet to produce an overall policy statement on information security. A document currently being drafted is based on best practices, but it is overly dependent on the responsibility of users and sometimes comes up short in the area of system controls. Such an approach does not sufficiently prevent user errors or malicious acts, and additional resources may be required to monitor user behaviour.

177. There is no full-fledged disaster recovery plan to guarantee operational continuity, even if some of the critical points have been secured through redundancy. The project is under way, but a suitable, tested disaster recovery plan will not be fully operational before the end of 2003. The detailed project methodology is not yet available, and UNICEF has yet to allocate a project team and a budget. Formal security management, an oversight team and benchmarking with other entities are also lacking.

178. **The Board recommended that UNICEF improve its information technology security by finalizing its information security policy and, in consultation with other United Nations organizations, complete its disaster recovery plan as soon as possible, and UNICEF agreed to do so.**

179. UNICEF informed the Board that it aims to finalize, disseminate and begin implementing its information security policy by the end of 2002, that specific actions for disaster recovery have been implemented to increase redundancy and that consultations with other United Nations agencies have started to take place in the United Nations Information and Communication Technologies Advisory Group.

6. Private Sector Division

180. The Private Sector Division is a rare, fund-raising, commercially oriented body in the United Nations system. It sells cards — an estimated 135 million in 2001 — and other products and carries out fund-raising activities. Its net contribution to total UNICEF income fell, however, from 18.1 per cent ($202.9 million) in 1999 to

13.2 per cent ($161.1 million) in 2001. The Private Sector Division operates under a system of consignment. It delivers cards and products to UNICEF National Committees (local associations created in industrialized countries to promote UNICEF policies and to raise funds) and regional offices, while retaining ownership of the goods until they are sold.

Financial position

181. In 1999, when UNICEF presented its 2000-2001 support budget, it anticipated a net income (regular resources) of $417.4 million from the Private Sector Division for the biennium. The actual income was $324.4 million, representing a shortfall of $93 million. This decrease is due mainly to the 29 per cent decline in gross proceeds from sales of cards and other products since 1999. As operating charges decreased by only 1 per cent, the net operating income from product sales fell by 52 per cent. The fluctuation of a single currency against the dollar had a major impact on 2001 revenue of the Private Sector Division, which estimated a loss of $12.8 million. This means that the decline in sales and fund-raising has been less marked in volume than in value.

	2001	*2000*	*1999*	*Variance*
	(in thousands of United States dollars)			*(percentage)*
Gross proceeds from cards and other products	100 999	117 362	141 608	-29
Operating charges	(82 000)	(81 758)	(83 189)	-1
Other income	12 128	6 110	6 787	+79
Net operating income from Private Sector Division products	31 127	41 175	65 206	-52
Net fund-raising proceeds	147 015	154 137	156 422	-6
Other income and charges	(17 057)	(32 558)	(18 734)	-9
Private Sector Division net income	**161 085**	**163 294**	**202 894**	**-21**

182. In 2001, the net fund-raising proceeds of $147 million exceeded the approved budgeted income of $7.1 million. However, they also decreased by 6 per cent and therefore could not counterbalance the decline in sales. The total net income of the Private Sector Division has decreased by 20.6 per cent since 1999.

183. This declining trend is a matter of great concern. UNICEF is aware of the situation and is setting ambitious targets for both marketing and fund-raising. Investments could be made to support priority areas for revenue generation as part of the joint planning process. The latest sales strategy focuses on key markets as well as on improving fund-raising. Recent developments have included best practice manuals in such areas as pledges and legacy-giving, direct-mail fund-raising, market research, innovative corporate alliances, product line profitability, Internet-based sales, customized card services for major corporations and joint planning with National Committees.

184. UNICEF management is engineering a major shift in its long-term strategy. Under the new strategy, the emphasis would be switched from its unique worldwide

position in card sales to the much more competitive fund-raising market, complemented by such lines of products.

185. **The Board recommended that UNICEF review and monitor more closely the appropriateness of the means of its Private Sector Division to attain its objectives and targets, such as the recovery of sales proceeds and the development of fund-raising, and UNICEF agreed to do so.**

Cooperation with National Committees

186. The Executive Director of UNICEF signed new recognition and cooperation agreements, on a model approved in 2000, with four National Committees in 2000 and 11 in 2001. Sixteen National Committees remain under earlier agreements, some of which are very old and have not been updated since 1966 (one case) or 1979-1980 (three cases). Furthermore, sales partners in eight countries are without agreements.

187. **The Board recommended that UNICEF pursue its efforts to sign the new cooperation agreements with all National Committees and sales partners by the end of 2002, and UNICEF agreed to do so.**

188. In its previous report, the Board recommended that UNICEF obtain audited financial statements from National Committees as promptly as possible. For fiscal year 2000, only 23 of 36 active National Committees have sent their financial statements. The 13 Committees that have not done so represented 14.4 per cent of gross proceeds for products and 10.3 per cent of net fund-raising proceeds for the Private Sector Division in 2000.

189. Among the 23 financial statements received, two were given a qualified opinion by the local external auditor. UNICEF's understanding is that the auditor's qualification of the opinion relates to an audit constraint found in the cases of most charitable organizations worldwide, i.e., the ability of the auditors to validate or verify only contributions that have been deposited or recorded, not all contributions received. Hence, the qualification does not relate to accounting control, per se.

190. **The Board recommended that UNICEF pay more attention to qualified opinions given by local external auditors and to obtaining the desirable improvements from the National Committees concerned.**

191. UNICEF does not use audited financial statements submitted by National Committees for a reconciliation with final cash accounting reports to record its own revenue, considering that these statements are heterogeneous and arrive too late, because of the use of different fiscal calendars. A standardized financial reporting package has been agreed upon with National Committees, and financial statements have been requested from those whose statements for 2001 were still due in the spring of 2002.

192. **The Board recommended that UNICEF pursue efforts to receive audited financial statements from every National Committee on time, so they can be of use, to the extent possible, for a reconciliation with the final cash accounting report for the record of Private Sector Division revenue.**

193. In its previous report, the Board mentioned that in April 2000 UNICEF had secured the general agreement of the National Committees to transfer their net sales proceeds quarterly to UNICEF, as a part of the new recognition and cooperation

agreements. Progress has been made on this matter. Eleven National Committees have transferred their funds on a frequent basis (four remittances or more) in 2001. However, six National Committees have made only one remittance in 2001 and four with a total of more than $26.6 million in actual gross proceeds in 2000 have made only two.

194. **The Board recommended that UNICEF secure a quarterly remittance of sales proceeds from National Committees, and UNICEF agreed to do so.**

Logistics

195. Because of the decline in sales, the warehouse at Secaucus (United States of America) is now oversized, and its printing, collating and packaging machines are used at one third of their capacity. In 2002, the number of posts there has been reduced from 35 to 22.

196. Due to its consignment procedure, UNICEF assumes all the costs of supplying cards to National Committees. Some of the Committees tend to issue inaccurately large sales forecasts; this leads to excessive production, the financial consequences of which UNICEF has to assume. Despite progress achieved through joint planning, the inaccuracy of forecasts remains a major source of waste, resulting in both the return and the destruction of cards. In the case of the European National Committees, 17.1 per cent of delivered cards were returned in 2000 (14.4 per cent in 1999), and 6.7 per cent were “left over”, i.e., kept within the countries for the following campaign (10 per cent in 1999). In 2000, 8 million returned cards were delivered to second-cycle markets, out of which 2 million were sold, generating gross revenues of $2 million. These figures show that deliveries have been excessive compared with actual needs. The rate of returned products was even higher in 2000 than in 1999.

	Cards delivered	*Cards sold*	*Cards not sold*	*Cards returned*	*Cards left over*
1999	117 638 197	88 940 000	28 698 197	16 944 575	11 753 622
2000	127 905 007	86 891 307	41 013 700	21 924 835	19 088 865

197. UNICEF and its partners are experimenting with new, early-forecasting methods for cards and other products, in order to minimize the volume of deliveries and, therefore, resultant returns. The Board notes that National Committees have little incentive to adopt more efficient sales policies. Nonetheless, although it recognizes the importance of their contribution.

198. **The Board recommended that UNICEF strengthen its stock management procedures, which may include more precise forecasts and deliveries in order to reduce destruction costs, and UNICEF agreed to do so.**

Private Sector Division activities in UNICEF country offices

199. The Private Sector Division budgeting procedure is separate from that of the rest of UNICEF. Country office Private Sector Division budgets are yearly, while country office support budgets are biennial. The biennial budget reviews for the Private Sector Division are also done separately, although in countries in transition Private Sector Division and UNICEF programmes are closely linked. The 2002

budget preparation data included several discrepancies, which could impair the accuracy of the budget.

200. **The Board recommended that UNICEF implement its plan to integrate the country office Private Sector Division and support budget processes.** UNICEF concurred, and plans to synchronize the budget processes for 2003, as well as to review them.

201. In one country office, the Board found three cases of flawed fund-raising contracts dating back to 1997, which had not been satisfactorily settled by October 2001. These cases reflected inadequate legal, operational and financial reviews prior to signature, and a deficient follow-up. The regional office concurred and is to submit new project agreements to a local lawyer. Accordingly, UNICEF is now contemplating standard-form agreements for all private donations and corporate alliances.

202. **The Board recommended that UNICEF design standard, cost-effective procedures for the legal, operational, and financial review of fund-raising contracts, and UNICEF agreed to do so.**

7. Cases of fraud and presumptive fraud

203. During the biennium ended 31 December 2001, 20 cases of fraud and presumptive fraud were reported to the Board. Sixteen cases involved staff members, and the perpetrators of the remaining four cases could not be identified. In 18 cases the organization suffered losses amounting to an estimated $366,436. As at 31 December 2001, UNICEF had recovered only $43,234, a total of $7,814 was to be recovered from the entitlements of three staff members, and the recovery action on $87,906 was ongoing. UNICEF does not expect to recover the remaining $227,392.

D. Acknowledgement

204. 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*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999

1. The Board has followed up on the action taken by UNICEF to implement the recommendations made by the Board in its report for the biennium ended 31 December 1999. Table A.1 summarizes the status of implementation of all the previous recommendations, while table A.2 details specifically recommendations not implemented and recommendations under implementation that require comment.

2. A total of 12 recommendations were made in the audit for the biennium 1998-1999, 8 of which (67 per cent) were implemented and 4 of which (33 per cent) were under implementation.

Table A.1.
Summary of status of implementation of recommendations for the biennium ended 31 December 1999

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
Financial issues				
Liquidity position	para. 19			
Subtotal				
Number	**1**	**0**	**0**	**1**
Percentage	**100**	**0**	**0**	
Management issues				
Programme management	para. 12 (a)	para. 12 (e) para. 38		
Internal audit	para. 12 (b) para. 12 (c) para. 57	para. 12 (d)		
Consultants	para. 80	para. 83		
Procurement	para. 88 para. 90			
Subtotal				
Number	**7**	**4**	**0**	**11**
Percentage	**64**	**36**	**0**	
Total				
Number	**8**	**4**	**0**	**12**
Percentage	**67**	**33**	**0**	

Table A.2.
Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Component/area of concern	*Recommendation*	*Specific management action/comments*	*Comments of the Board*
Programme management, para. 12 (a)	UNICEF should closely monitor the level of programme implementation so that desired implementation benchmarks can be achieved.	UNICEF has taken steps to ensure the close monitoring of programme implementation: (a) country offices pay attention to programme expenditure rates, achievement of objectives and impact. The Programme Manager System helps them to monitor their expenditure performance; (b) the headquarters Programme Division analyses the financial implementation of country programmes and reports twice a year. Increased implementation levels are expected.	Implemented. Refer to paragraphs 84 to 94 of the present report.
Internal audit, para. 12 (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.	The revised database now uses a UNICEF-standard software platform. The functions of the database have been demonstrated to several headquarters divisions, and UNICEF is currently addressing the technical details to allow access to the database through the Intranet.	Under implementation.
Programme management, para. 38	UNICEF should develop non-financial performance indicators as a basis for assessing its programme performance.	Financial implementation rates are only one of many indicators of programme performance. Expenditure rates are now monitored through field visits. Annual country management plans define programme objectives, strategies, inputs and a monitoring system to ensure that the desired outcome is achieved.	Under implementation. Refer to paragraphs 84 to 94 of the present report.

Component/area of concern	*Recommendation*	*Specific management action/comments*	*Comments of the Board*
Consultants, para. 83	UNICEF should ensure that the Americas and the Caribbean Regional Office (TACRO) complies with the instructions relating to the engagement of consultants.	The Regional Office's quarterly monitoring reports and the staff's performance evaluation reports have included since 2000 the number of special service agreements signed on time. TACRO will continue to stress the importance of compliance with instructions.	Under implementation, but the Board noted that the situation was not yet satisfactory.
Programme management, para. 12 (e)	UNICEF should ensure that the integrated monitoring and evaluation plan (IMEP) is implemented in the remaining 23 countries of TACRO to enhance monitoring and evaluation of programmes in the region.	As at April 2002, 20 countries are at various stages of implementing IMEP. A 3-stage TACRO methodology covers results-based objective-setting and IMEP. By mid-2003 all countries should be at stage 2, and at least two thirds should have completed the entire process. The remaining one third will be given priority support.	Under implementation.

Chapter III
Audit opinion

We have audited the accompanying financial statements, comprising statements I to IX, schedules 1 to 4 and the supporting notes, of the United Nations Children's Fund for the biennium ended 31 December 2001. 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 2001 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*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Chapter IV
Financial statements for the biennium ended 31 December 2001

B. Notes to the financial statements

Note 1
Statement of the objectives and activities of the United Nations Children's Fund

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

Note 2
Summary of significant accounting policies

Accounting conventions

2. The financial statements are prepared in accordance with the Financial Regulations and Rules of UNICEF and the United Nations system accounting standards.

3. In line with the goal of achieving harmonization of the presentation of the accounts by agencies in the United Nations system, the financial statements are presented in line with the formats agreed upon by the Chief Executives Board.

Financial period

4. In accordance with UNICEF Financial Regulations and Rules, the accounts are maintained on a biennial basis.

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. 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 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

7. 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.

8. 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 recorded as "contributions received in advance".

9. Contribution income received from National Committees for UNICEF is accounted for on a cash basis, 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 is committing funds to UNICEF in the form of a pledge.

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

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

12. Donations in kind are not reflected in the financial accounts of UNICEF, although they are handled through the administrative structures of the organization.

Expenditure

13. All UNICEF expenditures are accounted for on an accrual basis, except for those relating to staff entitlements, which are accounted for on the basis of cash disbursements only.

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

15. 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.

Cash

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

Stock

17. The stock of programme supplies at the UNICEF Supply Division warehouse at Copenhagen is shown at average cost. All costs associated with bringing the goods to the warehouse are considered as part of the average cost. Goods in transit to the warehouse are valued at actual cost.

Non-expendable property

18. 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.

Capital asset reserve

19. By its decision 1990/26, the Executive Board approved the establishment of a capital asset reserve fund to better control future purchases 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.

Changes in the presentation of the financial statements for the biennium ended 31 December 2001

20. Where possible, UNICEF has sought to bring information previously disclosed in schedules to the financial statements into the accompanying notes. Where necessary, previous figures have been regrouped for comparative purposes.

Consolidation of Private Sector Division accounts

21. 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. Inter-office transactions between UNICEF and the Private Sector Division are eliminated for consolidation purposes.

Private Sector Division accounting conventions

22. The Private Sector Division accounts are maintained in accordance with the Financial Regulations and Rules of UNICEF and the Greeting Card Operation special supplement.

Private Sector Division translation of currencies

23. Gross proceeds are recorded in local currency based on current year deliveries. They are converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December.

Private Sector Division allowance for exchange rate fluctuation

24. An allowance of 10 per cent of non-United States dollar-denominated outstanding accounts receivable as at 31 December may be established to cover the fluctuation of exchange rates.

Private Sector Division allowance for doubtful accounts receivable

25. An allowance for accounts receivable that are considered doubtful for collection may be established.

Private Sector Division inventories

26. Inventories of work in process and finished goods are valued at standard cost, while raw materials are valued at moving average cost. It is Private Sector Division

policy to write down unsold cards and dated products at the end of the first sales campaign year and all other products at the end of the second sales campaign year. Products that have been written down and carried forward are valued at their add-on cost. All publicity and promotional materials produced in the current campaign year but relating to future campaign years are shown at standard cost and included in inventory.

Private Sector Division capital assets

27. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

Private Sector Division liabilities

28. Liabilities are accrued in the Private Sector Division accounts following recognized accounting standards, and appropriate cut-off procedures are followed consistently.

Private Sector Division income

29. Income from private sector fund-raising and related expenses are recorded separately in the Private Sector Division accounts.

30. Gross proceeds from the sale of cards and products are recorded in foreign currency and accrued on the basis of the provisional sales reports received from the sales partners at year’s end. They are converted into United States dollars at the United Nations operational rates of exchange prevailing on 31 December of the year in question. The accrual is adjusted in the following year on receipt of the final sales report. In case the provisional sales report is not received from a sales partner by end-of-year closure, gross proceeds are accrued on the basis of that sales partner’s average sales-to-delivery ratio for the current year.

31. Income from private sector fund-raising activities and related expenses are recorded separately in the Private Sector Division accounts. The net proceeds raised by National Committees from private sector fund-raising activities are recorded on the basis of the reports they submit at year’s end, while the net proceeds raised by field offices from private sector fund-raising activities are recorded upon receipt of funds.

Note 3
Transfer to the biennium support budget

32. A transfer is made from income to the biennium support budget, in keeping with the budget harmonization of the United Nations Development Programme, the United Nations Population Fund and UNICEF, as follows (in thousands of United States dollars):

	2001
Government contributions towards local costs	646
Income tax reimbursement	14 785
Total	**15 431**

Note 4
Private Sector Division Income

33. Net income from the Private Sector Division for the biennium ended 31 December 2001 was $324,378,000, broken down as follows (in thousands of United States dollars):

	2000	*2001*	*Total*
Gross proceeds from sales	117 363	100 999	218 362
Private sector fund-raising	159 383	152 649	312 032
Other income	6 110	12 128	18 238
Total	**282 856**	**265 776**	**548 632**
Expenditures	119 562	104 692	224 254
Net income	**163 294**	**161 084**	**324 378**

Note 5
Miscellaneous income[1]

	2000/2001	*1998/1999*
	(thousands of United States dollars)	
Liquidation of prior-year outstanding budgetary obligations	20 638	13 601
Income from sale of surplus and obsolete property	2 672	1 427
Agency commissions from procurement services	1 837	2 572
Gains and losses on foreign-exchange transactions	14 047	(555)
Miscellaneous other	2 517	7 049
Total	**41 711**	**24 094**

Note 6
Write-offs

	Regular resources	*Supplementary funds*	*Emergency relief and rehabilitation*	*Total 2000/2001*	*Total 1998/1999*
	(thousands of United States dollars)				
Uncollectable contributions	1 515	3 691	5 205	10 411	15 503
Stock write-offs and adjustments	3 375			3 375	2 979
Total	**4 890**	**3 691**	**5 205**	**13 786**	**18 482**

[1] Previous figures have been regrouped for comparative purposes.

Note 7
Cash and term deposits

	2001	1999
	(thousands of United States dollars)	
Term deposits	619 922	500 392
Cash (convertible)	17 085	40 616
Cash (non-convertible)	7 543	17 718
Total	**644 550**	**558 726**

Note 8
Ageing analysis of contributions receivable

Prior to 1999	*1999*	*2000*	*2001*	*Total*
	(thousands of United States dollars)			
17 905	4 331	23 226	167 126	212 588

Note 9
Provision for uncollectable contributions receivable

34. In line with the recommendation of the external auditors,[2] UNICEF maintains a provision for potentially uncollectable contributions receivable. This provision is set at $5 million.

Note 10
Other accounts receivable[3]

	2001	1999
	(thousands of United States dollars)	
From non-governmental organizations for fund-raising campaigns of National Committees for UNICEF	208 732	217 588
Private Sector Division allowance for exchange rate fluctuation and uncollectable accounts	(24 606)	(24 116)
From Governments, United Nations agencies and other organizations for trust funds	75 038	12 450
From the United Nations and specialized agencies		5 515
From staff members	17 924	22 585
From banks — accrued interest	4 462	8 226
Advances to suppliers for goods and freight	3 938	7 036
Deferred charges — Central Emergency Revolving Fund	1 636	

[2] See *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5B* (A/51/5/Add.2), para. 35.
[3] Previous figures have been regrouped for comparative purposes.

	2001	1999
	(thousands of United States dollars)	
From Governments – other	899	9 134
Deposits and prepayments	801	533
Miscellaneous	262	2 746
Total	**289 086**	**261 697**

Note 11
Inventories as at 31 December 2001

	2001	1999
	(thousands of United States dollars)	
Programme supplies in warehouse	18 583	21 938
Programme supplies in transit		58
Packing materials in warehouse	167	102
Private Sector Division – raw materials	2 404	2 060
– work in progress	230	391
– finished goods	4 324	1 813
Total	**25 708**	**26 362**

Note 12
Buildings and equipment

	31 December 2001	31 December 1999
	(thousands of United States dollars)	
UNICEF office buildings	11 454	10 950
UNICEF housing	947	1 123
Private Sector Division machinery and equipment	319	602
Total	**12 720**	**12 675**

Note 13
Contributions received in advance

	2001	1999
	(thousands of United States dollars)	
Governments and intergovernmental agencies	3 080	781
Others	379	209
Total	**3 459**	**990**

35. Further to contributions received in advance, pledges amounting to $87,240,000 had already been received for future years.

Note 14
Unliquidated obligations

	2001	1999
	(thousands of United States dollars)	
Programme budget accounts	160 552	170 021
Administrative budget accounts	12 688	22 281
Total	**173 240**	**192 302**

Note 15
Accounts payable

	2001	1999
	(thousands of United States dollars)	
To the United Nations and specialized agencies	4 033	
Central Emergency Revolving Fund	12 500	
Supplies, service and freight	52 459	24 522
Miscellaneous	6 148	8 845
Total	**75 140**	**33 367**

Note 16
Insurance reserves

Reserve for losses of programme supplies and equipment

36. 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. The reserve balance at the end of 1999 was $104,010. There were no movements in the reserve during 2000-2001.

Reserve for property loss

37. In 1987, UNICEF established a reserve of $100,000 to self-insure for property losses. The reserve balance at the end of 1999 was $26,399. There were no movements in the reserve during 2000-2001.

Note 17
Contingent liability

38. 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.

39. In order to gain a better understanding of the financial dimensions of the organization's liabilities for after-service health insurance, a consulting actuary was engaged in 2001 to carry out an actuarial valuation of post-retirement health insurance benefits as at 1 January 2001. On the basis of that study, it has been insurance benefits as at 1 January 2001. On the basis of that study, it has been estimated that UNICEF liability as at 31 December 2001 for after-service health insurance benefits covering all participants is as follows (in thousands of United States dollars):

	Present value of future benefits	*Accrued liability*
Gross liability	363 989	246 078
Offset from retirees	72 142	49 636
Total	**291 847**	**196 442**

40. The figures for present value of future benefits 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 dates of full eligibility for benefits.

41. The net contingent liability for staff benefits as at 31 December 2001 is estimated at $56,479,000, consisting of the following (in thousands of United States dollars):

Accumulated leave	35 839
Repatriation grant	20 655
Total	**56 494**

42. 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.

Note 18
United Nations Joint Staff Pension Fund

43. UNICEF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligations of the organization to the Pension Fund consist of its mandated contribution at the rate established by the General Assembly together with any share of any actuarial deficiency payments under article 26 of the Regulations and Rules of the Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Funds as of the valuation date.

44. At the time of the present report the General Assembly has not invoked this provision.

Note 19
Non-expendable property

	(thousands of United States dollars)
Cost of non-expendable property as at 31 December 1999	59 282
Cost of non-expendable property as at 31 December 2001	52 322

45. All non-expendable property is charged against current year expenditure at the time of acquisition.

Note 20
Liquidity

46. UNICEF internal liquidity guidelines recommend an end-of-year regular resources convertible cash balance equal to at least 10 per cent of projected regular resources income for the following year.

47. The medium-term strategic plan for the year 2001 recommended a minimum regular resources convertible cash balance of $59 million.

48. For the purpose of meeting this internal guideline, UNICEF cash balances, excluding trust funds, are estimated to be split between regular and other resources as follows (in thousands of United States dollars):

	Regular resources	*Other resources*
Convertible cash balance	76 013	363 363
Non-convertible cash balance	7 543	
Total	**83 556**	**363 363**

49. UNICEF met its internal liquidity guidelines for the year 2001.

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 Panel of External Auditors (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 administration 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 and the regular resources part of intercountry programmes.

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

budget estimates. Estimates 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 estimates, revised. Resulting from 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, banknotes, cheques, balances in current and call accounts, savings accounts and interest-bearing deposits.

cash in transit. Cash transfers involving 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 beyond 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 yet received.

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 donors' wishes. When those limitations do not exist, UNICEF considers currencies "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 disbursements and valid unliquidated obligations against the appropriation or allocation for the period.

financial periods. 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 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. A 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. It 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, from time to time there may occur short-term imbalances between regular resources cash disbursements and cash receipts. The UNICEF liquidity policy allows these temporary imbalances to be offset by up to one half of the balance of supplementary cash on hand.

liquidity requirement. In order to meet UNICEF liquidity requirements, regular resources convertible cash balances 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 liquidated or cancelled.

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

procurement services. UNICEF assists Governments, United Nations agencies and non-governmental organizations working in fields of benefit to children by undertaking, on request and on a reimbursable basis, the procurement of goods and services. UNICEF adds a small handling charge 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 rates 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 of $26,399 as at 31 December 2001.

schedules. Explanatory or supporting analyses accompanying financial statements.

trust funds. 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 costs relating to Junior Professional Officers, World Bank-funded projects, the oil-for-food programme and the Global Alliance for Vaccines and Immunization. These funds are not considered to be UNICEF income.

specific contributions. 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. The 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.

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