



**United Nations**

# **Financial report and audited financial statements**

**for the biennium ended  
31 December 2003 and**

## **Report of the Board of Auditors**

**Volume IV  
United Nations University**

**General Assembly  
Official Records  
Fifty-ninth Session  
Supplement No. 5 (Vol. IV) (A/59/5 (Vol. IV))**

**General Assembly**  
Official Records  
Fifty-ninth Session  
Supplement No. 5 (Vol. IV) (A/59/5 (Vol. IV))

# **Financial report and audited financial statements**

**for the biennium ended 31 December 2003 and**

## **Report of the Board of Auditors**

**Volume IV**  
**United Nations University**



United Nations • New York, 2004



*Note*

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

## Contents

<i>Chapter</i>	<i>Paragraphs</i>	<i>Page</i>
Letters of transmittal . . . . .		v
I. Financial report for the biennium ended 31 December 2003 . . . . .		1
A. Introduction . . . . .	1–3	1
B. Financial position of the United Nations University . . . . .	4–11	1
Annex		
Supplementary information . . . . .		4
II. Report of the Board of Auditors . . . . .		5
Summary . . . . .		5
A. Introduction . . . . .	1–13	6
1. Previous recommendations not fully implemented . . . . .	9–11	7
2. Main recommendations . . . . .	12–13	7
B. Financial issues . . . . .	14–58	8
1. Financial overview . . . . .	14–19	8
2. United Nations system accounting standards . . . . .	20–31	10
3. Presentation and disclosure of the financial statements . . . . .	32–54	12
4. Liabilities for annual leave, end-of-service benefits and post-retirement benefits . . . . .	55–56	16
5. Write-off of losses of cash, receivables and property . . . . .	57	16
6. Ex gratia payments . . . . .	58	16
C. Management issues . . . . .	59–108	16
1. Programme management/result-based budgeting . . . . .	59–79	16
2. Information and communication technology . . . . .	80–94	20
3. Procurement . . . . .	95–97	21
4. Travel advances . . . . .	98–102	22
5. Consultants and individual contractors . . . . .	103–104	23
6. Staff training . . . . .	105–107	24
7. Cases of fraud and presumptive fraud . . . . .	108	24
D. Acknowledgement . . . . .	109	24

---

Annex

Summary of status of implementation of recommendations for the financial period ended 2000-2001 .....	25
III. Audit opinion.....	26
IV. Certification of the financial statements .....	27
V. Financial statements for the biennium ended 31 December 2003 .....	28
Statement I. Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2003 .....	29
Statement II. Statement of assets, liabilities and reserves and fund balances as at 31 December 2003 .....	31
Schedule 2.1 Combined status of pledges unpaid as at 31 December 2003 .....	33
Statement III. Statement of cash flows for the biennium ended 31 December 2003 .....	38
Statement IV. Statement of appropriations for the biennium ended 31 December 2003 .....	40

Annex

Trust Fund for the Financial Assistance Programme for Students from Developing Countries Studying in Japan .....	42
Notes to the financial statements .....	43

---

## Letters of transmittal

28 April 2004

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations University for the biennium 2002-2003, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

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

*(Signed)* Kofi A. **Annan**

The Chairman of the Board of Auditors  
United Nations  
New York

---

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations University for the biennium ended 31 December 2003, which were submitted by the Secretary-General. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

*(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 2003

#### A. Introduction

1. The General Assembly adopted the charter of the United Nations University by its resolution 3081(XXVIII) of 6 December 1973 and decided that the University would have its headquarters in the Tokyo metropolitan area in Japan. Authority for the University's policies, work programmes and budget is vested in a Council of 28 members. The Rector, who normally serves for five years and is eligible for reappointment for one more term of five years, is the chief academic and administrative officer of the University.

2. The funds of the University are kept in a special account established by the Secretary-General of the United Nations. The charter of the United Nations University provides that capital and recurrent costs of the University shall be met from voluntary contributions to the University or from income derived therefrom.

3. The University maintains an Endowment Fund and separate operating funds for its nine research and training centres and its headquarters. The Endowment Fund accumulates investments and also receives voluntary contributions. Income from investments in the Endowment Fund is used to support the activities of the University, which are accounted for in the respective operating funds. The operating funds also receive voluntary contributions directly from Governments as well as from non-governmental sources, United Nations entities, universities and individuals.

#### B. Financial position of the United Nations University

4. Total income of the Endowment Fund during the biennium 2002-2003 amounted to \$38.0 million compared with \$12.4 million in the previous biennium. The breakdown is as follows (in thousands of United States dollars):

	2003	2001
Voluntary contributions	1 119	268
Interest income	1 631	12 166
Miscellaneous income	35 247	-
<b>Total</b>	<b>37 997</b>	<b>12 434</b>

5. Interest income decreased to \$1,631,000 in the biennium 2002-2003, as compared with \$12,166,000 in the previous biennium, as a result of lower interest rates and higher losses on sale of investments. Such losses amounted to \$13,271,000 in 2002-2003 against \$6,630,000 in the previous biennium.

6. Miscellaneous income increased substantially in the current biennium. In accordance with financial rules, net gains on foreign exchange revaluations are included in miscellaneous income and net losses are included in operating expenses. During the biennium 2002-2003, there was a net exchange gain of \$35,247,000,

which is included in miscellaneous income. In the previous biennium, there was an exchange loss of \$21,606,000, which is included in operating expenses (see para. 8).

7. Total income for the operating funds amounted to \$36.6 million in the current biennium, compared with \$36.5 million in the previous biennium. The breakdown is as follows (in thousands of United States dollars):

	2003	2001
Voluntary contributions	29 645	30 372
Interest income	3 333	3 224
Income for services rendered	2 908	2 387
Other/miscellaneous income	698	479
<b>Total</b>	<b>36 584</b>	<b>36 462</b>

8. As shown in statement I, the total expenditure for the University amounted to \$65.1 million for the biennium, compared with \$87.6 million in the previous biennium. The main reason for the change is that the biennium 2000-2001 included exchange loss of \$21.6 million (see para. 6). The breakdown of expenditure by major object of expenditure is as follows (in thousands of United States dollars):

<i>Major object of expenditure</i>	2003	2001
Staff and other personnel costs <sup>a</sup>	28 308	26 785
Travel	1 952	1 653
Contractual services	723	707
Operating expenses <sup>b</sup>	3 933	26 300
Acquisitions <sup>c</sup>	867	1 299
UNU headquarters building	4 589	4 484
Research and training networks and dissemination	24 759	26 399
<b>Total</b>	<b>65 131</b>	<b>87 627</b>

<sup>a</sup> Includes costs of programme staff and consultants.

<sup>b</sup> Includes exchange loss of \$21,606,000 in the biennium 2000-2001.

<sup>c</sup> Includes costs of library books and supplies and costs of programme equipment.

9. During the biennium 2002-2003, in accordance with a decision of the UNU Council, an amount of \$29.9 million was transferred from the Endowment Fund to the operating funds, broken down as follows: \$16.3 million to UNU headquarters, \$4.8 million to the World Institute for Development Economics Research (UNU/WIDER), \$2.1 million to the Institute for New Technologies (UNU/INTECH), \$4.1 million to the International Institute for Software Technology (UNU/IIST), \$1.4 million for the Institute for National Resources in Africa (UNU/INRA), \$0.3 million to the Institute for Advanced Studies (UNU/IAS) and \$0.9 million to the Programme for Biotechnology in Latin America and the Caribbean (UNU/BIOLAC). Other transfers between funds include \$0.2 million from the Leadership Academy (UNU/ILA) to the Endowment Fund and \$0.2 million

from the International Network on Water, Environment and Health (UNU/INWEH) to UNU headquarters.

10. Statement II shows that total assets amounted to \$313.8 million and total liabilities to \$8.8 million. The Endowment Fund had short-term investments of \$8.7 million and long-term investments of \$248.5 million, whose market values were \$8.8 million and \$259.7 million respectively. In addition, the operating funds held cash and investments of \$39.8 million as at 31 December 2003, which included the UNU share of the cash pool for United Nations offices away from Headquarters. Assets also included \$8.4 million, representing pledged contributions receivable, details of which are given in schedule 2.1.

11. During the current biennium, the fund balance of the Endowment Fund increased by \$8.5 million to \$261.6 million as at 31 December 2003. The fund balance of the operating funds also increased by \$4.4 million to \$43.3 million as at 31 December 2003.

## **Annex**

### **Supplementary information**

1. The present annex includes supplementary information that the Secretary-General is required to report.

### **Write-off of losses of cash and receivables and property**

2. In accordance with financial rules 106.8 and 106.9, there were no losses of cash and receivables and property during the biennium 2002-2003.

### **Ex gratia payments**

3. There were no ex gratia payments during the biennium 2002-2003.

## Chapter II

### Report of the Board of Auditors

#### *Summary*

The Board of Auditors has reviewed the operations of the United Nations University (UNU) at its headquarters in Tokyo and in five of its research and training centres and programmes. The Board has also audited the financial statements of UNU for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) UNU recorded miscellaneous income under the Operating Fund on a cash basis of accounting instead of on the accrual basis as prescribed in paragraph 36 of the United Nations system accounting standards, resulting in misstated balances of miscellaneous income, other accounts receivable, other liabilities, reserves and fund balances;

(b) Monitoring of obligations at UNU was inadequate, resulting in non-cancellation of invalid obligations amounting to \$0.13 million, contrary to paragraph 40 of the United Nations system accounting standards;

(c) The Financial, Budgetary and Personnel Management System was not yet capable of generating consolidated financial statements. UNU resorted to adjustments outside the system that did not provide an adequate audit trail between the System reports and the financial statements;

(d) UNU did not maintain a separate accounting for the Trust Fund for the UNU Financial Assistance Programme for Students from Developing Countries Studying in Japan in violation of the Trust Fund Agreement, resulting in overstatements of accounts of the operating fund: cash and term deposits (\$1.50 million), income (\$2.95 million), expenditures (\$1.71 million), reserves and fund balances (\$0.26 million), other accounts receivable (\$0.08 million) and other accounts payable (\$0.08 million);

(e) Non-expendable property was not accurately disclosed in the notes to the financial statements;

(f) The estimated liabilities for end-of-service and post-retirement benefits disclosed in note 6 to the financial statements amounted to \$1.7 million as at 31 December 2003. UNU has not provided for liabilities for end-of-service and post-retirement entitlements;

(g) UNU did not adopt a logical framework for conceptualizing programmes, identifying the components needed to achieve intended results and specifying appropriate indicators that would measure actual performance;

(h) UNU did not develop a long-term information and communication technology plan, resulting in its procuring hardware and software as the need arose;

(i) UNU had no written training policy that would outline its training goals and overall methodology in providing its staff with opportunities for professional growth and development.

A list of the Board's main recommendations is provided in paragraph 12 of the present report.

## A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of United Nations University (UNU) for the biennium 2002-2003 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article IX of the charter of UNU. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the General Assembly, whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNU presented fairly its financial position as at 31 December 2003 and the results of its operations for the period then ended. The audit included a general review of the financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, internal financial controls and, in general, the administration and management of UNU.

4. The audit was carried out at UNU headquarters and at the Institute of Advanced Studies (UNU/IAS) in Tokyo; at the International Network on Water, Environment and Health (UNU/INWEH) in Hamilton, Canada; the International Leadership Academy (UNU/ILA) in Amman; the Institute for New Technologies (UNU/INTECH) in Maastricht, the Netherlands; and the World Institute for Development Economics Research (UNU/WIDER) in Helsinki.

5. In paragraph 6 of resolution 57/278 A of 20 December 2002, the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability. UNU informed the Board that the UNU Council had reviewed governance structures within the UNU system in relation to the advisory committees and boards of the UNU research and training centres and programmes. The responsibilities of the advisory committees and boards and the directors of research and training centres and programmes are spelled out in the statutes for each centre or programme. UNU further informed the Board that its 2002 strategic plan and the 2004 revision being worked on at that time set forth clear goals on consolidation, codification and cooperation with respect to management processes.

6. The Board continued its practice of reporting to UNU the results of specific audits in management letters containing detailed observations and recommendations. This practice allowed for an ongoing dialogue with the University.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNU, whose views have been appropriately reflected in the report.

8. A summary of the Board's main recommendations is contained in paragraph 12. The detailed findings and recommendations are reported in paragraphs 14-108.

## **1. Previous recommendations not fully implemented**

### **Biennium ended 31 December 1999<sup>1</sup>**

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the measures taken by UNU to implement the recommendations made in its report for the biennium ended 31 December 1999. The Board noted that there had been only one recommendation outstanding, namely, that UNU adhere to the procedures for tendering as laid down in the Procurement Manual for purchases either under or over \$25,000. The Board further comments on that matter in paragraphs 95-97 of the present report.

### **Biennium ended 31 December 2001<sup>2</sup>**

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by UNU to implement the recommendations made in its report for the biennium ended 31 December 2001. Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Out of a total of seven recommendations, four (57 per cent) were implemented and three (43 per cent) were under implementation.

11. The Board has reiterated, in paragraphs 51, 53 and 71 of the present report, previous recommendations that had not yet been fully implemented. The Board invites UNU to assign specific responsibility and establish an achievable time frame to implement them.

## **2. Main recommendations**

### **12. The Board recommends that UNU:**

(a) **Observe consistently the accrual basis of accounting for miscellaneous income pursuant to paragraph 36 of the United Nations system accounting standards (para. 23);**

(b) (i) **Periodically review the unliquidated obligations and cancel invalid obligations; (ii) ensure that all obligations are adequately supported; and (iii) reconcile financial records in a timely manner (para. 26);**

(c) (i) **Review and consider enhancing the Financial, Budgetary and Personnel Management System to make it consistent with the financial recording and reporting requirements; (ii) minimize manual processes in the**

<sup>1</sup> See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5 (A/55/5)*, vol. IV, chap. II.

<sup>2</sup> See *ibid.*, *Fifty-seventh Session, Supplement No. 5 and corrigendum (A/57/5 and Corr.3)*, vol. IV, chap. II.

preparation of financial statements; and (iii) ensure that adjustments made as part of the preparation of the financial statements are approved and supported by an adequate audit trail (para. 34);

(d) Ensure strict compliance with provisions in similar agreements requiring separate accounting for trust funds (para. 39);

(e) Address the inaccuracies in accounting for non-expendable property to provide complete and accurate disclosures of the value of non-expendable property as at the end of the financial period (para. 42);

(f) Review the funding mechanism for end-of-service and post-retirement benefit liabilities (para. 56);

(g) Identify measurable/quantifiable targets, accomplishments and performance indicators to improve the performance measurement process, reflect the real performance of projects and programmes and be able to link the physical accomplishments with financial expenditures (para. 65);

(h) Develop a long-term information and communication technology (ICT) plan on which short-term ICT requirements could be based (para. 82);

(i) Finalize and implement a staff training policy in line with its needs assessment and resources and consistent with the United Nations professional development policy (para. 106).

13. The Board's other recommendations are shown in paragraphs 30, 44, 46, 49, 51, 53, 69, 72, 76, 78, 85, 89, 93, 97, 101 and 104.

## **B. Financial issues**

### **1. Financial overview**

14. UNU is financed entirely from voluntary contributions from Governments, bilateral and multilateral agencies, foundations and other public and private sources. It derives its income from three sources: the Endowment Fund, the Operating Fund and a recently established trust fund discussed in paragraphs 35-39 below. The Endowment Fund was established in the early 1970s as a capital fund from the \$100 million pledged contribution of the Government of Japan. Non-earmarked voluntary contributions received by UNU are credited to the Endowment Fund, which is invested to generate the University's basic revenue for its Operating Fund.

15. The Board performed an analysis of the University's financial position as at 31 December 2003. The key financial figures of UNU funds for the bienniums 2000-2001 and 2002-2003 are set out in table 1.



Table 1  
**Key financial figures for United Nations University funds for the bienniums  
 2000-2001 and 2002-2003**

(Thousands of United States dollars)

	<i>Endowment Fund<sup>a</sup></i>		<i>Operating Fund<sup>a</sup></i>		<i>Trust Fund for the Financial Assistance Programme for Students for Developing Countries Studying in Japan<sup>b</sup></i>	
	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>	<i>2000-2001</i>	<i>2002-2003</i>
Total income	12 434	37 997	36 462	36 584	650	2 947
Total expenditure	21 606	-	66 021	65 269	390	1 714
Total assets	261 894	270 646	61 215	58 282	260	1 575
Total liabilities	8 739	9 037	22 240	15 095		82
Reserves and fund balances	253 155	261 609	38 975	43 187	260	1 493
<b>Major accounts</b>						
Voluntary contributions	268	1 119	30 372	29 645	650	2 947
Staff and other personnel costs			26 785	28 308		
Research and training networks, and dissemination			26 399	24 897		
Transfer to/from other funds	30 004	29 543	30 004	29 543		
Cash and term deposits, investments and cash pool	252 398	262 528	38 085	39 784		2
Voluntary contributions receivable	6 478	5 910	775	2 527		
Inter-fund balances receivable	641	242	12 938	9 312		
Inter-fund balances payable	8 714	9 037	4 865	517		
Unliquidated obligations			7 457	7 009		
Cumulative surplus			32 936	35 601		
Fund principal	253 155	261 609				

<sup>a</sup> Comparative figures for 2000-2001 have been restated to conform to current presentation.

<sup>b</sup> Included in the accounts of the Operating Fund per financial statements.

### Endowment Fund

16. The total reserves and fund balances increased by \$8.4 million (3 per cent), from \$253.2 million as at 31 December 2001 to \$261.6 million as at 31 December 2003. The surplus was attributable to the difference between an excess of income over expenditure of \$38 million and an amount of \$29.5 million transferred to the Operating Fund during the biennium 2002-2003.

17. The Board's analysis of transactions for both bienniums showed that interest income decreased by \$10.6 million (87 per cent). Total assets of \$270.6 million as at 31 December 2003 increased by \$8.7 million (3 per cent) from the \$261.9 million as at 31 December 2001, owing mainly to short-term investments of \$8.7 million. Total liabilities, representing inter-fund balances payable, increased by \$0.3 million

(4 per cent), from \$8.7 million as at 31 December 2001 to \$9.0 million as at 31 December 2003.

### **Operating Fund**

18. Voluntary contributions decreased by \$0.7 million (2 per cent), from \$30.4 million in the biennium 2000-2001 to \$29.7 million in 2002-2003. Income sources included \$29.5 million transfer from the Endowment Fund, interest income of \$3.3 million, income from services rendered of \$2.9 million and miscellaneous income of \$0.7 million. Total expenditures decreased by \$0.8 million (1 per cent), from \$66.0 million as at 31 December 2001 to \$65.3 million as at 31 December 2003. Compared with \$29.6 million as at 31 December 2001, the shortfall in income in the biennium 2002-2003 amounted to \$28.7 million. The shortfall, which was registered in UNU headquarters (\$17.8 million) and six research and training centres (\$11.4 million), was reduced by the excess of income over expenditure in two research and training centres and one programme amounting to \$0.5 million.

19. Total reserves and fund balances increased by \$4.2 million (11 per cent), from \$39 million as at 31 December 2001 to \$43.2 million as at 31 December 2003. Total assets decreased by \$2.9 million (5 per cent), from \$61.2 million in the biennium 2000-2001 to \$58.3 million in 2002-2003. Total liabilities decreased by \$7.1 million (32 per cent), from \$22.2 million as at 31 December 2001 to \$15.1 million as at 31 December 2003.

## **2. United Nations system accounting standards**

20. The Board assessed the extent to which the financial statements of UNU for the biennium ended 31 December 2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards, except to the extent raised in the present report in relation to issues, such as: (a) the recording of miscellaneous income using the cash basis of accounting instead of the accrual basis prescribed in paragraph 36 of the United Nations system accounting standards (paras. 21-23); (b) the non-cancellation of invalid unliquidated obligations, contrary to paragraph 40 of the accounting standards (paras. 24-27); and (c) the treatment of some expenditures pertaining to current and prior bienniums as deferred charges, in contravention of paragraph 41 of the accounting standards (paras. 28-31).

### **Accounting for miscellaneous income**

21. Paragraph 36 of the United Nations system accounting standards provides that other/miscellaneous income should be recorded on an accrual basis. Note 2 (d) to the financial statements of UNU provides that, generally, income is recognized on the accrual basis of accounting. The Board noted that UNU instead used the cash basis of accounting in recording miscellaneous income under the Operating Fund for the biennium ended 31 December 2003. The Board is concerned that the use of the cash basis of accounting accordingly resulted in a net understatement of miscellaneous income by \$146,659, computed as follows:

(a) Overstatement by \$199,492, representing building income and income from the use of facilities for the year 2001 (\$11,145) and 2004 (\$188,347);

(b) Understatement by \$346,151, consisting of building income/income from the use of facilities pertaining to 2002 received in 2001 and recorded as income for the biennium 2000-2001 (\$79,710), uncollected building income/income for the use of facilities (\$265,647) and income from the sale of publications (\$794) pertaining to the biennium 2002-2003 but not accrued as at 31 December 2003.

22. The use of the cash basis of accounting also resulted in understatement of other accounts receivable by \$266,441 and other liabilities by \$188,347, and overstatement of reserves and fund balances by \$68,565 as at 31 December 2003.

**23. UNU agreed with the Board's recommendation that it observe consistently the accrual basis of accounting for miscellaneous income pursuant to paragraph 36 of the United Nations systems accounting standards.**

#### **Unliquidated obligations**

24. The Board noted inadequate monitoring of obligations at UNU, which resulted in invalid obligations not being cancelled, contrary to paragraph 40 of the United Nations system accounting standards. The Board's review of 16 miscellaneous obligating documents for re-obligations of prior period accounts of UNU headquarters amounting to \$280,066 disclosed that 6 miscellaneous obligating documents for \$133,422 had been covered by contracts that had been fully paid as at 31 December 2003. The Board is concerned that these re-obligations did not represent valid liabilities.

25. UNU/INWEH was unable to cancel invalid obligations in a timely manner or monitor payments and re-obligations because it depended on budget reports from UNU headquarters that often were not transmitted on time. The delayed transmission of those reports prevented the timely reconciliation of the records of UNU/INWEH with those of UNU headquarters. In case of discrepancies, the figures of UNU headquarters prevail.

**26. The Board recommends that UNU: (a) periodically review the unliquidated obligations and cancel invalid obligations; (b) ensure that all obligations are adequately supported; and (c) reconcile financial records in a timely manner.**

27. UNU informed the Board that it had already cancelled 7 of the 16 miscellaneous obligating documents amounting to \$138,185. UNU/INWEH also informed the Board that the process of monitoring unliquidated obligations had now improved. UNU agreed to implement guidelines, review the amounts of unliquidated obligations periodically and close invalid accounts.

#### **Deferred charges**

28. Paragraph 41 of the United Nations system accounting standards provides that where commitments are incurred against future financial periods they should be recorded in the University's accounts or disclosed in a note to the financial statements. Disbursements against such commitments should be recorded as deferred expenditure. Note 2, subparagraph (k) (vi), to the UNU financial statements defined deferred charges as normally comprising expenditure items that are not properly chargeable in the current financial period. The Board noted, however, that the deferred charges and other assets of \$184,917 under the Operating Fund of UNU

headquarters as at 31 December 2003 included expenditures of \$183,545 pertaining to the biennium 2002-2003 and prior periods, consisting of the following:

(a) Expenditures amounting to \$156,537 pertaining to salaries of UNU staff members applicable to the biennium 2002-2003 charged by United Nations Headquarters;

(b) Expenditures amounting to \$27,008, consisting of charges from the United Nations Development Programme (UNDP) for UNU transactions from 1996 to 2001 billed by UNDP but disputed by UNU (\$18,623) and various transactions from 1996 to 2000 (\$8,385).

29. The Board is concerned that the balance of the deferred charges account as at 31 December 2003 may not be accurate because of the inclusion of transactions not pertaining to future financial periods. UNU explained that it did not recognize the amounts as expenditures for the biennium 2002-2003, as it was still verifying and reconciling the transactions as at 31 December 2003.

**30. The Board recommends that UNU complete its reconciliation of the deferred charges and accordingly record expenditures in the appropriate financial periods to ensure that expenditures classified as deferred charges pertain only to future financial periods.**

31. UNU informed the Board that it would complete its reconciliation of its deferred charges and make the necessary adjustments in the biennium 2004-2005.

### **3. Presentation and disclosure of the financial statements**

32. In accordance with paragraph 12 of General Assembly resolution 55/220 A of 23 December 2000, the Board of Auditors, in conjunction with the Secretary-General and the executive heads of the funds and programmes of the United Nations, continued to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in annexes to the statements in accordance with the United Nations system accounting standards. In its review of the financial statements of UNU, the Board noted the discrepancies discussed in succeeding paragraphs (paras. 33-54).

#### **Preparation and generation of the financial statements**

33. The Board noted that the Financial, Budgetary and Personnel Management System was not yet capable of generating financial statements. In preparing the financial statements, UNU adjusted, reclassified or regrouped accounts outside the system. The adjustments were made manually on a spreadsheet, were not subject to review and approval and did not provide an adequate audit trail between the system-generated reports and the financial statements. It was therefore difficult to validate the adjustments that were made to the account balances in order to prepare the financial statements. Moreover, this practice was time-consuming and resource-intensive and increased the risk of error or misstatement in some accounts.

**34. UNU agreed with the Board's recommendations that it: (a) review and consider enhancing the Financial, Budgetary and Personnel Management System to make it consistent with the financial recording and reporting requirements; (b) minimize manual processes in the preparation of financial statements; and (c) ensure that adjustments made as part of the preparation of**

**the financial statements are approved and supported by an adequate audit trail.**

#### **Trust Fund**

35. The Trust Fund Agreement entered into between UNU and the Japan Bank for International Cooperation (JBIC) on 14 March 2003 for the implementation of the UNU Financial Assistance Programme for Students from Developing Countries Studying in Japan requires, inter alia, that UNU maintain a separate accounting for the Trust Fund and submit to JBIC, by 15 May of every fiscal year during the term of the Agreement, a certified annual financial report for the Fund, beginning with the fiscal year ended 31 March 2004.

36. Contrary to the Agreement, UNU recorded the transactions relating to the implementation of the Programme under its Operating Fund, which resulted in overstatements of the Operating Fund accounts as at 31 December 2003, as follows:

- (a) Cash and term deposits, by \$1,818;
- (b) Inter-office transactions pending processing, by \$1,493,451;
- (c) Income from voluntary contributions, by \$2,947,666 (370,345,000 yen (¥));
- (d) Expenditures, by \$1,714,092;
- (e) Other accounts receivable, by \$79,925 (¥8,711,800), representing the amount released by UNU to cooperating universities;
- (f) Other accounts payable, by \$81,743 (¥8,910,000), representing contributions received by UNU from JBIC for the Financial Assistance Programme sub-account;
- (g) Reserves and fund balances, by \$259,877.

37. UNU explained that since the agreement was only signed in March 2003 the Trust Fund was not yet established as a budgetary fund for the biennium 2002-2003. Therefore, for accounting purposes, UNU treated the Financial Assistance Programme as a specific funded project under the Operating Fund in the biennium 2002-2003. UNU considered that from the signing of the Agreement in March 2003 until December 2003 the established accounting system would have effectively guaranteed the segregation of the Programme transactions from UNU activities.

38. UNU informed the Board that, taking into consideration the requirement of the Trust Fund Agreement that it maintain separate financial statements for the Financial Assistance Programme, it had reported the Trust Fund financial statements as an annex to the financial statements for the biennium 2002-2003. With effect from 1 January 2004, UNU would maintain separate accounting for the Trust Fund.

**39. The Board recommends that UNU ensure strict compliance with provisions in similar agreements requiring separate accounting for trust funds.**

#### **Non-expendable property**

40. In its interim audit in April 2003, the Board had recommended that UNU provide complete and accurate disclosures of the value of the non-expendable property in the context of the financial statements for biennium 2002-2003, in

accordance with paragraph 49 of the United Nations system accounting standards. UNU disclosed non-expendable property valued at \$5.17 million in note 5 to the financial statements for the biennium ended 31 December 2003. That amount included acquisitions during the biennium amounting to \$0.76 million disclosed in note 5, subparagraph (b). However, the Board identified further acquisitions of \$0.11 million, which increased the acquisitions to \$0.87 million. Reductions during the biennium amounted to \$0.32 million instead of the \$0.65 million disclosed in note 5, subparagraph (b). Therefore, the value of non-expendable property as at 31 December 2003 should be \$5.61 million, or \$0.44 million (8 per cent) higher than the disclosed amount of \$5.17 million.

41. UNU explained that the existing system did not provide more analysis codes to capture all acquisitions of non-expendable property, but to enhance the functionality of the system would be a large-scale and costly change.

**42. UNU agreed with the Board's recommendation that it address the inaccuracies in accounting for non-expendable property to provide complete and accurate disclosures of the value of non-expendable property as at the end of the financial period.**

#### **Other accounts receivable**

43. The Board's independent confirmation with a supplier disclosed that other accounts receivable as at 31 December 2003 included \$55,046 (¥6.0 million) in respect of deposits already refunded by a supplier to UNU in August 1990 and \$9,174 (¥1.0 million) expenditures pertaining to 1999 charged against the \$18,349 (¥2.0 million) deposit with the same supplier. The Board is concerned that the non-recording of these transactions resulted in overstatement of other accounts receivable by \$64,220, overstatement of reserves and fund balances by \$9,174 and understatement of cash and term deposits by \$55,046. The Board is also concerned that UNU was not in a position to trace the amount of the deposits refunded by the supplier.

**44. UNU agreed with the Board's recommendation that it take appropriate action to determine the validity and whereabouts of the deposits and trace the amount refunded by the supplier.**

#### **Other accounts payable**

45. The Board is concerned regarding the validity of the balance of other accounts payable of the Operating Fund as at 31 December 2003 because of the following:

(a) Of the \$1.58 million balance of UNU headquarters as at 31 December 2003, \$1.06 million (67 per cent) represents an inter-fund balance due to the United Nations General Fund. Through confirmation in April 2004, the Board noted that only \$0.86 million (81 per cent) was reflected in United Nations Headquarters' records, or a difference of \$0.20 million (19 per cent). The UNU headquarters did not undertake reconciliation of the inter-fund account with United Nations Headquarters to clear the discrepancy. In June 2004, UNU informed the Board that, subsequent to the closing of the UNU accounts, United Nations Headquarters had submitted a final statement with a balance of \$1.14 million, thereby reducing the difference between the accounting records of UNU and United Nations Headquarters to \$81,495;

(b) Other accounts payable of \$74,124, representing differences in inter-office voucher accounts within UNU headquarters and six of its eight research and training centres and programmes, could not be supported with details (i.e. payees, descriptions and amounts of transactions), as no reconciliation had been made to establish the cause(s) of disagreement before recording them in the books of accounts. This, however, has no effect on the overall UNU financial statements;

(c) Four transactions, totalling \$17,071, recorded as part of settlement of accounts that were not previously set up as payables, resulting in debit balances that decreased the credit balance of other accounts payable.

**46. UNU agreed with the Board's recommendation that it review the validity of other accounts payable to accurately reflect balances.**

#### **Gains/losses on securities**

47. In its interim audit for the biennium 2000-2001, the Board noted that UNU had offset gains and losses arising from revaluation and foreign exchange contract transactions. The Board recommended that UNU record gains or losses in the appropriate accounts and not offset the accounts against each other.

48. UNU has misinterpreted the recommendation by making an adjusting entry in the biennium 2002-2003 debiting (increasing) the Loss on Securities account and crediting (increasing) Gains on Securities for \$443,140. This resulted in both accounts being overstated at the end of the biennium by the same amount.

**49. UNU agreed with the Board's recommendation that it review the adjusting entries before they are recorded in the accounts.**

#### **Control over allotments**

50. In paragraph 33 of its previous report, the Board recommended that UNU/IIST prepare the budget and record expenditures per project, per object of expenditure and accordingly enter the data in the Financial, Budgetary and Personnel Management System and that UNU consider enhancing the System to allow it to reject obligations in excess of allotments at data entry. UNU informed the Board that it has already modified the system and implemented the modification with effect from 1 January 2003. The Board reviewed the budget system and noted that it still accepted obligations even if they were in excess of the allotment.

**51. The Board reiterates its recommendation that UNU enhance the Financial, Budgetary and Personnel Management System by introducing a fund-sufficiency checking functionality to ensure that obligations are kept within the allotment.**

#### **Financial reporting on projects**

52. In paragraph 37 of its previous report, the Board recommended that UNU initiate a system-wide policy to include the salaries of researchers in costing projects and the adoption of an allocation ratio, in the event that a researcher worked on several projects. The Board noted that UNU had not yet fully implemented that recommendation.

**53. The Board reiterates its recommendation that UNU adopt a system-wide policy to include and allocate the salaries of researchers in costing projects.**

54. UNU informed the Board that it would consider options and, if appropriate, develop a policy to allocate employment costs across individual projects.

#### 4. Liabilities for annual leave, end-of-service benefits and post-retirement benefits

55. The estimated liabilities for after-service health insurance, accrued annual leave and termination benefits are indicated in note 6 to the financial statements and amounted to \$4.744 million as at 31 December 2003, as shown in table 2. As disclosed in note 6, subparagraph (a), UNU has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance costs or liabilities for other types of end-of-service payment.

Table 2

#### Liabilities for annual leave, end-of-service benefits and post-retirement benefits

(Millions of United States dollars)

<i>Description</i>	<i>2000-2001</i>	<i>2002-2003</i>
After-service health insurance net accrued liability	2.200	1.644
Accrued annual leave	.578	1.400
Unpaid repatriation and relocation entitlement	0	1.700
<b>Total</b>	<b>2.778</b>	<b>4.744</b>

56. **The Board recommends that UNU review the funding mechanism for end-of-service and post-retirement benefit liabilities.**

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

57. In line with financial regulation 6.4 and rule 106.8 (a) and 106.9 (a), UNU informed the Board that, except for non-expendable property amounting to \$14,305, no cash, receivables and other assets of UNU had been written off during the biennium ended 31 December 2003. However, the Board noted that that amount did not reconcile with non-expendable property written off amounting to \$317,424 per supporting documentation. The Board encourages UNU to reconcile its records on property write-offs.

#### 6. Ex gratia payments

58. UNU reported that, in line with financial regulation 5.11 and rule 105.12, no ex gratia payments had been made during the biennium.

### C. Management issues

#### 1. Programme management/result-based budgeting

##### Reported expenditure versus programme delivery

59. The Advisory Committee on Administrative and Budgetary Questions, in paragraph 14 of its report of 16 October 2000 (A/55/487), encouraged organizations of the United Nations system to continue to develop and improve performance



measurement standards. In particular, the Advisory Committee was concerned that reported expenditures might not correlate appropriately with the level of the implementation of programmes.

60. The Board of Auditors reviewed the financial implementation and programme delivery (technical implementation) of 17 projects of UNU headquarters and noted that project documents indicated 100 per cent physical accomplishment on nine projects, while financial accomplishments ranged from 56 to 102 per cent for the first year of the biennium 2002-2003. Eight projects have 100 per cent reported physical accomplishment despite minimal expenditure. While this may indicate efficient use of resources, it may also indicate weaknesses in the initial target-setting and financial planning and may lead to inadequate measurement of the true performance of programmes and projects.

61. Moreover, UNU headquarters did not identify and express performance indicator targets and expected accomplishments in measurable or quantifiable terms at the onset of the budget process. In some projects, such as those on mass crime and post-conflict peace-building, the indicator was "organization of a workshop" and "publication of an edited book and policy brief", while the reported accomplishment mentioned "external funds secured" and "project participants identified". The physical accomplishment was reported as 100 per cent.

62. The academic programme and budget of UNU/IAS for the biennium 2002-2003 contained information on projected income, estimated expenditures and narrative description of the 16 programmes and subprogrammes. However, it did not specify the expected accomplishments, performance indicators, end-users or beneficiaries or external factors that could have an impact on the attainment of the expected accomplishments. The Board also noted that expenditure on programme development and evaluation in 2002, totalling \$454,402, was 284 per cent more than the approved budget of \$160,000 and no specific accomplishments could be linked to the programme.

63. UNU/WIDER had set a timetable for project implementation, requested project directors to prepare quarterly accomplishment reports for monitoring purposes and issued situation reports on publication. It also had the data on percentage accomplishments for projects undertaken. The Board noted, however, the absence of indicators with which performance would be measured in correlation with programme objectives and actual expenditure.

64. UNU/INTECH did not adopt a logical framework for conceptualizing programmes, identifying the components needed to achieve intended results and specifying appropriate indicators that would measure actual performance.

**65. The Board recommends that UNU identify measurable/quantifiable targets, accomplishments and performance indicators to improve the performance measurement process, reflect the real performance of projects and programmes and be able to link the physical accomplishments with financial expenditures.**

66. UNU agreed with the Board's view on the merits of result-based budgeting but commented that in applying such an approach it was necessary to take into account the specific nature of its activities, which were primarily research-oriented. UNU explained that from its experience as an academic institution it would not be possible to establish at the time of budget preparation specific performance

indicators for the purpose of measuring whether the expected accomplishments had been achieved and that the qualitative aspect of academic output was fundamental and overrode any quantitative approach that might be considered. However, UNU agreed to make programme objectives and expected outputs and accomplishments more specific in the academic budget for the biennium 2004-2005. It further agreed to establish a clear timetable for implementation of activities against which progress of implementation could be gauged.

### **Programme expenditure reports**

67. UNU programme units prepared a report on the financial accomplishment vis-à-vis technical implementation of projects for programme implementation and monitoring purposes. UNU captured project expenditures for accounting purposes through the Financial, Budgetary and Personnel Management System and generated a report on the status of expenditure. The Board noted variances between the reported expenditures of the programme units and the expenditures generated from the Financial, Budgetary and Personnel Management System, as set out in table 3.

Table 3

### **Comparison of expenditures as reported by programme units and by the Financial, Budgetary and Personnel Management System**

(Thousands of United States dollars)

<i>Programme</i>	<i>Reports of the programme units</i>	<i>Reports of the Financial, Budgetary and Personnel Management System</i>	<i>Variance</i>
International courses	186 981	221 792	34 811
Biological diversity	147 604	161 908	14 304
Kirin fellowship	243 726	284 709	40 983
Global seminars	518 951	262 056	256 895
Zero emissions	207 000	198 879	8 121

68. The discrepancies could be attributed to reobligations that recorded in the Financial, Budgetary and Personnel Management System as part of expenditures but were not considered in the report of the programme units.

**69. The Board recommends that UNU reconcile variances between the programme unit records and the reports generated by the Financial, Budgetary and Personnel Management System to ensure accurate reporting on programmes.**

70. UNU informed the Board that it intended to explore possible enhancements to the Financial, Budgetary and Personnel Management System to rectify shortcomings in the project monitoring function.

### **Programme staffing and monitoring of outputs acceptability**

71. In paragraph 45 of its previous report the Board recommended that UNU review the standard number of projects that every academic officer should handle, taking into account the magnitude of each project, to ensure that quality time and effort are devoted to individual projects during implementation and, in addition to

peer review of outputs, further enhance quality control by monitoring data on book sales, book reviews and quotations through the UNU Press. UNU informed the Board that it had reviewed and rationalized the number of projects in two major thematic areas — peace and governance, and environment and sustainable development — in the latter half of 2003.

**72. The Board encourages UNU to continue reviewing and rationalizing the number of projects to be handled by every academic officer to include all thematic areas.**

73. UNU assured the Board that it would undertake additional consideration in June 2004 to further rationalize project loads.

#### **Project documentation**

74. The preparation and maintenance of complete and organized project documents is crucial to the efficient and effective implementation and monitoring of UNU projects. Such documents should contain the project profile, which includes information on the nature and description, cost and performance indicators and standards of projects.

75. The Board's review of the documentation of a sample of eight projects of UNU/INWEH disclosed that not all folders contained documents related to the projects, such as work plans, accomplishment reports, performance indicators, budget and financial reports and evaluation reports. Similarly, project folders of UNU/ILA did not contain the information required to facilitate efficient and effective project implementation, monitoring and reporting.

**76. UNU agreed with the Board's recommendation that it maintain complete and organized project documentation to include work plans, budgets and financial and evaluation/monitoring reports.**

#### **Publications**

77. In its audit of UNU/ILA in October 2003 the Board noted that a total of 7,663 copies of *Interview and Alumni Paper Series*, *Occasional Paper Series*, newsletters and brochures, with a total estimated cost of \$9,767 pertaining to the publications of calendar years 2000, 2001 and 2002, remained undissemated. The Board is concerned that the intended purpose of the undistributed publications has not been served, notwithstanding the cost incurred. While UNU/ILA agreed that there was no formal distribution plan prior to production, it had recently developed a database of individuals and entities to be included on the UNU/ILA mailing list.

**78. The Board recommends that UNU/ILA prepare a distribution plan prior to actual production to lessen incidence of undistributed materials in the interest of economy.**

79. UNU informed the Board that, since the October 2003 audit, no new publications had been printed and UNU/ILA had decided to issue a "printable" electronic newsletter only, a hard copy of which could be printed on demand. Nevertheless, UNU/ILA assured the Board that it would prepare a distribution plan in case any printed materials or publication were produced.

## 2. Information and communication technology

### Strategic plan

80. Control over information and communication technology (ICT) planning and organization requires that management develop long- and short-term plans that fulfil the University's missions and goals, including optimal investment of current and future ICT investments, evaluation of alternative strategies for data applications, technology and organization and organizational changes. In the Board's review of UNU ICT strategy, UNU presented various documents in connection with its ICT development, including its 2000 strategic plan. UNU had allocated in the approved programme budget for the biennium 2002-2003 the amount of \$1,016,000 for information technology, of which \$211,000 was for the acquisition of ICT-related furniture and equipment. However, the amount of \$211,000 was not supported by detailed requirements of equipment and software to be purchased during the biennium. In addition, acquisition of hardware and software was not based on an approved acquisition plan. UNU procured ICT equipment and software as the need arose.

81. UNU has conducted various studies and strategic planning for ICT development. However, it had not developed a long-term plan incorporating all the studies and assessments embodied in the foregoing documents as envisioned in the UNU 2000 Strategic Plan. The absence of a long-term ICT plan could result in ICT solutions and acquisitions that may not be developed or procured in line with business objectives.

**82. The Board recommends that UNU develop a long-term information and communication technology (ICT) plan on which short-term ICT requirements could be based.**

83. In June 2004, UNU informed the Board that it was in the process of developing a long-term ICT plan and that, on the basis of the approved ICT plan, it would establish and decide upon short-term ICT requirements.

### Information technology organization and relationships

84. A study presented by the UNU Campus Computing Centre, entitled "Creating the IT structure for UNU Tokyo", included staffing requirements and job description and placed the Campus Computing Centre as a functional unit within the UNU Centre. However, the Campus Computing Centre did not have a defined role and responsibilities to ensure its independence and its authority over ICT functions. The Computing Centre was sometimes consulted on ICT matters, but the absence of defined duties and responsibilities prevented it from having a clear division of functions.

**85. UNU agreed with the Board's recommendation that it establish policies that defined: (a) the Campus Computing Centre's relationship within the organization; and (b) the ICT staff's duties and responsibilities.**

### Acquisition and maintenance of technology infrastructure

86. In order to maintain control of acquisition and implementation of information technology (IT), an organization should have information on hardware and software, including on users and on the technical specifications and physical condition of the

hardware and software. That information should be used to monitor all acquisitions and changes to any particular IT component.

87. There were no written policies and procedures for acquisition of hardware and software. Not all purchases passed through the Campus Computing Centre for assessment of compliance with technology infrastructure directions and standards. UNU, however, verified that all purchases of hardware and software were justified.

88. UNU maintained an inventory of hardware procured and its users, but it did not maintain a list of or monitor software acquisitions.

**89. UNU agreed with the Board's recommendation that it develop and implement procedures and standards to be followed in the procurement and tracking of information technology hardware, software and services.**

### **Management of data and facilities**

90. An information technology organization should be able to identify those applications which are critical for the continued operation of the organization in the event of a disaster. Its list of applications must be reviewed and updated on a regular basis. It is also important that procedures for the recovery of critical applications be clearly documented and updated to suit the current environment. Successful recovery from a disaster would generally require restoring critical data files using back-ups from off-site storage. Back-ups should be current and copies should be stored in a secure off-site location.

91. The Board noted that, in general, the physical and environmental controls at the UNU headquarters data centre were sufficient and adequately managed. There were off-site back-up, storage and back-up restoration procedures. The Campus Computing Centre was responsible for the central back-up of data files in the server and the user departments also performed back-up of data and files. UNU had observed operational safeguards on information against unauthorized use, disclosure or modification, damage or loss, but had not formalized its practices in that regard.

92. UNU/INTECH stored the back-up files at the Institute's library in a building adjacent to the data centre. In the event of a disaster, the back-ups might be destroyed along with the working system. Also, UNU/ILA had no written policy or strategy on back-up, such as maintenance, off-site back-up files and restoration for the server setting, including its regular testing.

**93. UNU agreed with the Board's recommendation that it develop policies and procedures in relation to operational safeguards in the information and communication technology environment.**

94. In June 2004, UNU informed the Board that it was in the process of developing policies and procedures in relation to operational safeguards in the ICT environment.

### **3. Procurement**

95. In its report for the biennium 1998-1999,<sup>3</sup> the Board recommended that UNU adhere to the procedures for tendering laid down in the Procurement Manual for purchases either under or over \$25,000. During the biennium 2002-2003, in 11

<sup>3</sup> Ibid., *Fifty-fifth Session, Supplement No. 5 (A/55/5)*, vol. IV, para. 36.

procurement cases with amounts of less than \$25,000, the UNU requested a quotation from and awarded the contracts to only one supplier. While United Nations financial regulation 110.19 and the Procurement Manual allow exceptions to calling for proposals, advertising or formal invitations for purchases of less than \$25,000, United Nations organizations are required to seek competitive offers whenever practicable. UNU explained that it usually requested quotations for supplies and low-cost materials from one supplier with whom it had earlier engaged in similar business, as the supplier had then offered the lowest price. UNU further commented that it intended to request United Nations Headquarters to consider raising the ceiling from \$2,500 to \$5,000 for purchases requiring three vendor quotations.

96. Contrary to section 9.02.05 of the Procurement Manual, UNU did not document its justification to waive competitive bidding for contracts of up to \$2,500.

**97. UNU agreed with the Board's recommendation that UNU adhere to the provisions of the Financial Regulations and Rules of the United Nations and the Procurement Manual in respect of: (a) requests for quotations for purchases of less than \$25,000; and (b) documenting the justification for awarding contracts of up to \$2,500 under the allowed exceptions to calling for bids.**

#### **4. Travel advances**

98. Section 11.1 of the administrative instruction of 22 December 2000 (ST/AI/2000/20) requires staff members, within two calendar weeks after completion of travel other than using lump-sum option, to submit a completed travel reimbursement claim and other required documentation to their executive or administrative office. Section 11.2 of the same instruction provides that recovery of travel advances through payroll deduction shall be initiated in the event of failure to comply with the requirement.

99. UNU headquarters and UNU/INTECH did not comply with the above policy. Travel advances remained outstanding owing to non-submission of travel claims and supporting documents within the two-week submission deadline. As at 31 December 2003, UNU headquarters' travel advances that had remained unsettled for more than one year amounted to \$15,429. The Board's review of 22 sample vouchers for UNU/INTECH for the period from 1 January 2002 to 30 June 2003 disclosed that 15 travel advances totalling \$23,107 had been settled beyond the prescribed two-week period and outstanding travel advances were not cleared through salary deductions.

100. UNU also had no policy on granting and settlement of travel advances to non-staff members: it granted travel advances to three non-staff members even though their previous advances had not been settled. Five of the fellows who were granted travel advances amounting to \$4,026 between May 2000 and July 2001 were no longer connected with UNU. Recovery of the outstanding accounts is therefore doubtful.

**101. The Board recommends that UNU: (a) enforce compliance with the directives on recovery of travel advances of staff members; and (b) formulate a policy governing the granting and settlement of travel advances of non-staff members.**

102. UNU advised the Board that it would formulate and implement monitoring procedures on granting and settlement of travel advances to staff and non-staff members. It would also explore with another United Nations organization best practices on the administration of travel entitlements such as the implementation of 100 per cent advance and elimination of travel claim submissions if travel is undertaken according to approved travel arrangements.

## **5. Consultants and individual contractors**

103. The Board's review of special service agreements (SSA), institutional contract agreements (ICA) and personnel service agreements (PSA) of UNU disclosed the following:

(a) UNU headquarters made final payments on seven SSAs and renewed contracts despite the absence of performance evaluation reports;

(b) Nine SSA holders and eight contractors of UNU headquarters submitted outputs 11 days to 15 months later than the scheduled dates of submission, while two SSA and three ICA holders had not submitted their outputs as at April 2004;

(c) UNU headquarters paid \$20,000 to a consultant upon signature of the contract. However, the work remained undelivered more than one year after the contract expired;

(d) UNU headquarters entered into PSA with four individuals with a contract period of more than five years, contrary to established guidelines, which limit the contract period to five years;

(e) UNU/ILA engaged the services of three researchers to work on a project for a fee of \$23,000 each. While the contract was signed on 14 May 2003, the work actually started in February 2003. When UNU headquarters rejected the project, UNU/ILA amended the contract and pre-dated it to April 2003 for a payment of \$9,000 to each researcher. The administration admitted that irregularities had been committed, in particular on the aspect of the projects being initiated before the contracts were finalized;

(f) UNU/WIDER did not use prescribed system-generated and numbered contract forms and maintained a separate database on signed agreements for programme monitoring, reporting and management. The Board observed that its use of forms other than the prescribed ones had caused difficulty in monitoring relevant expenses, since the separate database could not be linked to the Financial, Budgetary and Personnel Management System;

(g) UNU/WIDER awarded new contracts for specific jobs to two contractors whose expected outputs on previously executed service agreements were still unfinished at the time the new contracts took effect. UNU/WIDER was unable to evaluate the contractors' performance prior to re-engaging them.

**104. UNU agreed with the Board's recommendations that it: (a) adhere strictly to the guidelines on hiring of consultants and individual contractors through special service agreements, institutional contract agreements and personnel service agreements; (b) review and monitor performance to ensure that signed agreements translated into timely substantive actions and results; and (c) exercise increased caution in entering into concurrent agreements with contractors.**

## **6. Staff training**

105. The United Nations guidelines on staff training provide its staff with opportunities for professional growth and development. In its review of the training programme of UNU the Board noted the following:

(a) The training proposal UNU developed in May 1998 had not been approved as at the audit date in April 2003; by May 2004, the training proposal had still not been approved. UNU informed the Board that the UNU personnel policy approved by the UNU Council on 5 December 2003 spelled out in article VII (Personnel development, training and performance) its commitment towards personnel development and that it had allocated a budget of \$20,000 for UNU headquarters for the biennium 2004-2005;

(b) UNU/INTECH had adopted no written training policy to outline the organization's training goals and overall methodology in managing staff and the career development of its staff. Scheduling of training for staff was done as needed, either at the suggestion of management or at the request of the staff;

(c) Although UNU/WIDER had no training needs assessment or a training plan, it earmarked \$10,000 for staff training for the biennium 2002-2003.

**106. The Board recommends that UNU finalize and implement a staff training policy in line with its needs assessment and resources and consistent with the United Nations professional development policy.**

107. In June 2004, UNU informed the Board that it was reviewing the draft guidelines on training and career development.

## **7. Cases of fraud and presumptive fraud**

108. UNU informed the Board that no case of fraud or presumptive fraud had come to its notice during the biennium 2002-2003.

## **D. Acknowledgement**

109. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Rector and his officers and staff.

(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

9 July 2004

*Note:* The members of the Board of Auditors have signed only the original English version of the audit report.



## Annex

## Summary of status of implementation of recommendations for the financial period ended 2000-2001<sup>a</sup>

<i>Topic</i>	<i>Implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Total</i>	<i>Reference in the present report</i>
Establishment of new research and training centres/programmes	Para. 24			1	
Failed fund-raising activity	Para. 28			1	
Financial, Budgetary and Personnel Management System					
Control over allotments		Para. 33		1	See paras. 50 and 51.
Financial reporting on projects		Para. 37		1	See paras. 52-54.
Programme/project management					
Financial management of projects	Para. 42			1	
Programme staffing and monitoring of outputs acceptability		Para. 45		1	See paras. 71-73.
Capacity-building programme					
Fellowship grantees	Para. 49				
<b>Total</b>					
<b>Number</b>	<b>4</b>	<b>3</b>	<b>-</b>	<b>7</b>	
<b>Per cent</b>	<b>57</b>	<b>43</b>	<b>-</b>	<b>100</b>	

<sup>a</sup> See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5* (A/57/5 and Corr.3), vol. IV, chap. II.

## Chapter III

### Audit opinion

We have audited the accompanying financial statements of the United Nations University, comprising statements I to IV, schedule 2.1, the annex thereto and the supporting notes for the biennium ended 31 December 2003. These financial statements are the responsibility of the Rector. 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 and the International Standards on Auditing. 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 the examination, on a test basis and as considered by the auditor to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Rector, as well as an evaluation of the overall presentation of the financial statements. We believe 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 as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the United Nations University stated accounting policies, as set out in note 2 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

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

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

(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

9 July 2004

*Note:* The members of the Board of Auditors have signed only the original English version of the audit opinion.

## Chapter IV

### Certification of the financial statements

28 April 2004

1. The financial statements of the United Nations University for the biennium 2002-2003 ending 31 December 2003 have been prepared in accordance with financial rule 106.10.
2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarification of the financial activities undertaken by the University during the period covered by these statements, for which the Secretary-General has administrative responsibility.
3. I certify that the appended financial statements of the United Nations University, numbered I to IV, are correct.

(Signed) Jean-Pierre **Halbwachs**  
Assistant Secretary-General, Controller

**Chapter V**  
**Financial statements for the biennium ended**  
**31 December 2003**

[pp. 29-42 - comp.]































## Notes to the financial statements

### Note 1

#### United Nations University and its activities

(a) The charter of the United Nations University (UNU) was adopted by the General Assembly in its resolution 3081 (XXVIII) of 6 December 1973;

(b) The mission of UNU, a non-traditional international educational institution, is to carry out scholarly work of the highest quality to help resolve pressing global problems of human survival, development and welfare. To that end, UNU focuses its research, postgraduate education and knowledge dissemination activities on the most critical problems of concern to the United Nations, in particular as they affect developing countries;

(c) Through its work, UNU strives to achieve two main goals: to strengthen the capacities of institutions of higher education in developing countries to carry out high-quality research and training, and to make scholarly and policy-relevant contributions to the work of the United Nations;

(d) To accomplish those objectives, the UNU Centre in Tokyo plans, coordinates and funds academic activities carried out through the programme units located at its Centre in Tokyo and through nine research and training centres and programmes:

- (i) The UNU World Institute for Development Economics Research (UNU/WIDER) in Helsinki;
- (ii) The UNU Institute for New Technologies (UNU/INTECH) in Maastricht, the Netherlands;
- (iii) The UNU International Institute for Software Technology (UNU/IIST) in Macao, Special Administrative Region of China;
- (iv) The UNU Institute for Natural Resources in Africa (UNU/INRA) in Accra;
- (v) The UNU Institute of Advanced Studies (UNU/IAS) in Tokyo;
- (vi) The UNU Programme for Biotechnology in Latin America and the Caribbean (UNU/BIOLAC) in Caracas;
- (vii) The UNU International Leadership Academy (UNU/ILA) in Amman;
- (viii) The UNU International Network on Water, Environment and Health (UNU/INWEH) in Hamilton, Canada;
- (ix) The UNU Comparative Regional Integration Studies (UNU/CRIS) in Bruges, Belgium.

### Note 2

#### Summary of significant accounting policies

The following are the significant accounting policies of the University:

(a) The UNU accounts are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and

administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the former Administrative Committee on Coordination. The Administrative Committee on Coordination has since been replaced by the United Nations System Chief Executives Board for Coordination. UNU follows international accounting standard 1 on the disclosure of accounting policies, as modified and adopted by the Board, as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;
  - (ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;
  - (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
  - (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. Those policies should normally be disclosed in one place;
  - (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
  - (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;
- (b) The UNU accounts are maintained on a “fund accounting” basis. Separate funds for general or special purposes may be established by the General Assembly or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity. Separate financial statements are prepared for each fund or for a group of funds of the same nature;
- (c) The financial period of UNU is a biennium and consists of two consecutive calendar years;
- (d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;
- (e) The accounts of UNU are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction at rates of exchange established by the Controller. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual rates of exchange as at the date of the statements would provide a valuation materially different from the application of United Nations rates of exchange for the last month of the financial period, a footnote will be presented quantifying the difference;

(f) The UNU financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services;

(g) The cash flow summary statement is based on the “indirect method” of cash flows as referred to in the United Nations system accounting standards;

(h) The UNU financial statements are presented in accordance with the ongoing recommendations of the working party on accounting standards to the Chief Executives Board for Coordination;

(i) Income:

(i) The University derives its income from two sources: income from an Endowment Fund and contributions to the operating funds;

(ii) Pledged voluntary contributions from Governments to the Endowment Fund are recorded as income on the basis of a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Pledges for future years are recorded as deferred income;

(iii) All government contributions, unless otherwise specified, are credited to the Endowment Fund. The income derived from the investment of the Endowment Fund is allocated for the financing of the entities of the University in accordance with the ratio of contributions to the Endowment Fund from the respective donors;

(iv) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on short-term and long-term investments and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments in the cash pool are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds;

(v) Income for services rendered represent services provided to the United Nations and other organizations that occupy offices in the UNU building and from outside users of the conference and exhibition facilities;

(vi) Miscellaneous income includes income from sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified and other sundry income;

(j) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in subparagraph (k) (vi) below;

(k) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Investments comprise investments in bonds and equities. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. Cost is defined as the nominal value plus/minus any unamortized premium/discount. No provision is made for amortization of premiums or discounts, which are taken into account as part of the gain or loss when investments are sold;

(iii) The cash pool comprises participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pool for United Nations offices away from Headquarters. The investments in the cash pool are similar in nature and are accounted for as stated in subparagraph (k) (ii) above. Share in the cash pool is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in the footnotes to the individual statements;

(iv) Inter-fund balances reflect transactions between the Operating Fund and the Endowment Fund. Inter-fund balances are settled periodically, depending upon availability of cash resources;

(v) Inter-office transactions pending processing reflect transactions between the UNU Centre and its research and training centres;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period and will be charged as expenditure in a subsequent period. Such expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vii) For purposes of the balance-sheet statements only, those portions of education grant advances that are assumed to pertain to scholastic years completed as at the date of the financial statement are shown under deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proof of entitlement are produced, at which time the budgetary accounts are charged and advances settled;

(viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the University. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements;

(l) Liabilities and reserves and fund balances:

(i) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

- (ii) Deferred income includes pledged contributions for future periods;
- (iii) Commitments of UNU relating to prior, current and future financial periods are shown as unliquidated obligations. Current period obligations related to the Operating Fund and the Endowment Fund remain valid for 12 months following the end of the biennium to which they relate;
- (iv) Transfers from other funds represent actual fund transfers from the Endowment Fund to respective operating funds;
- (v) The Endowment Fund of UNU represents its working capital funds;
- (vi) Authorized retained surplus represents the amounts set aside, as contingency funds approved by the University Council, to cover any shortfall or delay in the payment of expected contributions, compensate any reduction in estimated income due to currency fluctuations and cover any special maintenance costs for the headquarters building;
- (vii) Balances related to projects funded by donors represent the amount of specific programme contributions unspent during the period;
- (viii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;
- (ix) UNU 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 obligation of the University to the Fund consists of its mandated contribution at the rate established by the Assembly, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. As at the date of the current financial statement, the Assembly has not invoked that provision;

(m) Trust funds may be established by the Rector. The University follows the general provisions of the Secretary-General's bulletin on the establishment and management of trust funds (ST/SGB/188) and also its supporting administrative instructions (ST/AI/284, ST/AI/285 and ST/AI/286), although as indicated in paragraph 3 of the Secretary-General's bulletin (ST/SGB/188), that bulletin does not apply to such institutions as UNU, which are subject to the administrative authority of their executive heads.

### **Note 3**

**Income and expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); and cash flows (statement III)**

(a) Statements I, II and III contain financial results for all UNU funds, which are totalled into two groups of related funds and, after elimination, combined into a grand total reflecting the activities of the University. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The two groups consist of:

(i) “Operating funds”, which comprise UNU headquarters, UNU/WIDER, UNU/INTECH, UNU/IIST, UNU/INRA, UNU/IAS, UNU/BIOLAC, UNU/ILA, UNU/INWEH and UNU/CRIS;

(ii) The “Endowment Fund”.

#### **Note 4**

#### **United Nations University funds (statements I, II and III)**

(a) *Investments*. In accordance with decisions of the UNU Council, the investment policies are:

(i) To adopt 5 per cent of the five-year average endowment market value as the maximum endowment spending level annually;

(ii) To adopt a portfolio with a higher equity exposure. Effective November 2003, the recommended ranges are 40-50 per cent for fixed income, 45-55 per cent for equity and 5 per cent for cash;

(iii) To use a rolling five-year asset base forecast and target a percentage of total assets as the budget for transfers to fund operations;

(iv) To focus on total return instead of income or capital gains: a well-diversified portfolio will protect the principal by definition;

(b) *Cash and term deposits, investments and the cash pool for United Nations offices away from Headquarters*. The following table shows the breakdown of cash and term deposits, investments and the cash pool for United Nations offices away from Headquarters by currency and by type of investment that is included in statement II as at 31 December 2003 (in thousands of United States dollars):

<i>Currency</i>		<i>United States dollar equivalent</i>
United States dollars		134 675
Euros		69 561
Japanese yen		53 865
Pounds sterling		18 198
Others		26 013
<b>Total</b>		<b>302 312</b>
<i>Type of investment</i>		<i>United States dollar equivalent</i>
Cash and term deposits		16 196
Short-term investments:	Bonds	8 702
Long-term investments:		
	Bonds	124 549
	Equities	123 962
Cash pool for United Nations offices away from Headquarters		28 903
<b>Total</b>		<b>302 312<sup>a</sup></b>

<sup>a</sup> The market values as at 31 December 2003 were \$8,773,215 for short-term investments, \$259,692,445 for long-term investments and \$28,894,566 for the cash pool for United Nations offices away from Headquarters.



(c) *Voluntary contributions receivable.* The following table is an aged analysis of the pledged contributions unpaid and included in statement II for 2003 and 2001 (in thousands of United States dollars):

Country	Less than one year	More than one year	Total 2003	Total 2001
Ghana	-	2 907	2 907	3 450
Japan	2 145	-	2 145	650
Venezuela	-	3 003	3 003	3 003
India	-	-	-	25
Jordan	-	-	-	125
Canada	382	-	382	-
<b>Total</b>	<b>2 527</b>	<b>5 910</b>	<b>8 437</b>	<b>7 253</b>

(d) *Other accounts receivable.* The following table is an aged analysis of other accounts receivable and included in statement II for 2003 and 2001 (in thousands of United States dollars):

Other accounts receivable	Less than one year	More than one year	Total 2003	Total 2001
Governments	3	-	3	-
Staff members	512	116	628	692
Vendors	21	21	42	97
Other United Nations entities	1	13	14	-
Specialized agencies of the United Nations	51	-	51	-
Accrued interest	1 966	-	1 966	2 377
Others	30	42	72	201
<b>Total</b>	<b>2 584</b>	<b>192</b>	<b>2 776</b>	<b>3 367</b>

(e) *Deferred charges and other assets.* The following table is an analysis of deferred charges and other assets, as shown and included in statement II for 2003 and 2001 (in thousands of United States dollars):

Deferred charges and other assets	2003	2001
Education grant advances	63	68
Others <sup>a</sup>	188	29
<b>Total</b>	<b>251</b>	<b>97</b>

<sup>a</sup> Other assets represent items pending processing from United Nations Headquarters (\$156,841) and UNDP (\$31,477).

(f) *Other accounts payable.* The following table is an analysis of other accounts payable and included in statement II for 2003 and 2001 (in thousands of United States dollars):

<i>Other accounts payable</i>	<i>2003</i>	<i>2001</i>
Staff members	43	-
Vendors	59	-
Other United Nations entities	1 415	107
Specialized United Nations agencies	27	387
Others	142	1 200
<b>Total</b>	<b>1 686</b>	<b>1 694</b>

(g) *Reserves and fund balances.* The following table shows the composition of total reserves and fund balances as at 31 December 2003 and 2001 (in thousands of United States dollars):

<i>Reserves and fund balances</i>	<i>2003</i>	<i>2001</i>
Authorized retained surplus	-	400
Cumulative surplus:		
(Shortfall) Excess of income over expenditure	9 450	(38 731)
Savings on, or cancellation of prior period obligations	3 354	2 779
Other adjustments to fund balance	-	(3 823)
<b>Subtotal</b>	<b>12 804</b>	<b>(39 375)</b>
Balance of cumulative (deficit) surplus as at 31 December 2001	292 130	331 505
Total cumulative (deficit) surplus	304 934	292 130
<b>Total reserves and fund balances</b>	<b>304 934</b>	<b>292 130</b>

## Note 5

### Non-expendable property

(a) In accordance with UNU accounting policies, non-expendable property is not included in the fixed assets of UNU, but is charged against the current appropriations when acquired. The following table shows the non-expendable property at the UNU Centre and the UNU research and training centres and programmes, according to the cumulative records of UNU (in thousands of United States dollars):

<i>Location</i>	<i>2003</i>	<i>2001</i>
UNU headquarters, Tokyo	2 500	2 432
UNU/NY, New York	100	51
UNU/UNESCO, Paris	44	42
UNU/WIDER, Helsinki	352	475
UNU/INTECH, Maastricht, the Netherlands	320	393
UNU/IIST, Macao, China	582	535
UNU/INRA, Accra	160	154
UNU/INRA Unit, Lusaka	142	142
UNU/IAS, Tokyo	813	668
UNU/BIOLAC, Caracas	11	10
UNU/ILA, Amman	31	58
UNU/INWEH, Hamilton, Canada	116	103
<b>Total</b>	<b>5 171</b>	<b>5 063</b>

(b) A summary of the change in non-expendable property is as follows (in thousands of United States dollars):

	<i>Amount</i>
Opening balance as at 1 January 2002	5 063
Acquisitions during the biennium	759
Dispositions and adjustments during the biennium	(651)
<b>Closing balance as at 31 December 2003</b>	<b>5 171</b>

(c) In addition to the above-listed inventory records, furniture and equipment for UNU headquarters and the research and training centres and programmes have been made available by the respective host countries and certain private donors. Separate inventory records are maintained for such furniture and equipment and donated items.

## **Note 6**

### **Liabilities for end-of-service and post-retirement benefits**

(a) The University has not specifically recognized, in any of its financial accounts, liabilities for after-service health insurance costs or the liabilities for other types of end-of-service payment, which will be owed when staff members leave the University. Such costs are budgeted for in the Operating Fund and the actual payments made in each financial period are reported as current expenditures;

(b) Based on established practice, in order to gain a better understanding of the financial dimensions of the University's liabilities for after-service health insurance, a consulting actuary was engaged by the United Nations to carry out an actuarial valuation of post-retirement health insurance benefits. It was estimated that the University's liability as at 31 December 2003 for after-service health insurance

benefits covering all participants, regardless of funding source, is as follows (in thousands of United States dollars):

<i>After-service health insurance liability</i>	<i>Present value of future benefits</i>	<i>Accrued liability</i>
Gross liability	3 834	2 036
Offset from retiree contributions	(825)	(392)
<b>Net liability</b>	<b>3 009</b>	<b>1 644</b>

(c) The present value of future benefit figures shown above are the discounted values of all benefits to be paid in the future to all current retirees and active employees expected to retire. The accrued liabilities represent those portions of the present values of benefits which have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits;

(d) Staff members who separate from the University are entitled to be paid for any unused vacation days they may have accrued up to a maximum limit of 60 days. The University's total liability for such unpaid accrued vacation compensation as at 31 December 2003 is estimated to be approximately \$1.4 million;

(e) Some staff members are entitled to repatriation grants and related expenditures of relocation upon their termination from the University based on the number of years of service. The University's total liability for such unpaid repatriation and relocation entitlement as at 31 December 2003 is estimated to be approximately \$1.7 million.