United Nations

United Nations Institute for Training and Research

Financial report and audited financial statements

for the biennium ended 31 December 2009

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-fifth Session
Supplement No. 5D

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United Nations Institute for Training and Research

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Report of the Board of Auditors

United Nations • New York, 2010

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.

ISSN 0251-8139

[1 July 2010]

Contents

Letters of transmittal

31 March 2010

Pursuant to financial regulation 6.5, I have the honour to submit the 2008-2009 biennial accounts of the United Nations Institute for Training and Research as at 31 December 2009, which I hereby approve.

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

(*Signed*) Carlos **Lopes**
Executive Director
United Nations Institute for Training and Research

The Chair of the Board of Auditors
United Nations
New York

30 June 2010

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2009.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa and
Chair, United Nations Board of Auditors

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

Chapter I

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

We have audited the accompanying financial statements of the United Nations Institute for Training and Research (UNITAR), which comprise the statement of assets, liabilities and reserves and fund balances as at 31 December 2009 (statement II); the statement of income, expenditure and changes in reserve and fund balances (statement I), the cash flow statement (statement III) and the statement of expenditure against budget (statement IV) for the biennium then ended; and the explanatory notes thereto.

Management's responsibility for the financial statements

The United Nations Controller is responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as the management deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNITAR as at 31 December 2009 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

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

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

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair of the United Nations Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of China
(Lead Auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

30 June 2010

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors (the Board) has audited the financial statements and reviewed the operations of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2009. The audit was carried out through a field visit to the New York office as well as a review of the financial transactions and operations at UNITAR headquarters in Geneva.

Audit opinion

The Board issued an unmodified audit opinion on the financial statements for the period under review, as reflected in chapter I.

Follow-up of previous recommendations

Of the 12 recommendations made for the biennium 2006-2007, 10 were fully implemented, representing 84 per cent; one was under implementation; and one was overtaken by events. In the Board's report for the biennium 2006-2007, it was noted that, for the previous biennium, 50 per cent of the 22 recommendations had been fully implemented. Thus, there has been an improvement in the rate of implementation of recommendations.

Financial overview

For the period under review, total income was $34.17 million, compared with $27.33 million for the previous biennium, an increase of 25 per cent. Total expenditure amounted to $35.03 million, compared with $27.49 million for the previous biennium, an increase of 27 per cent. This resulted in a shortfall of income over expenditure of $0.86 million, compared with a shortfall of $0.16 million in the previous biennium. However, the cash to total assets ratio and the cash to total liabilities ratio both improved for the period under review.

Progress towards the implementation of the International Public Sector Accounting Standards

The United Nations Office at Geneva (UNOG) performs the financial and accounting functions for UNITAR. Progress towards the implementation of the International Public Sector Accounting Standards (IPSAS) is therefore the responsibility of the United Nations Secretariat. The latest information obtained indicated that the United Nations Secretariat has postponed the implementation of IPSAS to 2014, mainly because of the need for a new enterprise resource planning system.

End-of-service liabilities, including after-service health insurance

End-of-service liabilities, including after-service health insurance, as at 31 December 2009 amounted to $2.67 million, compared with $3.57 million as at the end of the previous biennium, a decrease of $0.90 million. This decrease was mainly attributable to the revaluation of unused vacation days and repatriation benefits using

actuarial calculations, as well as the offsetting of the contributions of active staff against the after-service health insurance liabilities of UNITAR.

Results-based management/budgeting

During the period under review, a results-based management modality was introduced to enhance the efficiency, effectiveness and accountability of UNITAR. Although the evaluation of achievements was conducted for programmes and units providing training and research services, no such evaluation was carried out in respect of the support services.

Procurement and contract management

Owing to the strategic reforms and restructuring activities in the past three years, some of the terms and conditions in the memorandum of service agreement between the United Nations Office at Geneva and UNITAR which was signed in 2005 had not been updated. In addition, there were no clearly defined procedures for vendor performance evaluation in the service agreement.

Internal audit function

The Office of Internal Oversight Services has responsibility for internal audit coverage of UNITAR. However, no audit was conducted during the biennium 2008-2009 owing to a lack of resources at the Office.

Disclosures by the management

The management has made certain disclosures, set out in section C of the present chapter, as regards the write-off of losses of receivables.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that UNITAR:

(a) **Include as part of its results-based management processes the evaluation of all its sections in the programme performance report;**

(b) **In coordination with the United Nations Office at Geneva, adhere to the requirements of section 15.1.2 of the Procurement Manual (2008 version) dealing with vendor performance evaluation;**

(c) **In collaboration with the Office of Internal Oversight Services ensure effective internal audit coverage at UNITAR.**

The Board’s other recommendations appear in paragraphs 32 and 52 of the present chapter.

A. Mandate, scope and methodology

1. The Board of Auditors (the Board) has audited the financial statements of the United Nations Institute for Training and Research (UNITAR) and has reviewed its operations for the biennium from 1 January 2008 to 31 December 2009 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNITAR as at 31 December 2009 and the results of its operations and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the United Nations Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNITAR operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNITAR operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report to it accordingly. These matters are addressed in the relevant sections of the present chapter.

4. The Board continues to report the results of audits to UNITAR in the form of management letters containing detailed observations and recommendations. This practice allows for ongoing dialogue with UNITAR. In this regard, two management letters were issued during the period under review.

5. In the planning of its audits, the Board coordinated with the Office of Internal Oversight Services to determine the extent of reliance that could be placed on the latter’s work. In view of the fact that no internal audit activities were undertaken by the Office during the period under review, the Board extended its own audit coverage.

6. Where observations in the present report refer to specific locations, such observations apply only to the locations specified. These observations also do not in any way imply that they are applicable to other locations.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including follow-up to specific requests of the General Assembly and the Advisory Committee on Administrative and Budgetary Questions. The Advisory Committee had requested the Board to

follow up on the issues of funds and programmes and results-based budgeting and results-based management modalities at UNITAR (A/63/474, paras. 38 and 39).

8. The Board's observations and conclusions were discussed with UNITAR, whose views have been appropriately reflected in the present report.

B. Findings and recommendations

1. Follow-up of previous recommendations

9. Of the 12 recommendations made for the biennium 2006-2007, 10 (84 per cent) were fully implemented; one (8 per cent) was under implementation; and one (8 per cent) was overtaken by events. In the Board's report for the biennium 2006-2007, it was noted that for the previous biennium, 50 per cent of the 22 recommendations has been fully implemented, while 45 per cent were under implementation. Thus, there has been an improvement in the rate of implementation of recommendations. Details of the status of implementation of those recommendations are shown in the annex to the present chapter.

10. In response to the request of the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board evaluated the ageing of its one previous recommendation that had not yet been fully implemented and noted that it had first been made in the biennium 2006-2007. It relates to the issue of the overlapping of financial and accounting functions between the United Nations Office at Geneva and UNITAR. At the time of audit, UNITAR was renegotiating the memorandum of service agreement with the Office to clarify the issue of overlapping functions.

11. The recommendation that has been overtaken by events relates to the implementation of a code of practice for information security management. UNITAR explained that it did not have sufficient financial or human resources to implement it. As a result, the Board considered that it would no longer pursue the implementation of this recommendation.

2. Financial overview

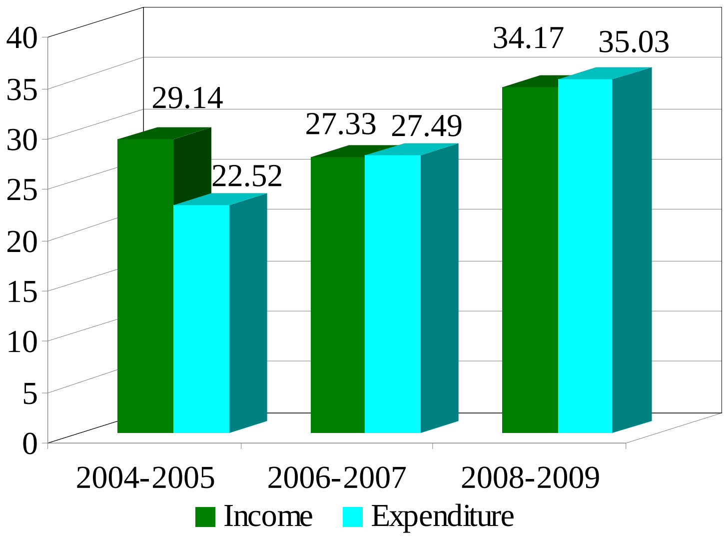
12. Total income for the period under review amounted to $34.17 million, compared with $27.33 million in the previous biennium, an increase of $6.84 million. The increase in income was mainly attributable to an increase in voluntary contributions to the General Fund and the Special Purpose Grants Fund.

13. Total expenditure amounted to $35.03 million, compared with $27.49 million for the previous biennium, an increase of $7.54 million. This increase was attributable mainly to the implementation of projects in the current biennium for which contributions were received in the previous biennium, as well as the steady growth in the number of projects implemented by UNITAR during the period under review.

14. The shortfall of income over expenditure was $0.86 million, compared with a shortfall of $0.16 million in the preceding biennium. However, the Institute's cash to total assets ratio and cash to total liabilities ratio both improved for the period under review. In addition, reserves and fund balances as at 31 December 2009 amounted to $9.13 million, compared with $9.56 million as at 31 December 2007.

Comparative income and expenditure for the financial periods 2004-2005, 2006-2007 and 2008-2009 are shown in figure 1.

Figure 1
Comparative income and expenditure
(Millions of United States dollars)



Note: Based on the audited financial statements.

15. As shown in table 1, all the selected financial indicators reflect improvements, except that the ratio of unliquidated obligations to total liabilities increased from 0.21 at the end of 2007 to 0.36 at the end of 2009, mainly owing to the increase of activity grants to project partners, seminar costs and tuition fees. The improvement in the financial indicators was mainly attributable to the increase of income for the biennium under review.

Table 1
Ratios of key financial indicators

Ratio	*Biennium ended 31 December 2005*	*2007*	*2009*	*Component of 2009 ratio*[a]
Accounts receivable/total assets[b]	0.08	0.13	0.05	0.8/15.42
Cash and cash pool/total assets[c]	0.88	0.82	0.91	14.06/15.42
Cash and cash pool/total liabilities[d]	5.3	2.1	2.24	14.06/6.29
Unliquidated obligations/total liabilities[e]	0.41	0.21	0.36	2.24/6.29

Note: Based on the audited financial statements.

[a] In millions of United States dollars.
[b] A low indicator depicts a healthy financial position.
[c] A high indicator depicts a healthy financial position.
[d] A low indicator is a reflection that insufficient cash is available to settle debts.
[e] A low indicator is a positive reflection that obligations are being liquidated.

3. Progress towards the implementation of the International Public Sector Accounting Standards

16. In accordance with General Assembly resolution 60/283 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions (see A/61/350), the Board reviewed the implementation of IPSAS at UNITAR.

17. The United Nations Office at Geneva performs the financial and accounting functions of UNITAR. The financial transactions are initiated, reviewed, certified and entered into the Integrated Management Information System (IMIS) at UNITAR. Progress towards the implementation of IPSAS is therefore the responsibility of the United Nations Secretariat. The latest information obtained indicated that the United Nations Secretariat has postponed the implementation of IPSAS to 2014, mainly because of the need for a new enterprise resource planning system.

4. Statement of income and expenditure

18. As disclosed in note 5 to the financial statements, UNITAR received contributions in kind with an estimated value of $3.06 million for the biennium under review, compared with $1.81 million for the previous biennium, an increase of $1.25 million. The amount of $3.06 million comprises in kind contributions amounting to $1.98 million from various Governments, United Nations agencies and other donors for training programmes, services of experts, conference facilities, local workshop expenses, office expenses, and travel and research expenses; $972,000 from UNOG; and $111,000 from United Nations Headquarters.

19. UNITAR explained that the increase in in kind contributions from the United Nations Office at Geneva were directly attributable to the increase in total income of the Institute from $27.33 million in the 2006-2007 biennium to $34.17 million in the 2008-2009 biennium, with the attendant increase in transactions processed.

5. End-of-service liabilities, including after-service health insurance

Valuation of end-of-service liabilities, including after-service health insurance

20. In accordance with the request of the General Assembly contained in resolution 64/241, the Board continued its validation of the accrued end-of-service liabilities. The financial statements reflected end-of-service liabilities amounting to $2.67 million. Of this amount, $1.92 million represented after-service health insurance, $0.26 million related to unused vacation days and $0.49 million represented repatriation benefits. With effect from the biennium ended 31 December 2009, all three liabilities were determined on the basis of an external actuarial valuation, using the census data provided by UNITAR as well as the United Nations system-wide actuarial assumptions.

21. The amount of end-of-service liabilities as at 31 December 2009 decreased by $0.90 million compared with the amount of $3.57 million as at 31 December 2007. This decrease was mainly attributable to the revaluation of unused vacation days and repatriation benefits using actuarial calculations, as well as the inclusion of the contribution of active staff as offset in the determination of the after-service health insurance liabilities of UNITAR.

Funding plan for end-of-service liabilities, including after-service health insurance

22. In its summary of findings and conclusions contained in the reports prepared by the Board of Auditors to the General Assembly at its sixty-third session (A/63/169), the Board expressed the view that the recording of end-of-service and post-retirement liabilities in financial statements called for a comprehensive and effective funding plan.

23. UNITAR did not have a funding plan for end-of-service liabilities that was approved by its Board of Trustees. Such a plan would include a comprehensive and effective funding strategy that takes account of the nature of the liabilities to be funded and nature of the investment to be maintained for such liabilities. The funding plan may also need to consider the appropriateness of the ring-fencing of the investments that are set aside for such liabilities.

24. UNITAR explained that its annual leave benefits and repatriation costs were expensed in the current period and as such had been provided for in the financial statements. It also explained that while funding for after-service health insurance had not been provided for, UNITAR had enough reserves and fund balances to cover the net after-service health insurance liability of $1,923,000 as at 31 December 2009. In addition, UNITAR indicated that the matter of the funding of after-service health insurance was a United Nations system-wide issue currently under consideration by the General Assembly (see A/64/366 and resolution 64/241). The General Assembly had requested the Secretary-General to submit to it at its sixty-seventh session, for its priority consideration, a report on managing after-service health insurance liabilities. UNITAR was awaiting the decision of the General Assembly on that matter to ensure that there was a comprehensive and harmonized approach.

Annual leave actuarial valuation amount

25. UNITAR had accrued an amount for annual leave of $0.26 million. Whereas the annual leave liability had previously been estimated using the current-cost methodology, UNITAR had changed its accounting policy and calculated the annual leave liability based on an actuarial valuation performed by an external consultant.

26. The Board reviewed the actuarial valuation report, in which the amounts of the liabilities for after-service health insurance, repatriation grants and annual leave were determined by the actuary based on certain census data submitted by UNITAR. As far as the annual leave liability is concerned, the assumptions detailed in the actuarial valuation report were as follows:

(a) Annual leave benefits to provide staff members with periods of time off from work at full pay for personal reasons and for the purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days. This benefit is referred to as “annual leave”;

(b) Annual leave projection. The annual leave balance upon separation from service was projected to be equal to a staff member’s current annual leave balance as of 1 January 2010 plus additional days of annual leave earned and not taken after 1 January 2010;

(c) The obligations were valued based on a discount rate of 6 per cent as at 31 December 2009.

27. UNITAR justifies the change in the method for the valuation of annual leave by reference to IPSAS 25, although no mention of IPSAS is made in the financial statements. This change is considered by UNITAR as an enhancement of the financial information which, while compliant with the United Nations system accounting standards, is a step towards the full implementation of IPSAS. The Board took this fact into consideration and would check whether this new valuation method would be compliant with IPSAS once it is fully applicable to UNITAR.

28. An important distinction is made by IPSAS 25 between short-term and long-term benefits. UNITAR has applied the actuarial valuation method to the leave liability based on the assumption that annual leave is a long-term benefit.

29. IPSAS 25 defines short-term employee benefits as “benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service”. Furthermore, IPSAS 25, paragraph 11, provides examples of items that are classified as short-term benefits and the examples include “short-term compensated absences (such as annual leave and paid sick leave) where the absences are expected to occur within twelve months after the period in which the employees render the related service”. The fact that, as provided for by the staff rules of UNITAR, employees may accumulate unused leave days from one period to the next does not in itself make annual leave a long-term benefit. Nor does the fact that employees are entitled to a cash payment for unused leave days upon ceasing service. IPSAS 25 (paras. 14-19) provides for these cases, which are classified under short-term benefits.

30. In addition, IPSAS 25, paragraph 12 states that “accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis”.

31. The Board is of the view that the annual leave liability of $0.26 million calculated through the actuarial valuation is not compliant with IPSAS 25 as it (a) includes future days to be accumulated and (b) is a discounted amount.

32. **The Board recommends that UNITAR consider a revision of its policy for the valuation of leave liability in its implementation of the International Public Sector Accounting Standards.**

33. UNITAR explained that given the audit concerns and possible different interpretations of overall leave benefits and variances in the treatment of that issue across the United Nations system, it intended to discuss the matter further with the United Nations-system-wide IPSAS task team with a view to the development of a harmonized approach across the United Nations system.

Discount rate

34. In its previous valuation of the after-service health insurance liability, UNITAR had used a discount rate of 5.5 per cent. The valuation of that liability as at 31 December 2009 relies on a discount rate of 6.0 per cent.

35. A discount rate is an interest rate used as a common financial practice to estimate the present value of an amount to be earned or lost at a future date. In other words, it represents the time value of money. As the after-service health insurance liability is composed of benefits that will be paid out by UNITAR to its retired staff in the future, these benefits are generally discounted so that the reporting entity takes the present value of the future benefits as an estimate for its liability.

36. In practice, the higher the discount rate, the lower the present value of future amounts; conversely, the lower the discount rate, the higher the present value of such amounts. Hence, all things being equal, the increase in the discount rate used by UNITAR resulted in a lower after-service health insurance liability compared with in the previous financial period. In this regard, note 4 (b) (v) to the financial statements indicates that a 1 per cent increase in the discount rate would result in an 18 per cent decrease in the after-service health insurance liability.

37. IPSAS 25, which serves as a reference for the actuarial methodology used for the valuation of the after-service health insurance liability in accordance with General Assembly resolution 61/264, does not prescribe any particular discount rate. It states, however:

> The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations (para. 91).

It further specifies:

> an entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument (para. 94).

38. Like most of the methodological elements used for the actuarial valuation of the after-service health insurance liability, the discount rate was selected by the United Nations on behalf of all the entities that participate in the same health plans and for which the United Nations coordinated the valuation exercise.

39. According to the United Nations, the objective of selecting a discount rate when valuing end-of-service benefit liabilities is to measure the amount that, if invested in a portfolio of high-quality debt instruments, would provide the necessary future cash flow to pay the accrued benefits when due. The United Nations has historically established the discount rate assumption by referring to rates of return on available high-quality, fixed-income investments with cash flows that match the timing and amount of expected benefit payments. The rates of return used as a reference by the United Nations have been those of high-quality corporate bonds.

40. The Board acknowledges that this methodology is compliant with IPSAS 25, yet makes the following comments for consideration in the discussion on funding end-of-service benefit liabilities:

(a) The increase in the discount rate does not reflect the trend in interest rates, which have generally tended to decrease over the recent period. This increase resulted in the United Nations having decided not to increase the discount rate for the previous valuation, although the application of the methodology described above would have resulted in an increase of from 5.5 to 6.5 per cent at that time. Considering the uncertainties regarding the prescriptions of IPSAS (IPSAS 25 had not yet been adopted), the United Nations had conservatively decided to maintain the 5.5 per cent rate. Had it chosen to raise the discount rate to 6.5 per cent at that time, the rate would have then decreased, instead of increasing, for the latest valuation — which would have been consistent with the economic environment;

(b) The discount rate is but one example of the high level of uncertainty inherent in the actuarial valuation of a liability. While compliant with generally accepted accounting standards, this valuation is only an estimate of the actual value of the liability. Consequently, UNITAR may wish not to regard this valuation as the absolute reference. Valuations based on standards other than accounting ones may yield different results. In this regard, the Board wishes to underline that a financial valuation of the funding needs (or "funding valuation") would result in a different value than the accounting valuation, which, is generally more conservative.

6. Results-based management/budgeting

41. During the biennium 2008-2009, UNITAR introduced a results-based management modality, comprising budgeting, work planning, monitoring and evaluation, staff performance and appraisal, and communication, to further enhance its efficiency, effectiveness and accountability. The Monitoring and Evaluation Section was established in September 2009, inter alia in order to "design an Institute-wide monitoring and evaluation system, including ongoing monitoring and review of the system's functioning … and to prepare relevant programme evaluation reports at the Institute level". (AC/UNITAR/2009/08)

42. The Board reviewed the programme performance report for the biennium 2008-2009 prepared by the Monitoring and Evaluation Section and noted that while the evaluation of achievements was conducted in programmes and units providing training and research services, no such evaluation was undertaken in the support services. This could adversely affect the monitoring and measuring of the overall goals and objectives of the organization.

43. UNITAR explained that the Monitoring and Evaluation Section was currently in the process of reviewing the monitoring and evaluation systems and policies of other organizations, as well as recognized monitoring and evaluation norms and standards. A monitoring and evaluation system and related policies were expected to be put in place during 2010, in accordance with the UNITAR 2010-2012 Strategic Plan.

44. **The Board recommends that UNITAR include as part of its results-based management processes the evaluation of all its sections in the programme performance report.**

7. Procurement and contract management

Vendor performance evaluation

45. In accordance with section 15.1.2 of the Procurement Manual (2008 version), the procurement office, in cooperation with the requisitioner and/or end-user, should conduct adequate vendor performance evaluation. However, sample tests carried out provided no evidence of performance evaluations having been conducted in the case of three service contracts with a total value of $403,252.

46. The procurement services were provided to UNITAR by the United Nations Office at Geneva in accordance with the memorandum of service agreement. The Office explained that the performance evaluation report for the three service contracts had not been submitted to it by UNITAR.

47. No clearly defined procedure for vendor performance evaluation was set out in the memorandum of service agreement. The absence of vendor performance evaluation could have an adverse impact on the quality and timeliness of goods and services to be provided to UNITAR.

48. **The Board recommends that UNITAR, in coordination with the United Nations Office at Geneva, adhere to the requirements of section 15.1.2 of the Procurement Manual (2008 version) concerning vendor performance evaluation.**

49. UNITAR commented that it would coordinate with UNOG to put a procedure in place for vendor performance evaluation.

Memorandum of service agreement between the United Nations Office at Geneva and the Institute

50. As established in the memorandum of service agreement between UNOG and UNITAR in 2005, UNOG provides financial and central support services to UNITAR. During the biennium under review, UNITAR implemented its strategic reform plan 2007-2009, aimed at strengthening institutional capacities for training and research, human capital and partnership and at rationalizing the organizational structure.

51. Some of the original terms and conditions of the memorandum of service agreement had not been updated due to the strategic reforms in the past three years.

52. **The Board recommends that UNITAR, in coordination with UNOG, update the memorandum of service agreement on the basis of the reforms currently being undertaken.**

53. UNITAR explained that it was currently negotiating with UNOG the revision of the memorandum of service agreement.

8. Internal audit function

54. The Office of Internal Oversight Services has responsibility for the internal audit coverage of UNITAR. In accordance with the workplan of the Office for 2009, an audit assignment relating to risk assessment was to be conducted. However, it was not undertaken owing to a lack of audit resources at the Office.

55. The Office of Internal Oversight Services explained that it was conducting an ongoing dialogue with UNITAR and the other training institutes funded through extrabudgetary mechanisms in order to seek funding for a regular programme of audits.

56. **The Board recommends that UNITAR, in collaboration with the Office of Internal Oversight Services, ensure effective internal audit coverage at UNITAR.**

57. UNITAR explained that it had since agreed to provide funding for the cost of the internal audit service.

C. Disclosures by management

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

58. The administration informed the Board that, as in 2006-2007, no property was written off in accordance with financial rule 106.9 in 2008-2009. In accordance with financial rule 106.8, losses amounting to $1,017 ($3,971 in 2006-2007) were written off in respect of accounts receivable from a former UNITAR fellow. No cash was written off in the biennium 2008-2009.

2. Ex gratia payments

59. With reference to financial rule 105.12, UNITAR reported that no ex gratia payments were made during the period under review.

3. Cases of fraud and presumptive fraud

60. With reference to paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules of the United Nations, UNITAR reported no cases of fraud or presumptive fraud for the period under review.

D. Acknowledgement

61. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of the United Nations Institute for Training and Research.

(*Signed*) Terence **Nombembe**
Auditor-General of South Africa
Chair of the United Nations Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of China
(Lead Auditor)

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France

30 June 2010

Annex

Status of implementation of recommendations for the biennium ended 31 December 2007

Summary of recommendation	*Paragraph reference in the previous report (A/63/5/Add.4, chap. II)*	*Financial period in which first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
(a) Monitor the implementation of the fund-raising strategies to fully address the problem of funding; (b) Evaluate the fund-raising strategies by obtaining feedback from donors and users on the effectiveness of the programmes.	21	2006-2007	X	—	—	—
Reconsider disclosure of the “balance relating to projects funded by donors” as a separate line item under the reserves and fund balances portion of statement II, as this will enhance the understandability of the financial statements.	30	2006-2007	X	—	—	—
Reconsider the disclosure of the statement of cash flows to include its share in the cash pool.	35	2006-2007	X	—	—	—
Solicit prices in the procurement of low-value items in accordance with rule 9.4.1 of the United Nations Procurement Manual.	38	2006-2007	X	—	—	—
Enhance monitoring and control over non-expendable property in order to improve accountability and operational efficiency.	42	2006-2007	X	—	—	—
The issue of overlapping financial and accounting functions should be resolved.	47	2006-2007		X	—	—
Continue efforts to achieve a more balanced geographical distribution of staff.	52	2006-2007	X	—	—	—
Implement ISO 17799 relating to information security management.	55	2006-2007	—	—	—	X
Revisit the arrangement on the status of POCI as a service provider.	59	2006-2007	X	—	—	—
Revisit the existing contract with POCI and consider the inclusion of at least the following terms in the new contract: (a) increase in the percentage share of UNITAR (annual overhead fee) in the revenues of POCI; (b) the immediate remittance of the annual overhead fee, in such a way that interest shall be imposed for every month of delay; (c) the specification of the period covered by the contract; (d) the specification of the grounds for the termination of the contract.	60	2006-2007	X	—	—	—

Summary of recommendation	*Paragraph reference in the previous report (A/63/5/Add.4, chap. II)*	*Financial period in which first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Evaluate adequately the accomplishment of targeted programmes and projects at least once a year.	65	2006-2007	X	—	—	—
Enhance guidelines to address the risk of internal corruption and fraud in line with the United Nations fraud prevention plan and policy.	74	2006-2007	X	—	—	—
Total number		**12**	**10**	**1**	**0**	**1**
Percentage		**100**	**84**	**8**	**0**	**8**

Chapter III
Certification of the financial statements

The financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2009 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information on and clarification of the financial activities undertaken by the Institute during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Institute for Training and Research, numbered I to IV, are correct.

(*Signed*) Jun **Yamazaki**
Assistant Secretary-General
Controller

29 March 2010

Chapter IV

Financial report for the biennium ended 31 December 2009

Introduction

1. The Executive Director has the honour to submit herewith the financial report on the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2009.

Statement I
Income and expenditure and changes in reserves and fund balances

General Fund

2. Total income for the biennium 2008-2009 increased by 20 per cent, from $3,925,000 in the previous biennium to $4,704,000. This was mainly due to an increase in voluntary contributions of $808,000. Programme support income increased by $242,000 owing to the augmentation of activities and consequent expenditure under the Special Purpose Grants Fund. There was no contribution from the regular budget in 2008-2009 ($242,000 received in 2006-2007).

3. Total expenditure for the biennium 2008-2009 increased by 29 per cent, from $4,015,000 in the previous biennium to $5,179,000. The increase is attributable largely to the restructuring of the Institute, which was started in 2007 and implemented during the biennium 2008-2009. All the administrative services have been centralized, in such a way that the costs previously shared with the Special Purpose Grants Fund are now charged to the General Fund. Furthermore, following the creation of the Resource Mobilization Section and the Research Department in accordance with the approved strategic plan, associated costs are also being incurred within the General Fund.

4. The reserves and fund balance decreased by 40 per cent, from $1,184,000 as at 31 December 2007 to $712,000 as at 31 December 2009. This decrease is partly due to the restructuring costs, which included administrative services that have been centralized and charged to the General Fund.

Special Purpose Grants Fund

5. The total income for the biennium 2008-2009 increased by 24 per cent, from $25,417,000 in the previous biennium to $31,581,000. The increase in total income is attributable principally to an increase in voluntary contributions resulting from increased fund-raising activity on the part of the Institute.

6. Total expenditure for the biennium 2008-2009 increased by 25 per cent, from $25,482,000 in the previous biennium to $31,960,000, resulting in a shortfall of income over expenditure of $379,000. The increase in expenditure is attributable mainly to the implementation of projects in the current biennium for which contributions were received in the previous biennium and to the steady growth in the number of projects implemented by UNITAR.

7. The reserves and fund balance as at 31 December 2009 decreased by 4 per cent, from $10,755,000 as at 31 December 2007 to $10,338,000, partly owing to the return of unused funds to donors.

Activities financed by the United Nations Development Programme

8. Total expenditure against the approved allocation from the United Nations Development Programme increased from $582,000 in the previous biennium to $751,000 in the biennium 2008-2009, reflecting an increase in the number of projects implemented.

Statement II
Assets, liabilities, reserves and fund balances

9. As at 31 December 2009, the General Fund and the Special Purpose Grants Fund had shares of the offices away from Headquarters cash pools in the amounts of $1,065,000 and $12,988,000 respectively, compared with respective shares of $1,334,000 and $11,562,000 as at 31 December 2007. The total assets of the Institute as at 31 December 2009 amounted to $15,417,000, a decrease of $275,000 from the end of the previous biennium.

10. As at 31 December 2009, the total liabilities of the Institute increased by $154,000 to $6,290,000. However, the liabilities for end-of-service and post-retirement benefits comprising after-service health insurance, repatriation benefits and unused vacation days as at 31 December 2009, determined on an actuarial basis, decreased from $3,567,000 as at 31 December 2007 to $2,671,000 as at 31 December 2009. The Institute's total accrued liability for after-service health insurance on the basis of an actuarial valuation amounted to $1,923,000 as at 31 December 2009. This represents a reduction of $460,000 from the previous biennium, reflecting mainly actuarial gains, as described in note 4 to the financial statements.

Statement IV
Status of expenditure against the approved budget

11. Statement IV shows the status of General Fund expenditure against the approved budget for the biennium 2008-2009. Total expenditure during the biennium amounted to $5,179,000, which was within the approved budget of $5,249,000.

Annex

Supplementary information

1. The present annex includes information the Executive Director is required to provide.

Write-off of losses of cash and receivables

2. In accordance with financial rule 106.8, accounts receivable totalling $1,017 relating to a UNITAR fellow under the Special Purpose Grants Fund were written off during the biennium 2008-2009.

Write-off of losses of property

3. There was no write-off of losses of property during the biennium 2008-2009.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2008-2009.

Chapter V

Financial statements for the biennium ended 31 December 2009

Statement I

United Nations Institute for Training and Research[a]

Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2009

(Thousands of United States dollars)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2009*	*Total 2007*
Income							
Voluntary contributions	1 672	24 633	—	—	—	26 305	21 450
Funds received under inter-organization arrangements	—	4 497	751	—	—	5 248	3 939
Programme support income	2 833	—	—	—	(2 833)	—	—
Interest income	87	705	—	—	—	792	1 364
Other/miscellaneous income	112	1 746	—	—	(31)	1 827	580
Total income	**4 704**	**31 581**	**751**	**—**	**(2 864)**	**34 172**	**27 333**
Expenditure							
Staff and other personnel costs	3 887	14 995	409	—	—	19 291	15 936
Travel	237	1 957	43	—	—	2 237	1 794
Contractual services	161	683	26	—	—	870	588
Operating expenses	628	958	44	—	—	1 630	1 505
Acquisitions	38	121	40	—	—	199	189
Other	228	10 437	134	—	—	10 799	7 476
Total direct expenditure	**5 179**	**29 151**	**696**	**—**	**—**	**35 026**	**27 488**
Programme support costs	—	2 809	55	—	(2 864)	—	—
Total expenditure	**5 179**	**31 960**	**751**	**—**	**(2 864)**	**35 026**	**27 488**

	General Fund	Other activities		After-service health insurance[b]	All funds eliminations	Total 2009	Total 2007
		Special Purpose Grants Fund	Activities financed by UNDP				
Excess (shortfall) of income over expenditure	**(475)**	**(379)**	**—**	**—**	**—**	**(854)**	**(155)**
Non-budgeted accrued income/(expenses) for after-service health insurance costs[c]	—	—	—	448	—	448	(526)
Prior-period adjustments	(9)	(4)	—	12	—	(1)	(16)
Net excess (shortfall) of income over expenditure	**(484)**	**(383)**	**—**	**460**	**—**	**(407)**	**(697)**
Cancellation of prior-period obligations	12	265	—	—	—	277	282
Other adjustments to reserves and fund balances	—	—	—	—	—	—	(2 504)
Refund to donors	—	(299)	—	—	—	(299)	(342)
Reserves and fund balances beginning of period	1 184	10 755	—	(2 383)	—	9 556	12 817
Reserves and fund balances, end of period	**712**	**10 338**	**—**	**(1 923)**	**—**	**9 127**	**9 556**

[a] See note 3.
[b] See note 4 (b).
[c] Represents net decrease (increase) in accrued liability for after-service health insurance costs.

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

Statement II
United Nations Institute for Training and Research[a]
Statement of assets, liabilities and reserves and fund balances as at 31 December 2009

(Thousands of United States dollars)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2009*	*Total 2007*
Assets							
Cash and term deposits	1	8	—	—	—	9	10
United Nations offices away from Headquarters cash pool[c]	1 065	12 988	—	—	—	14 053	12 896
Pledged contributions receivable	125	—	—	—	—	125	37
Inter-fund balances receivable	—	23	686	—	(709)	—	—
Other accounts receivable	4	117	2	—	685	808	2 013
Deferred charges	—	422	—	—	—	422	736
Total assets	**1 195**	**13 558**	**688**	**—**	**(24)**	**15 417**	**15 692**
Liabilities							
Contribution received in advance	74	—	—	—	—	74	42
Unliquidated obligations — current period	131	2 065	45	—	—	2 241	1 287
Unliquidated obligations — future period	—	398	—	—	—	398	720
Inter-fund balances payable	24	—	—	—	(24)	—	—
Payable to funding source	—	—	643	—	—	643	338
Other accounts payable	59	204	—	—	—	263	182
End-of-service and post-retirement liabilities	195[d]	553[e]	—	1 923	—	2 671	3 567
Total liabilities	**483**	**3 220**	**688**	**1 923**	**(24)**	**6 290**	**6 136**
Reserves and fund balances							
Operating reserves	408	—	—	—	—	408	284

	General Fund	*Other activities* Special Purpose Grants Fund	Activities financed by UNDP	After-service health insurance[b]	All funds eliminations	Total 2009	Total 2007
Balances relating to projects funded by donors	—	10 338	—	—	—	10 338	—
Cumulative surplus (deficit)	304	—	—	(1 923)	—	(1 619)	9 272
Total reserves and fund balances	**712**	**10 338**	**—**	**(1 923)**	**—**	**9 127**	**9 556**
Total liabilities and reserves and fund balances	**1 195**	**13 558**	**688**	**—**	**(24)**	**15 417**	**15 692**

[a] See note 3.
[b] See note 4 (b).
[c] Represents share of United Nations offices away from Headquarters cash pool and comprises cash and term deposits of $4,713,541, short-term investments of $3,636,035 (market value $3,655,968), long-term investments of $5,629,092 (market value $5,703,504) and accrued interest receivable of $74,863.
[d] Represents total accrued liabilities for unused vacation days of $69,000 and for repatriation benefits of $126,000. See note 4 (c) and (d).
[e] Represents total accrued liabilities for unused vacation days of $190,000 and for repatriation benefits of $363,000. See note 4 (c) and (d).

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

Statement III

United Nations Institute for Training and Research[a]

Statement of cash flows

(Thousands of United States dollars)

	General Fund	Other activities		After-service health insurance[b]	All funds eliminations	Total 2009	Total 2007[c]
		Special Purpose Grants Fund	Activities financed by UNDP				
Cash flows from operating activities							
Net excess (shortfall) of income over expenditure (statement I)	(484)	(383)	—	460	—	(407)	(697)
(Increase) decrease in pledged contributions receivable	(88)	—	—	—	—	(88)	(10)
(Increase) decrease in inter-fund balances receivable	42	198	(341)	—	101	—	—
(Increase) decrease in other accounts receivable	(4)	1 301	(2)	—	(89)	1 206	(829)
(Increase) decrease in deferred charges	214	100	—	—	—	314	(178)
Increase (decrease) in contributions received in advance	32	—	—	—	—	32	30
Increase (decrease) in unliquidated obligations	(151)	742	41	—	—	632	421
Increase (decrease) in inter-fund balances payable	24	—	—	(12)	(12)	—	—
Increase (decrease) in payable to funding source	—	—	304	—	—	304	(85)
Increase (decrease) in accounts payable	—	—	—	—	—	—	(8)
Increase (decrease) in other accounts payable	58	25	(2)	—	—	81	(331)
Increase (decrease) in end-of-service and post-retirement liabilities	76	(524)	—	(448)	—	(896)	3 567
Less: interest income	(87)	(705)	—	—	—	(792)	(1 364)
Net cash flows from operating activities	**(368)**	**754**	**—**	**—**	**—**	**386**	**516**
Cash flows from investing activities							
Interest income	87	705	—	—	—	792	1 364
Net cash flows from investing activities	**87**	**705**	**—**	**—**	**—**	**792**	**1 364**
Cash flows from financing activities							
Cancellation of prior-period obligations	12	265	—	—	—	277	282

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2009*	*Total 2007*[c]
Other adjustments to reserves and fund balances	—	—	—	—	—	—	(2 504)
Refund to donors	—	(299)	—	—	—	(299)	(342)
Net cash flows from financing activities	**12**	**(34)**	**—**	**—**	**—**	**(22)**	**(2 564)**
Net increase (decrease) in cash, term deposits and United Nations offices away from Headquarters cash pool	**(269)**	**1 425**	**—**	**—**	**—**	**1 156**	**(684)**
Cash, term deposits and United Nations offices away from Headquarters cash pool, beginning of period	**1 335**	**11 571**	**—**	**—**	**—**	**12 906**	**13 590**
Cash, term deposits and United Nations offices away from Headquarters cash pool, end of period	**1 066**	**12 996**	**—**	**—**	**—**	**14 062**	**12 906**

[a] See note 3.
[b] See note 4 (b).
[c] Comparative figures have been reclassified to conform to current presentation.

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

Statement IV
United Nations Institute for Training and Research
Statement of expenditure against budget

(Thousands of United States dollars)

	Budget[a]			Expenditure			
Programme	*Original*	*Changes*	*Revised*	*Disbursements*	*Unliquidated obligations*	*Total*	*Unencumbered balance*
Office of the Executive Director	912	(50)	862	838	7	845	17
Research Department	486	(10)	476	451	2	453	23
Support Services Department	3 117	(90)	3 027	2 915	87	3 002	25
Training Department	343	541	884	844	35	879	5
Total	**4 858**	**391**	**5 249**	**5 048**	**131**	**5 179**	**70**

[a] The 2008-2009 budget for the General Fund is extracted from the overall 2008-2009 budget for UNITAR that was initially approved by the Board of Trustees at the special session in December 2007 and revised in January 2009.

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

Notes to the financial statements

Note 1
The United Nations Institute for Training and Research and its activities

(a) The United Nations Institute for Training and Research (UNITAR) was established in 1965 as an autonomous body within the United Nations with the purpose of enhancing the effectiveness of the Organization through appropriate training and research. UNITAR is governed by a Board of Trustees and is headed by an Executive Director. The Institute is supported by voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources.

(b) The mission of UNITAR is to deliver innovative training and conduct research on knowledge systems to develop the capacity of beneficiaries. Building on experience, UNITAR optimizes expertise, information and knowledge-sharing to achieve this mission.

(c) UNITAR training programmes are divided among three thematic units: the Environment Unit, the Peace, Security and Diplomacy Unit and the Governance Unit. Furthermore, the work of the Institute is supported by outposted offices in New York and in Hiroshima, Japan, and a Research Department responsible for developing research activities on knowledge systems conducive to delivering better training.

(d) UNITAR training programmes are presented under the following titles:

(i) Environment Unit

- Environmental Governance
- Chemicals and Waste Management
- Climate Change

(ii) Peace, Security and Diplomacy Unit

- Multilateral Diplomacy
- International Law
- Peacemaking and Conflict Prevention
- Peacekeeping Training

(iii) Governance Unit

- Public Finance and Trade
- E-Governance
- Local development

Note 2
Summary of significant accounting and financial reporting policies of the United Nations Institute for Training and Research

(a) As provided in article VIII of its statute, the UNITAR 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 United Nations System Chief Executives Board for Coordination (CEB). The Institute follows International Accounting Standard 1, "Presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by CEB, 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. These 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 Institute's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly or the Executive Director. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect activities of each fund or of a group of funds of the same nature.

(c) The financial period of the Institute 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 the Institute are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. 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 the United States dollar, 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 exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Institute's 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 statement of cash flows is based on the indirect method of cash flows, as referred to in the United Nations system accounting standards.

(h) The Institute's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) The results of the Institute's operations presented in statements I, II and III are shown by general type of activity as well as on a combined basis for all funds, after the elimination of all inter-fund balances and instances of double-counting of income and expenditure. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Income:

(i) Voluntary contributions from donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions to the Special Purpose Grants Fund are recorded as income upon receipt of cash. Voluntary contributions made in the form of services and supplies that are acceptable to the Institute are noted in the financial statements as contributions in kind.

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

(iii) Miscellaneous income includes subscriptions to e-learning courses, sale of used or surplus property, refunds of expenditure charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income.

(iv) Funds received under inter-organization arrangements represent income received from other United Nations agencies in support of the Institute's programmes and allocations of funding for projects or programmes administered by the Institute on their behalf. The allocation income from the United Nations Development Programme (UNDP) is determined taking into account interest and other miscellaneous income against total expenditures.

(v) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in item (m) (iii).

(k) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. 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 item (l) (iv).

(iv) Provision to meet contingencies under appendix D to the Staff Rules of the United Nations for personnel is calculated on the basis of 1 per cent of the net base pay and charged to the expenditures.

(l) Assets:

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

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements.

(iii) Cash pools comprise 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 pools. The investments in the cash pools are similar in nature and are accounted for as set out in item (l) (ii) above. The share in the cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in the footnote to the financial statement.

(iv) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These 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.

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

(m) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for "reserves and fund balances" shown in the financial statements.

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations.

(iii) "Contributions received in advance" refers to pledged contributions for future periods and other income received but not yet earned.

(iv) Commitments in respect of UNITAR relating to prior, current and future financial periods are shown as unliquidated obligations. Current-period obligations relating to the General Fund and the Special Purpose Grants Fund remain valid for 12 months following the end of the biennium to which they relate. However, for the activities financed by UNDP, in accordance with UNDP reporting requirements, executing agencies may retain unliquidated obligations beyond 12 months when a firm liability to pay still exists. Savings on or cancellation of prior-period obligations are credited to individual projects as a reduction of current-period expenditure, in accordance with UNDP reporting requirements.

(v) Accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits and unused vacation days. Previously, the accrued liability recorded for after-service health insurance was based on an actuarial valuation, whereas the liabilities for repatriation benefits and unused vacation days were recorded based on current costs without discounting or other adjustments. With effect from the biennium ended 31 December 2009, all three groups of accrued liabilities for end-of-service and post-retirement benefits are determined on an actuarial basis.

The change with respect to repatriation benefits and unused vacation days is considered to be a change in accounting policy. The change, which is in accordance with paragraph 18 of the United Nations system accounting standards, is made in order for more reasonable estimates of these liabilities to be incorporated in the financial statements (see note 4).

(vi) Contingent liabilities, if any, are disclosed in the notes to the financial statements.

(vii) UNITAR 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, multi-employer defined-benefit plan. An actuarial valuation of the Pension Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual participating organizations, the United Nations is not in a position to identify its share of the underlying financial position and performance of the Pension Fund with sufficient reliability for accounting purposes and hence has treated this plan as if it were a defined contribution plan. Thus the UNITAR share of the related net liability/asset position of the Pension Fund is not reflected in the financial statements. The Institute's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the organizations of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the reporting date for the current financial statements, the General Assembly had not invoked this provision.

Note 3
Income, expenditure and changes in reserves and fund balances (statement I); assets, liabilities and reserves and fund balances (statement II); cash flows (statement III)

(a) Statements I, II and III contain financial results for UNITAR that are totalled into four groups of related funds and, after elimination, combined into a grand total reflecting all the activities of the Institute. 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 four groups consist of:

(i) The General Fund;

(ii) The Special Purpose Grants Fund;

(iii) Activities financed by UNDP;

(iv) After-service health insurance.

(b) Funds received under the Special-Purpose Grants Fund are earmarked for specific projects. The closing fund balance represents expenditures to be incurred in future periods on such projects, with the residual balances, if any, to be returned to donors.

(c) Statement I includes two calculations of the excess or shortfall of income compared with expenditure. The first calculation is based on income and expenditure only for the current biennium. The second calculation shown is a net one, which includes non-budgeted accrued expenses for end-of-service and post-retirement benefits and any prior-period adjustments to income or expenditure.

Note 4
Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits and commutation of unused vacation days. As disclosed in note 2 (m) (v), with effect from the biennium ended 31 December 2009, all three liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm.

(b) After-service health insurance:

(i) Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health-insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to this date. This benefit is referred to as after-service health insurance.

(ii) The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2009 were a discount rate of 6.0 per cent; health-care escalation rates of 8.4 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and 6.0 per cent in 2010, grading down to 4.5 per cent in 2027 and later years for medical plans outside the United States; and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. By comparison, the assumptions used to determine the liabilities for after-service health insurance as at 31 December 2007 were a discount rate of 5.5 per cent; health-care escalation rates of 9.5 per cent in 2008, grading down to 5.0 per cent in 2015 and later years for United States medical plans, and 5.7 per cent in 2008, grading down to 4.5 per cent in 2012 and later years for medical plans outside the United States. There were no changes in the Pension Fund retirement, withdrawal and mortality assumptions since the 2007 valuation.

(iii) Another factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the Institute's residual liability. Thus, contributions from retirees are deducted from the gross liability and, commencing with the 31 December 2009 valuation, a portion of the contributions from active staff is also deducted to arrive at the Institute's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Institute's share shall not exceed one half for non-United States health plans, two thirds for United States health plans and three quarters for the medical insurance plan. This refinement in the determination of plan participant contributions is reflective of the fact that both active and retired staff participate in the same health-insurance plans and that their collective contributions serve to meet the approved cost-sharing ratios.

(iv) On the basis outlined in (ii) and (iii) above, the present value of the accrued liability as at 31 December 2009, net of contributions from plan participants, was estimated at $1,923,000. This reflects actuarial gains of $1,048,000 resulting from the updating and refinement of actuarial assumptions noted in (ii) and (iii) above and based on updated census, health-insurance claim and other data.

(Thousands of United States dollars)

After-service health insurance liability	*Accrued liability*
Gross liability	3 846
Offset by contributions from plan participants	(1 923)
Net Liability of the Institute	**1 923**

(v) Further to the assumptions set out in (b) (ii) above, it is estimated that the present value of the liability would increase by 24 per cent or decrease by 18 per cent, respectively, if the medical cost trend increased or decreased by 1 per cent, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 24 per cent or decrease by 18 per cent, respectively, if the discount rate is decreased or increased by 1 per cent, all other assumptions remaining constant.

(c) Repatriation benefits:

(i) Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits.

(ii) As referred to in note 2 (m) (v), a consulting actuary was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2009. Previously, the liabilities for repatriation benefits were calculated on the basis of current costs as at the reporting date, without discounting or other adjustments.

(iii) The major assumptions used by the actuary were a discount rate of 6.0 per cent, annual salary increases ranging from 10.6 per cent to 5.5 per cent based on age and category of staff members, and travel cost increases of 4.0 per cent per annum.

(iv) On the basis of these assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2009 was estimated at $126,000 for the General Fund and $363,000 for the Special Purpose Grants Fund.

(v) The change in accounting policy to an actuarial basis for measuring the liability for repatriation benefits has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation as at 31 December 2007. Had the former, current-cost methodology been continued, the liability would have been $143,000 for the General Fund and $979,000 for the Special Purpose Grants Fund as at 31 December 2009. Hence, the effect of adopting this new policy in the current period is a decrease in both liabilities and expenses in the amount of $17,000 for the General Fund and $616,000 for the Special Purpose Grants Fund.

(d) Unused vacation days:

(i) Upon end of service, staff members may commute unused vacation days, up to a maximum of 60 working days for those holding fixed-term or continuing appointments.

(ii) As referred to in note 2 (m) (v), a consulting actuary was engaged to carry out an actuarial valuation of unused vacation days as at 31 December 2009. Previously, the liabilities for unused vacation days were calculated on the basis of current costs as at the reporting date, without discounting or other adjustments.

(iii) The major assumptions used by the actuary were a discount rate of 6.0 per cent and an annual rate of increase in accumulated annual leave balances of 15 days in the first year, 6.5 days per year in the second to sixth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days. Salaries are assumed to increase annually at rates ranging from 10.6 per cent to 5.5 per cent based on age and category of staff members.

(iv) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2009 was estimated at $69,000 for the General Fund and $190,000 for the Special Purpose Grants Fund.

(v) The change in accounting policy to an actuarial basis for measuring the liability for unused vacation days has not been applied retroactively, owing to the impracticality of undertaking an actuarial valuation as at 31 December 2007. Had the former, current-cost methodology been continued, the liability would have been $88,000 for the General Fund and $289,000 for the Special Purpose Grants Fund as at 31 December 2009. Hence, the effect of adopting this new policy in the current period is a decrease in both the liabilities and expenses in the amount of $19,000 for the General Fund and $99,000 for the Special Purpose Grants Fund.

Note 5
Contributions in kind

(a) The United Nations Office at Geneva provided administrative support services, including payroll, accounting, travel and visa processing, personnel and Integrated Management Information System services, to UNITAR at no cost. The value of this contribution in kind is estimated at $972,000 for the biennium. Conference servicing facilities at United Nations Headquarters were also provided by the United Nations on an “as available” basis, free of charge, UNITAR paying only for interpretation services and additional electronic equipment, if required. The value of such conference facilities is estimated at $111,000.

(b) In addition, the Institute received contributions in kind to an estimated value of $1,980,000 from various Governments, United Nations agencies and other donors for training programmes, the services of experts, conference facilities, local workshop expenses, office expenses, and travel and research expenses.

Note 6
Non-expendable property

(a) In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Institute but is charged against the current appropriations when acquired. The non-expendable property, valued at historical cost, according to the cumulative inventory records of the Institute, amounted to $598,000 as at 31 December 2009 and $512,000 as at 31 December 2007.

(b) The movement in non-expendable property during the biennium 2008-2009 is summarized as follows (in thousands of United States dollars):

Balance as at 1 January 2008	512
Acquisitions	111
Less: dispositions	(24)
Less: transfer to other offices	(1)
Balance as at 31 December 2009	**598**

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