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United Nations Office on Drugs and Crime

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

United Nations • New York, 2015

Note

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

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Contents

Letters of transmittal

Letter dated 31 March 2015 from the Executive Director of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

In accordance with the United Nations Office on Drugs and Crime financial rule 7.3, I have the honour to transmit the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2014, which I hereby approve.

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

(*Signed*) Yury **Fedotov**
Executive Director
United Nations Office on Drugs and Crime

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Office on Drugs and Crime for the year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors

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 Office on Drugs and Crime (UNODC), which comprise the statement of financial position (statement I) as at 31 December 2014, the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV), the statement of budget and actual amounts (statement V) for the year then ended and the notes to the financial statements.

Management's responsibility for the financial statements

The Executive Director is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards and for such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

Report on other legal and regulatory requirements

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

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors audited the financial statements and reviewed the operations of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2014. The audit was carried out by examining financial transactions and operations at UNODC headquarters in Vienna, and through a field visit to operations in Colombia. The Board has reported on financial matters, strategic project management and the management of human resources.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

The United Nations Office on Drugs and Crime operates in an increasingly challenging and competitive environment, in which donors continue to seek more efficient and effective delivery of projects. Success in raising voluntary funding, and the growing dependence on it, is drawing UNODC into areas of activity outside its primary areas of expertise with insufficient alignment to core objectives. Management need a much deeper understanding of the costs of operations if they are to drive improved efficiency and respond effectively to ongoing fiscal constraints and donor pressures. The UNODC management recognizes the challenges and the urgent need to improve business processes across the business to ensure long-term sustainability. The changes being implemented provide an opportunity to shift the focus of financial management away from transactional management to a more strategic approach. However, the pace of implementing these changes needs to be increased to ensure success of the initiatives and to realize benefits.

UNODC needs to improve and better utilize the information on resources employed to meet its strategic aims. Current systems do not support adequate evaluation and measurement of outcomes nor do they enable management to identify and prioritize the most appropriate and sustainable projects. To remain a partner of choice, management needs to recruit and retain a skilled and adaptable workforce that is equipped to support delivery of the programme and drive changes in the business. However, the lack of strategic workforce planning data hinders the ability of the human resources management team to support such planning and identify the skills and capabilities required for the future. UNODC will need to adapt its human resources processes to meet these challenges if it is to capitalize on the planned changes and become more flexible and agile in responding to the demands of donors and other stakeholders.

Key findings

Financial overview and IPSAS implementation

The organization has a sound financial position with sufficient liquid assets to meet its liabilities. Voluntary contributions remain the key source of revenue for the business, and there is currently a strong pipeline of resources over the medium term, linked to projects to be delivered in future years. Implementing IPSAS was challenging, given the inadequacies of legacy systems used to compile accounts, and the significant manual intervention required. IPSAS provides a framework to instil greater financial discipline and rigour across UNODC as the true costs of operations are now reported more clearly. To drive full benefit from IPSAS, the new information must be used to support better informed decision-making. The financial literacy of staff throughout the organization must also be improved to drive a culture of cost consciousness and ensure that IPSAS is not viewed merely as an annual accounting exercise by the finance function.

Financial management and internal control

Internal controls are heavily reliant on systems and processes that operate at lower levels within the organization, but central finance functions have limited ability to obtain assurance at an entity level on the levels of compliance and budget variances across operations. The lack of timely information on project spend has led to significant variations in the rates of budget implementation, and although the effectiveness of oversight by central finance teams can be further strengthened, significant improvements rely upon the implementation of Umoja. To ensure the reliability of data in the new system and deliver improved and timely management information and reports, UNODC must ensure that data are properly cleansed and migrated.

The Board has emphasized in previous reports the importance of enterprise risk management as a critical tool to improve management and internal control. UNODC has now documented its high-level risks, and is making further progress to embed the process at operational levels but there is a need to ensure that the risks identified are subject to regular review and challenge. While UNODC is considered to be a more advanced implementer of risk management across the United Nations system, the pace of implementation needs to be increased so that risk management becomes fully operational and before the end of 2015. Similarly, UNODC needs to develop its approach to the assessment of fraud risk, and develop appropriate mitigation strategies.

Strategic management of projects

The Board has reviewed the approach of UNODC to the strategic management of projects, focusing on how projects align with core objectives; how the costs of project activity are understood and inform decision-making; and how projects are evaluated. Improvements in these areas need to be delivered if UNODC is to remain financially sustainable in the longer term. The Board has noted that there is currently a lack of alignment between the strategic aims of UNODC and the project portfolio, and that improvements need to be secured to better demonstrate how core objectives are being delivered through its programmes.

In 2014, UNODC launched an initiative to move towards full cost recovery to develop better visibility and a deeper understanding of costs, to drive efficiency and enable management to make better strategic choices. Management has limited information to understand in detail the extent to which projects are recovering costs, and the absence of this information can have an impact on the longer-term financial stability of UNODC as the rate of growth in regular budget reduces. When fully implemented, full cost recovery will provide a more financially sustainable basis for UNODC to operate. While the concept has strong commitment from senior management, and the principles are being communicated to donors, the pace of implementation has been slow, which risks delaying the delivery of the benefits of full cost recovery for the business.

UNODC does not currently quantify or benchmark project outcome indicators in progress reports, hindering management's ability to assess whether a programme is delivering its objectives efficiently. Given the lack of real-time data, headquarters finance staff have only limited visibility of data from country offices regarding the monitoring, evaluation and verification of spend on projects and it has limited visibility to challenge the rate of budget implementation. As of 2014, some 75 per cent of all completed or operationally completed projects in 2014 were evaluated, which is a clear increase from 53 per cent in 2013. Although this is an increased proportion compared with earlier years, UNODC is not making the best use of lessons learned to inform its management of the project portfolio.

Human resources management

Demand for the services of UNODC has grown and changed in recent years and management needs to ensure that the current staffing model can meet the new requirements of the business. Senior management engage appropriately in routine human resources matters, but there is an insufficient focus on strategic workforce planning. Better data on current staff capabilities would also inform the development of more strategic and longer-term staff planning. UNODC needs to develop a model for the optimum workforce composition, and should consider the use of a flexible pool of staff that can be deployed for short-term assignments to bolster capability in teams.

Recruiting the right people to vacant posts is critical to delivering effectively. The Office of Internal Oversight Services (OIOS) has attributed recent improvement in performance against recruitment targets to the increased use of rosters to fill vacancies. From 2016, UNODC will apply the central United Nations career development and mobility framework for job classification, and should take the opportunity to consult other entities such as the Office of the United Nations High Commissioner for Refugees (UNHCR) to understand how this will have an impact on staffing strategies.

Key recommendations

In the light of the findings, the Board has made recommendations throughout the report, all of which are agreed by UNODC. The main recommendations are that UNODC:

(a) **Embed the financial disciplines required by IPSAS across its operations, and that staff engage in the maintenance of timely and accurate financial records and fully utilize the better quality financial information outputs to support its decision-making;**

(b) **Strengthen counter-fraud arrangements by developing fraud risk assessments to inform the development of fraud mitigation plans, focused training and the use of targeted exception reports in high-risk areas;**

(c) **Further improve the quality of the analysis and explanation of budget variances reported to senior management to reprofile budgets and improve the allocation of budget and resources between the Drugs and Crime Programmes;**

(d) **Improve the pace of the roll-out of full cost recovery to projects, strengthen guidance, training and establish assurance processes; and to ensure that the information is used to make strategic choices about the viability and sustainability of projects;**

(e) **Conclude the implementation of the risk management process and utilize the outputs to embed the concept within decision-making across operations;**

(f) **Develop a clear strategy to align programmes and projects with the organizational objectives of UNODC; in that regard, management should review current and new projects to assess their relevance to objectives;**

(g) **Improve the rate at which closed projects are evaluated to present a wide range of qualitative and quantitative data collected locally, especially cost data and progress against targets, and ensure that project design is informed, that is, by evaluation recommendations;**

(h) **Build a model for the optimal workforce composition, capability and training to develop a medium- and long-term staffing plan, informed by the collection of more comprehensive workforce data.**

A. Mandate, scope and methodology

1. The United Nations Office on Drugs and Crime (UNODC) is mandated to assist Member States in tackling illicit drugs, crime and terrorism. Headquartered in Vienna, UNODC operates globally with a core staff of 638, supported by around 1,000 United Nations Development Programme (UNDP) personnel from 73 locations. Almost all of its activities are undertaken through individual projects at the global, regional and country levels. Country and regional projects are primarily the responsibility of the regional offices of UNODC, with global projects led from its headquarters.

2. The Board of Auditors has audited the financial statements of UNODC and has reviewed its operations for the year ended 31 December 2014, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the Financial Rules of UNODC, as well as the International Standards on Auditing. The latter 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.

3. 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 UNODC as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence of transactions to the extent that the Board considered necessary to form an opinion on the financial statements. The audit was carried out at UNODC headquarters in Vienna, and through a field visit to operations in Colombia.

4. The Board reviewed UNODC operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board has commented on the financial position of UNODC and other financial matters. The Board has examined how UNODC ensures sound financial management in a programme and also the strategic approach to human resources, with a review of how UNODC deploys its workforce to meet business needs.

5. The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and has been discussed with the UNODC management, whose views have been appropriately reflected.

B. Follow-up of previous recommendations

6. As at 31 March 2015, of the 35 outstanding recommendations made for 2012-2013 and previous years, 13 (37 per cent) remained under implementation and 22 (63 per cent) had been either implemented or superseded. The Board has noted in particular that UNODC has rolled out the Framework on the Engagement of External Parties as a way to enhance the selection and management of implementing

partners and to do this in a more consistent and transparent manner. This is improving internal control and enabling management to have better visibility of its external engagements. More detail of the implementation of the previous recommendations is provided in annex II.

C. Financial performance and management

Key facts

243 projects being managed by UNODC as at 31 December 2014

150 countries in which UNODC operates projects

$1.4 billion total approved budget for live projects as at 31 December 2014

$325.4 million total expenses in 2014

$297.6 million net contributions receivable, from donors, under current agreements

1. Implementation of the International Public Sector Accounting Standards

7. The United Nations Office on Drugs and Crime successfully achieved an unqualified opinion on its financial statements, the first prepared using the International Public Sector Accounting Standards (IPSAS). The adoption of IPSAS presented a significant management challenge: as the complexity of UNODC financial systems did not facilitate the efficient extraction of financial data, significant manual adjustment and reconciliations were required to compile the statements. The audit highlighted the need for more comprehensive processes for recording and supporting balances on an ongoing basis. The Board recognizes the challenges of legacy systems that management have had to overcome in compiling the statements.

8. IPSAS has resulted in significant improvements in the analysis of receivable balances and employee-benefit liabilities presented in the financial statements, resulting in greater scrutiny of donor agreements, to determine the point of recognition. Over time, this should improve the quality of both the management review process and the donor data captured on UNODC systems. Management currently collates most key balances as a manual year-end exercise, rather than as part of the day-to-day financial process. It will be essential that management capitalize on the new disciplines, and uses the opportunity to significantly enhance the way in which financial information is used to support its strategic decision-making, to create a step change in how staff engage with the financial management of resources.

9. **The Board recommends that management embed the financial disciplines required by IPSAS across its operations, and that staff engage in the maintenance of timely and accurate financial records and fully utilize the better quality financial information outputs to support its decision-making.**

2. Financial overview

10. UNODC is funded mainly through voluntary contributions — for the year 2014, these amounted to $290.0 million (88.3 per cent) of total revenues of $328.6 million. Revenue also included $31 million from the United Nations regular budget. Expenses for the year were $325.4 million, resulting in a small surplus of $3.2 million.

11. The transition to IPSAS has resulted in significantly enhanced disclosure of the assets and liabilities held by UNODC. The asset base recorded in the financial statements at the end of 2014 was $805.9 million, of which $541.0 million represented current assets. The financial statements recognized total liabilities of $334.2 million. The Board's analysis of key financial ratios (table II.1) demonstrates that, despite the competitive environment for donor funds, the current financial health remains sound, with the ratio of assets to liabilities being $2.41 of assets for every $1 of liabilities. When excluding the non-current assets of $265.0 million, the ratio remains positive at $1.62 of assets for every $1 of liabilities.

Table II.1
Analysis of key financial ratios

Description of ratio	*31 December 2014*	*1 January 2014 (IPSAS opening position)*
Current ratio		
Current assets to current liabilities	3.10	3.12
Total assets to total liabilities		
Assets to liabilities	2.41	2.45
Cash ratio		
Cash + current investments to current liabilities	1.62	1.70
Quick ratio		
Cash + equivalents + accounts receivable to current liabilities	1.96	1.62

Source: Board analysis of UNODC financial data.

12. The two major components of the UNODC asset base are cash and investment balances, which totalled some $427.3 million, and voluntary contributions receivable from donors of $297.6 million. The voluntary contributions receivable represent the remaining sums due over the lifetime of the current agreements with donors, of which $65.6 million is due in more than one year's time.

13. The two most significant elements of UNODC liabilities are employee benefits of $119.1 million and advance receipts of $184.2 million. The employee-benefit liability represents obligations that had been incurred at the year end, the largest element being the estimate for the cost of after-service health insurance of some $94.2 million. Advance receipts included $179.8 million of future revenue, deferred at present, from current European Union agreements where the revenue will be recognized as the conditions set down in the agreements are met. These advance receipts represent commitments to donors for the provision of future services. The scale of these deferred revenues demonstrates the extent to which future revenues, and a good portion of receivables, are dependent upon UNODC continuing to deliver current projects and programmes in line with expectations.

3. Financial management and internal control

14. A number of necessary changes and developments are taking place across UNODC that will provide a platform for improving financial management, longer-term financial sustainability and visibility of the internal control environment across operations. The changes being implemented over the next few years include developments in budgetary reporting; the implementation of the first phase of the Umoja enterprise resource planning system; an enhanced approach to cost classification to better inform decision-making on project costs; and the development of improved risk management processes. Change is essential to ensure that UNODC is well placed to have the right information to inform its strategic decision-making and to make it an efficient provider of services to its donors.

Internal control

15. As the Board has previously reported, UNODC operates with a particularly complex accounting system that involves multiple databases. Transaction-level data for the Drug and Crime Programmes were recorded in two business systems; the Integrated Management Information System (IMIS) and PeopleSoft, both of which were required to support the financial statements. Transactions recorded within PeopleSoft were routinely summarized and manually transferred between the systems, giving rise to significant volumes of manual journal transactions.

16. In addition to the two financial business systems, data entry and financial monitoring also take place through and across several other systems such as: the Funding Agreement and Donor Profile for income management and the business intelligence portal, ProFi, for project management, procurement and asset management. As UNODC focuses on improving financial management, it needs to be supported by real-time information systems. The current systems and processes remain fragmented and create additional pressure on the quality of first-tier controls operating at lower levels in the business. Higher-level (entity-level) controls are very difficult to operate, given that the systems are not integrated; management has limited visibility of compliance matters across operations. In the Board's view, the scope for improving the internal control environment is limited until Umoja is implemented.

17. The Board has noted that the level of reported fraud is low in the context of UNODC operations. The Board considers that management should take action to improve and better identify the risk of fraud in its operations by undertaking fraud risk assessments. These will enable management to focus effort on the areas most susceptible to fraud, and facilitate the development of appropriate mitigation plans. These can also be used to assess training needs and to identify areas where the improved reporting functionality of Umoja can be used to develop proactive fraud detection processes, such as targeted exception reporting.

18. **The Board recommends that UNODC develop fraud risk assessments to identify areas where it is most susceptible to fraud within its operations. These should be used to inform the development of risk mitigation plans to focus training and targeted exception reporting to detect cases of fraud.**

Budgetary control

19. Following the implementation of IPSAS, the original budget for 2014 was approved on an annual basis for the first time in December 2013, and was set at $399.5 million. This included $354.7 million (89 per cent) of extrabudgetary funding. The latest budget for the biennium cycle is $760.1 million (in 2012-2013, $618.8 million), representing a 22.8 per cent increase between the biennium resource plans and demonstrates the continued growth of UNODC activities. A revised budget was approved in December 2014 and represented a $43.8 million reduction from the original budget approved in December 2013. Statement V shows a cash-based out-turn of $305.7 million against a revised budget of $355.7 million.

20. The scale of the underspends against the original ($93.8 million) and revised budgets ($50.0 million) illustrates the difficulties that UNODC faces in managing its deliveries, in line with projections. Four of the nine programmes of work have shown underspends of more than $5 million, caused predominantly by low or delayed implementation. During the year, management has improved the reporting of variances in budgets to the senior management team, but the Board believes that further progress can be made in this area once the quality and timeliness of the business information systems are improved. This should include the rephasing of project budgets in year.

21. The Board has also noted that limitations in systems give rise to difficulties in mapping shared expenses between the programmes. This is evident in the financial statements (note 5), where some of the allocations of shared costs between the Drug and Crime Programmes are no longer in line with the business activities. The Crime Programme has $175 million of revenues but a lower expenses allocated at $154 million; whereas the Drugs Programme has $153 million of revenues but a higher expense allocation ($171 million). The analysis in the note highlights the need to improve the understanding of these differentials and the variances that give rise to them. This will provide management with a greater understanding of the relative performance of the programmes. Management should also use this information to review the cost allocations between the programmes, building on the improved data that it will obtain from the full cost recovery initiative.

22. **The Board recommends that management: (a) further improve the quality of the analysis of budget variances reported to senior management and that these should include clear actions to redeploy or reprofile the budget, where appropriate; and (b) review the budget and cost allocations between the activities of the Drug and Crime Programmes to strengthen the segmental reporting within the financial statements.**

Introduction of Umoja

23. Umoja should provide new opportunities to provide better and timelier information for management decision-making, and support management in the maintenance of a more visible and consistent control environment across the business. Umoja implementation will represent another significant challenge for management, especially given the proximity of the go-live date to the end of the financial year 2015.

24. The current expectation of UNODC is that the Umoja Integration deployment[1] will go live from 1 November 2015, and that the finance and project management aspects of Umoja (among other modules) will replace the current systems. Management is establishing plans to ensure that appropriate change management processes are being initiated, including oversight by the Management Coordination Committee; a programme of training; and a blackout period to enable data transfers to be made. The Board emphasizes the particular importance of UNODC ensuring that staff have been appropriately trained and that the information migrated to the new system has been appropriately cleansed. Given the multiple systems used by UNODC, data cleansing will be essential to ensure that the benefits of an integrated reporting tool are achieved. In 2014, management undertook a gap analysis to identify the legacy systems that would need to operate after the Umoja implementation. This resulted in a plan to prioritize integration requests, but the Board stresses the need to establish risks around the integration of essential legacy systems and to develop a clear timetable to address the gaps identified.

25. The implementation timetable will mean that the UNODC finance staff will have to rely on multiple separate legacy financial systems to compile data, with only November and December through Umoja. The need to draw data from multiple systems will add additional complexity for 2015, meaning that the already difficult audit trail will become increasingly challenging in this final year of the legacy systems. Careful project planning and resource allocation will be essential to ensure the successful implementation of Umoja and the delivery of timely financial statements alongside the normal operational activity of the finance team. Management has stated that the Umoja implementation will be demanding, and that it will be a challenge to maintain sufficient staff resources and capability to operate post-deployment.

26. **The Board recommends that management: (a) establish clear project milestones and resource plans at the local UNODC level to ensure a successful transition to Umoja, especially in respect of data cleansing, so as to minimize the impact on the preparation of the financial statements for 2015; and (b) develop a clear timeline on how the remaining legacy system risks will be addressed.**

4. Strategic project management

27. The Board has reviewed the approach of UNODC to the strategic management of projects, focusing on how projects align with core objectives; how the costs of project activity are understood and inform decision-making; and how projects are evaluated. These processes are all interlinked with wider changes and developments in the business, and are central to ensuring that the activities of UNODC are focused and cost-efficient. Improvements in these areas need to be delivered if UNODC is to remain financially sustainable in the longer term.

Strategic alignment of project activity

28. More than 90 per cent of the funding received by UNODC is earmarked by donors for a specific purpose, and the pipeline of these contributions needs to be sustained to fund the longer-term financial position of UNODC and to maintain the current level of contribution to fixed costs. This environment can create incentives

[1] The Umoja Integration roll-out consists of: Umoja Foundation and Umoja Extension 1.

for management to undertake the project activity most likely to attract donor funds. This can result in UNODC undertaking projects that are at the margins of its specific areas of expertise or that do not directly fully align with its core objectives.

29. Management has not undertaken an exercise to review the alignment of its project portfolio with its core objectives, and information systems and the current structure of output and performance indicators do not lend themselves to such analysis. The UNODC independent evaluation team has recently analysed recommendations made from project evaluations over the past three years. This has indicated a risk of project design being misaligned with core objectives. Some 35 per cent of the evaluations recommended improving the design stages of projects and programmes.

30. Management is currently unable to demonstrate how project activity and the resources utilized meet the strategic objectives of UNODC. Recognizing this, in September 2015, a conference will be held with donors and country representatives and senior management to discuss how the strategic vision of UNODC can be better aligned to its operational delivery. The Board understands the rationale for this initiative, but it is important that management achieve clear outcomes from the conference that will help to inform a clear strategic view of project delivery.

31. To provide management with better visibility, project reporting should incorporate performance metrics, aligned to core objectives, which would enable management to demonstrate how project deliveries map to the overall organizational aims and priorities. Management should consider reinforcing the importance of this alignment by developing guidance and training to raise awareness among project staff and to ensure that project approval processes are enhanced to incorporate these considerations. Improvement will help UNODC to demonstrate that its outputs and outcomes are firmly focused on its core objectives.

32. **The Board recommends that UNODC: (a) build on the new initiatives and develop a clear strategy to link its overall strategic aims to underlying programmes and projects, and projects should be reviewed against these objectives to ensure that they are sufficiently aligned to strategy; (b) ensure that the project approval stage confirms alignment with the agreed strategic objectives of UNODC; and (c) consider improved guidance and training to reinforce the principle of alignment.**

33. **The Board also recommends that UNODC ensure the consistent use of the standard outcomes that have been developed for each thematic area in all its programmes and projects so as to ensure alignment with strategic objectives.**

Understanding the costs of project delivery

34. Having determined the strategic focus of the projects it delivers, it is essential that management has a deep understanding of the costs involved in their delivery. As the Board reported in 2014, management has had an insufficient understanding of cost. Given the dependence on voluntary funding in a competitive environment, a failure to understand costs could ultimately have an impact on the long-term competitiveness and financial sustainability of UNODC. Management has recognized the necessity of gaining a deeper understanding of costs in launching the initiative to move towards full cost recovery, which commenced in 2014.

35. UNODC has recognized that improved cost data will provide greater clarity over costs that are attributable wholly or partly to an operation, programme or project. The initiative is driven by the need for UNODC to ensure that projects recover all their costs, but better financial information should also enable management to make more informed decisions about funding priorities, as well as greater visibility of overhead costs. The Board emphasizes the importance of transparent overhead costs as a mechanism to drive efficiency and improve competitiveness.

36. In classifying its costs, UNODC has defined them into three basic categories. They are: direct costs that are directly attributable to programme and project delivery; direct support costs, such as field office support and personnel, UNODC representatives, buildings management and communication; and indirect costs that cannot be readily and directly attributable to, or recovered from, specific activities, projects or programmes; these include costs such as central administration and departmental support, donor relations and improvement initiatives. The Board broadly supports these definitions; however, the costing process can only be effective if costs are accurately and consistently applied. Various instructions and some training on cost recovery have been provided to field offices, and a Full Cost Recovery Committee has been established to review implementation. However, to ensure that the initiative succeeds, and that the principles are properly embedded in the decision-making process, the Board considers that management needs an assurance process to confirm that cost data are reliable. An assurance framework was not in place at the time of the audit.

37. Better cost data will enable management to determine the cost differentials between projects and programmes, to enable comparison and provide better cost information to inform more accurate budgets for new project activity. It will also drive improvements in the equitable attribution of costs between projects, ensuring that projects are not cross-subsidizing other activity or absorbing regular budget funds. In time, this should enable UNODC to compare the current level of programme support costs within current donor agreements to the actual costs, which will enable management to engage with donors to revisit the cost assumptions that have been made, or to terminate activities that fail to recover costs, particularly if they are not aligned to core objectives.

38. It is clear from the initial analysis by management that in many cases the current level of programme support and overhead attributable to projects will be less than the actual costs recovered in donor agreements. This is critical, since project activity that fails to recover its full cost will represent a drain on the regular budget resources, or will require cross-subsidy from other funds. As a consequence, underrecovering projects cannot be sustainable and will ultimately create financial pressures on the regular budget.

39. The Board has welcomed the development; a clearer understanding of costs is central to good financial management, supports better planning and decision-making and helps to ensure that projects and their associated funding are sustainable. However, having established the principle there is a clear need for management to improve the pace of its implementation and to develop an understanding of its cost base as quickly as possible to ensure that the initiative is successful, management should migrate its project portfolio on to a full cost recovery basis on the completion of negotiations with donors in order to secure the benefits of the new approach. The

Board noted that as at 31 December 2014, 204 projects had begun operating under the new full cost recovery guidelines. The Board found that it was still too early to assess the impact of cost recovery on particular projects, or to confirm whether the full cost recovery framework was being consistently and accurately applied across the UNODC business. The Board will review the consistency of the costing methodology and assess how management is utilizing the information in its future reports.

40. **The Board recommends that UNODC: (a) utilize the improved cost data to inform strategies for funding priorities and efficiency programmes; (b) complete the roll-out of full cost recovery to projects, strengthening guidance and training support to enable staff to understand the principles and how they should be applied to project activity; and (c) introduce an assurance/review process to ensure that the costs are consistently and reliably classified across the business in line with the framework.**

Project evaluation

41. Evaluation is a vital component of strategic project management, and is an activity that UNODC expects for all programmes. It enables value for money for a project to be determined, and provides management with an opportunity to learn lessons to inform the design and delivery of future projects. As evaluation data are collated, they can be used to identify themes and aid management in its understanding of how the strategic priorities of the organization are being delivered, informing project plans and strategies across key processes within the organization.

42. The UNODC evaluation team provided the Board with data which demonstrate that the proportion of completed projects that were fully evaluated increased between 2011 and 2013. As of 2014, some 75 per cent of the 172 completed or operationally completed projects undertaken since 2011 were evaluated, which is a clear increase from 53 per cent in 2013. The team has recently carried out meta-analysis that supports the increasing risk of project design being misaligned with core objectives, with 35 per cent of its evaluation findings recommending investment in the design stages of projects and programmes.

43. Undertaking project evaluations should be a key part of the performance management appraisal system to improve compliance efforts, and senior management should review the levels of programme evaluation as part of its monitoring processes. As UNODC continues with its change programmes, it will become increasingly important that project managers are able to measure the impact on the efficient and effective delivery of programmes; a strong and comprehensive evaluation process will provide this.

44. **The Board recommends that, to embed an evaluation culture, individual project managers should take responsibility for their projects to be evaluated. Compliance with this activity should be included in the performance appraisal system. Furthermore, the implementation rates of evaluation recommendations should be monitored by senior management.**

D. Risk management

45. In its previous reports, the Board emphasized the importance of enterprise risk management as a critical tool for enhancing governance and improving management and internal control. UNODC has now documented its high-level risks, and the Board observed that further progress was being made to drive the process down to the operational level. UNODC has made progress, when compared with other United Nations entities implementing the United Nations Secretariat enterprise risk management and internal control framework, but UNODC does not yet have systematic risk management in place.

46. UNODC has established a risk focal point within the Office of the Executive Director, to emphasize the importance of the process; further risk focal points have been appointed at the divisional level, meeting on a quarterly basis. An organizational risk register was established in July 2014, highlighting 10 significant enterprise risks covering both UNODC and the United Nations Office Vienna, from an original long list of more than 30. The register covers the five key areas identified in the United Nations Secretariat's risk catalogue, on the basis of the five major risk areas of the organization risk universe: strategic; governance; operational; compliance; and financial risks. The compilation of this high-level organizational risk register is an important first step in the process of risk management. The five highest risks identified by senior management were:

(a) Strategic planning and budgeting;

(b) Organizational transformation and Umoja implementation;

(c) Organization structure and synchronization;

(d) Safety and security;

(e) Financial and extrabudgetary contributions.

At the time of our review in April 2015, the register reflected only the risks identified by senior management, but management was in the process of completing a pilot exercise at seven field offices that have compiled risk registers for their activities. Field offices have received risk training through web sessions and other support to produce registers for approval by representatives before being collated by the risk focal point. This process should enable UNODC to better understand field office risks and their management, and enable the organizational risk register to be compared and validated against the risks identified in the field. UNODC has been asked by the United Nations Secretariat to provide feedback on the practical application of the roll-out to the field.

47. A further process is under way to require that each division produce its own risk register, with training for all programme managers to be held in the final six months of 2015. The Board considers that these are essential parts of the overall process to ensure that risks are comprehensively identified and managed in the UNODC context. While positive progress has been made since the Board last reported, UNODC cannot have effective risk management until it has systematically reflected the risks emerging from divisional and field registers and can show how management decision-making has changed as a result.

48. In reviewing the risk register compiled in 2014, the Board noted that the format complied with the enterprise risk management and internal control

framework. It clearly articulated the mitigating actions, but more detailed mitigation plans are in preparation and will be submitted to the Management Coordination Committee in September 2015. The Board noted that the risk register could have been further tailored to ensure that the risk universe was scoped to include only those aspects of the United Nations risk universe which were relevant to UNODC. As the risk framework becomes embedded, it will be important to consider whether it remains appropriate to continue having the risks of both UNODC and the United Nations Office at Vienna aggregated in one register, since the two areas may have their own discreet risk profiles and responses. The Board's review also noted that the initial organizational risk register had not evolved, and none of the original assessments had been amended to reflect the evolution of the risk or the mitigations.

49. It is vital that risk management is an ongoing process, that it is regularly reviewed and challenged by management, and used as a tool for decision-making and control. These characteristics would be expected to evolve over time, as the process of risk management becomes more mature within UNODC. While the Board has seen the process develop, there is a need to bring the activity to a conclusion, and to move to the development of registers that can be used to support management decision-making. Risk management has not yet brought any real operational benefits to the management of the business; the Board expects to report on the final roll-out of the risk process at UNODC in its next report.

50. **The Board recommends that management: (a) complete the roll-out of the risk management process and collate the information in divisional and field registers into an organizational risk register; (b) regularly review and update the register to facilitate its use as an operational tool for decision-making across UNODC; and (c) should consider whether it remains appropriate for the aggregation of the risks of UNODC and the United Nations Office at Vienna in the same register.**

E. Human resources management

51. Human resources are a key enterprise risk for UNODC, which understands that, in this period of change, the need to align its workforce to meet the changing operational needs of the organization is becoming increasingly important.[2] In its review, the Board considered how well the UNODC Human Resources Management Service functions and is overseen and how it ensures that it deploys the right staff to meet the challenges and needs of individual programmes at the right time, comparing it with other system entities.

Human Resources Management Service

52. The Human Resources Management Service consists of 34 staff, of which 7 are at a senior or Professional grade. It comprises four functions: Office of the Chief; Recruitment and Placement; Staff Administration and a Staff Development Unit. The Service is performing to an effective standard against its targets, largely meeting its targets for recruitment times, gender and performance appraisal completion rates. A staff survey conducted by the Service in 2014 found that 63 per

[2] In this section, UNODC encompasses staff of both UNODC and the United Nations Office at Vienna. For workforce composition and planning matters, the Board believes that all such staff should be included.

cent of those responding were "very satisfied" or "satisfied" with the services they received, with only 16 per cent expressing dissatisfaction.[3]

53. While the Service has carried out a survey of its function, it does not currently undertake a global survey of all staff. The Board has observed that other United Nations bodies carry out surveys to collect views on topics such as opportunities for career development and access to training, which have provided valuable information to support continuous improvement. The use of these surveys would better enable UNODC to identify staff needs and to address the career development needs and aspirations of its staff. Obtaining this information would better support the UNODC management in embedding the changes necessary as it continues the change programme.

54. **The Board recommends that the Human Resources Management Service use staff surveys to canvass all staff on a wider range of human resources matters to support its management of the workforce by informing strategies for staff deployment, training and capacity.**

Oversight of human resources matters

55. The UNODC senior management is routinely sighted on human resources matters, such as the timeliness of the recruitment process, gender composition and the completion rates of appraisals. These are outlined in a human resources scorecard, which is integrated into the senior managers' compacts with the Secretary-General. The Board notes that the agenda for the UNODC senior management team meetings already includes human resources matters. However, the Board considers that more could be done to analyse comparable workforce data to determine their optimal use of resources, for example, the balance between headquarters staff and field staff.

56. Human resources matters appear well integrated in the management of programme delivery. The Human Resources Management Service works with the Division for Operations in reviewing staffing requirements for projects. For example, the Division maintains quarterly field office recruitment plans. These reports contain details of each post expected to be recruited, such as duration, a description of duties and grade. These reports currently include only field office posts, but the processes compare well with arrangements that the Board has identified in other United Nations bodies.

57. **The Board recommends that management further develop its understanding of project staffing requirements by reviewing, within the constraints of the United Nations Secretariat global staffing model, processes to headquarters and regional staffing plans, balancing an optimal use of resources between headquarters staff, field staff and grade profiles.**

Workforce characteristics

58. UNODC operates globally, with staff based in 73 regional, country and project offices. In 2014, it had a workforce of 1,585 staff, an increase of 4 per cent since 2011.[4] In addition to its core workforce, UNODC also uses 975 UNDP local field personnel, including service contractors and locally recruited field office staff, who

[3] The survey findings are based upon responses from 168 staff members.
[4] Staff costs are based on all staff on the payroll in 2014.

are all administered by UNDP. UNODC and UNDP have a working agreement that defines UNDP services for field staff, and financial and administrative support to projects. UNODC manages staff contracted by UNDP according to standards set by UNDP.

59. The Board has reviewed the theme of human resources management in other United Nations entities (table II.2), comparing the workforce characteristics found in UNODC with those in the Office of the United Nations High Commissioner for Refugees (UNHCR) and the United Nations Office for Project Services (UNOPS). Each of these entities faces different operating environments and, in this context, adopts different business models, which affect workforce characteristics. While recognizing that UNODC delivers more project activity and backstopping from its headquarters than the other more field-based entities, the Board believes that benchmarking allows management to assess whether differences are justified and provide a basis for United Nations entities to learn from each other.

Table II.2
Comparison of key workforce characteristics across three United Nations organizations

	UNODC	*UNOPS*	*UNHCR*
Ratio of senior managers to all other personnel	1:22	1:34	1:30
Representation of national personnel in workforce	73%	77%	73%
Percentage change in national staff within overall workforce since 2011	+4%	-7%	-3%
Representation of females in workforce	46%	31%	37%
Cost per individual personnel (salaries or fees and all other benefits) (United States dollars)	$70 000	$52 000	$66 000
Change in cost per individual personnel since 2012	+5%	-3%	-3%

Notes

1. All data at December 2014. With the exceptions identified in note 2 and note 3, data include individual contractors and personnel employed on United Nations staff terms. For UNOPS, data are for the personnel it manages directly, with the exception of the unit cost metric, which includes personnel that are categorized as UNOPS personnel who are supervised by partners.
2. Senior manager grades are P-5 (or equivalent) and above. Senior contractor grades that are equivalent to senior manager staff grades are excluded because the capacity of these individuals to manage personnel in their organization is limited by their status as external consultants.
3. Gender data for UNODC and UNHCR are for personnel on staff terms only. By way of comparison, females represented 35 per cent of personnel on United Nations staff terms in UNOPS.

Source: Board of Auditors analysis of United Nations data. Underlying data and systems not subject to Board of Auditors review.

60. Since 2011, the UNODC grade composition has remained consistent, with the majority (71 per cent) of personnel in field support roles.[5] This composition compares with 72 per cent of such personnel in UNHCR. However, in terms of staff

[5] The figures are based upon staff of UNODC/United Nations Office at Vienna and UNDP staff managed by UNODC.

costs, the proportions are markedly different. While 27 per cent of UNHCR staff costs relate to headquarters activity, in UNODC the proportion is 72 per cent. This reflects the fact that many UNODC projects and programmes are managed from Vienna, rather than in a field operation setting. Detailed data on UNODC staff composition and costs are provided in annex II.

Workforce planning

61. Demand for the services of UNODC has grown in recent years, and in response to this demand, it has widened the activities it delivers, moving from providing research and advice to delivering projects and programmes. These changes have brought new and additional demands on staff, further heightened by changes in the internal management processes such as IPSAS, the transition to Umoja and the introduction of full cost recovery. These new changes will require staff to improve data entry and to make better use of management systems to inform decision-making and programme management. With these changes, continued growth and the diversification of its services, UNODC must manage the risk that the current workforce capability does not align with the current business needs. The Board considers that UNODC could make better use of a pool of dedicated staff that could be deployed to bolster the skills and competencies of field offices on a short-term basis to deal with specific business changes, such as finance staff being deployed to the Colombia field office to support staff in implementing good practice.

62. UNODC faces a real challenge in its workforce planning, driven by the increasingly short-term nature of funding for specific projects, which creates uncertainty and requires a flexible deployment of staff resources. Its current workforce planning data do not provide a comprehensive overview of the skills it needs to deliver, or information on resourcing requirements in the medium and long term. Beyond monitoring retirement dates, UNODC has undertaken limited planning activity to date, owing in part to a lack of business intelligence from its systems and processes. UNODC needs to collect better data in a format that it can utilize to better understand the availability and capacity of staff to meet its future needs. The implementation of Umoja should allow for more sophisticated and robust business intelligence capabilities.

63. UNODC has undertaken some work on skill requirements, with the Staff Development Unit conducting a periodic needs assessment to identify skills gaps and needs. The appraisal process further identifies areas for staff development. However, the Board has noted the need to formalize these processes and to capture data more systematically to enable a skills assessment of the workforce. The results of this information can improve management's decision-making in areas such as recruitment, and in decisions such as whether to appoint specialist or generalist project managers.

64. UNODC should make better use of the intelligence it holds internally. The Independent Evaluation Unit has reviewed all recommendations made in its reports and analysed this by thematic area. The most common recurring recommendations are on planning and project management. This information should be used in determining training needs and opportunities for career development within the workforce.

65. **The Board recommends that UNODC should:**

(a) **Within the constraints of the United Nations Secretariat global staffing model, build a model for the optimal workforce composition, capability and training needs in a medium- and long-term staffing plan;**

(b) **Use the opportunity afforded by Umoja to improve the collection of comprehensive workforce data, and utilize this to plan recruitment and the staff and capability requirements to meet the future anticipated needs of the business;**

(c) **Consider the re-establishment of "roving teams" within headquarters that can support field offices on a short-term basis.**

Workforce recruitment

66. UNODC monitors its annual performance against recruitment targets using the United Nations scorecard, which includes a target of 55 working days for completion of all recruitment from initiation to the final selection decision. As of September 2014, UNODC was meeting its recruitment target. The Office of Internal Oversight Services (OIOS) assessed the UNODC recruitment process for international staff and found that UNODC took, on average, 43 working days to recruit staff in 2014, compared with 56 days in 2013 and 71 days in 2012.[6] OIOS attributed these improvements to the use of rosters to fill vacancies. In 2014, rosters were used in 40 per cent of the cases, compared with only 20 per cent in both 2012 and 2013.

67. The Board reviewed more recent data on recruitment and found that the average time taken to recruit has increased from 43 days in September 2014, to 54 days as at the end of December 2014. In 2014, 75 staff were recruited within UNODC and the United Nations Office at Vienna. The Human Resources Management Service considers that the increase in recruitment times is attributable to data quality issues. The Service recognizes it needs to improve the quality of the data it collects on recruitment, although this is complicated by the way the process works. The Service sometimes starts the recruitment process for upcoming projects before funding is in place, to ensure that the project can commence as soon as the funding is approved, although recruitment is suspended if a delay in funding is anticipated.

68. From 2016, the United Nations Secretariat will be rolling out the career development and mobility framework for job classifications, which will include UNODC. UNHCR has, since 2010, operated a staff mobility policy for international staff. UNHCR recognizes that the process can be slow and expensive, as is implementing improvements to the process to improve efficiency and effectiveness. There is scope for UNODC to learn lessons from this.

69. As part of a visit to the Colombia office in March 2015, the Board also reviewed the recruitment process for national staff. The Board found that the recruitment process was efficient, with a good level of involvement by the human resources team. The team established milestones for various stages of the process, and the Board saw evidence of contact with the project teams to mitigate any delays. The average time taken for advertisement to offer was between one and two months,

[6] Audit of the recruitment process in UNODC, December 2014.

which compared favourably with country offices in UNHCR, which took, on average, an additional two months.

70. The Colombia office human resources team collects data on numerous aspects of the recruitment process, such as the time from the closing date to a shortlist being produced. The data allowed them to reflect on what was working well, and areas where improvements could be made. The Board noted that every shortlisted candidate was checked against guidelines, and that there was scope to reduce these checks and move to a more proportionate, sample-based system, using the team's knowledge of project teams and their capacity to run the recruitment process.

71. **The Board recommends that UNODC improve the quality of the data collected on recruitment and track the impact of any delays in the process on operational delivery.**

72. **The Board also recommends that UNODC learn lessons from UNHCR and others that use a mobility framework and ensure that the implementation of the framework is informed by their observations.**

F. Disclosures by management

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

73. UNODC informed the Board that it had formally written off $3.02 million (in 2012-2013, $11.1 million) on cash and receivables. This balance included $0.703 million written off for the Drug Programme and $2.34 million written off for the Crime Programme. In addition, $13.257 million (in 2012-2013, $24 million) of non-expendable property assets by net book value were written off, over $13 million of which constituted assets transferred to beneficiaries in line with project agreements.

2. Ex gratia payments

74. UNODC informed the Board that there were no ex gratia payments for 2014 (2012-2013: nil).

3. Cases of fraud and presumptive fraud

75. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

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

77. The Board has not identified any instances of fraud in its audit, and no cases have come to our attention through our testing. While an internal control framework

and an OIOS programme is in place, there is currently no systematic framework to prevent, detect and report fraudulent activity and fraud risks have not been systematically considered. Consequently, the Board has limited procedures that it can utilize to determine the completeness of the reported level of fraud, and believes that there is scope for significant underreporting.

78. UNODC has reported one case of fraud under investigation (in 2012-2013, six). There was no proven financial fraud during 2014 resulting in financial losses for UNODC, as the funds were recovered. The value of the presumptive fraud was $18,115 (the figure for 2012-2013 was revised down to $23,598). All these potential frauds were committed by staff members and involved embezzlement, sick leave fraud, the misuse of assets or non-compliance with administrative instructions. No criminal prosecutions against the individuals concerned were brought by UNODC in respect of the frauds committed.

79. During 2014, UNODC has completed its investigations of four cases of fraud valued at $13,308. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNODC directly.

G. Acknowledgement

80. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Under-Secretary-General and members of his staff.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the United Nations Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

Annex I

Status of implementation of recommendations from prior periods

1. As at 31 March 2015, of the 35 open recommendations made for 2012-2013 and previous years, 13 (37 per cent) remained under implementation and 22 (63 per cent) had been either implemented or superseded. There are no recommendations that fall into the "not implemented" category.

2. There has been positive progress overall across many of the recommendations still marked as "Under implementation", including in areas of gaining an accurate picture of progress information on projects and programmes against milestones; and better data on the volumes and value of field office procurement.

3. The table below sets out the status of all of the Board's previous recommendations.

Status of implementation of recommendations from prior periods

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 20	The Board recommended that any system enhancements be coordinated to benefit both the immediate user and the corporate need. The ability to easily monitor and review financial management information centrally is severely limited by the functionality and fragmentation of the systems. At the same time, UNODC operates a highly decentralized system of controls	Implementation of the recommendation is in progress	The Board repeats its recommendation from 2012-2013. UNODC will be implementing the initial steps of Umoja from September 2015 The Umoja roll-out represents an opportunity to improve the functionality of the management information systems. It also provides a critical moment for envisaging how systems beyond Umoja will fit into a coherent overall financial and management system		X			

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 23	The Board recommended that UNODC broaden the field office reports to include other areas, such as non-expendable property	The recommendation has been implemented UNODC reporting by the field offices covers various areas, including payroll monthly sign-off, asset acquisition sign-off and monthly attribution of expenses to review fund utilization by pledge signed-off by the project/ programme manager. In addition to the above, yearly certification is required from the field offices year-end closing checklist, which includes confirmation of the physical asset verification exercise and compliance with the delivery principle In addition to the above, the annual internal oversight report has been in use since 2010 and has been reviewed and modified in 2013 to include the field representative's certification on compliance with the substantive and management requirements	UNODC sends out closure instructions to each field office detailing the closure procedures, returns to be submitted and supporting evidence required The Board's field visit to Colombia confirms that the field office closure procedures have been enhanced and a good evidence trail is provided The testing of non-expendable property confirms that this area has shown clear improvement from the 2012-2013 audit findings	X				

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 26	The Board recommended that UNODC strengthen its quarterly review activity so that validity and accuracy of unliquidated obligations is assured; and consider increasing guidance and oversight in this area to better ensure that commitments are updated timeously	The recommendation has been implemented UNODC enhanced the reports available to users to review and monitor unliquidated obligations In addition, UNODC issued messages of the day to all users on the review of unliquidated obligations (14 January 2014 and 25 August 2014) UNODC also organized: • A training workshop on monitoring and review of unliquidated obligations (4 sessions in November 2014, 80 staff members attended)	The Board's review confirms that the monitoring of unliquidated obligations has been improved as a by-product of the move to IPSAS. UNODC systems have been adapted to enable users to "goods receipt" against unliquidated obligations, which means that such obligations are reviewed and updated at least on an annual basis The new "goods receipt" mechanism has enabled automated batch processing of accruals for IPSAS disclosures		X			
		• A training workshop on IPSAS explained for Vienna-based staff members (13 sessions between May and December 2014, 191 staff members attended) and field offices (6 web-ex sessions in September and October 2014, 75 connections through web-ex)	The quarterly reminders for review of unliquidated obligations are still being issued and monitored. There has been a 25 per cent decline in the level of unliquidated obligations, indicating improved review and updating					
		Lastly, UNODC followed up directly with the Divisional focal points and individual certifying officers. These efforts resulted in a significant reduction of the number of unliquidated	The finance staff have included unliquidated obligations in their review prior to the issuance of budget revisions/amendments Nevertheless, it is too early to say whether the					

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		obligations at year end and in the improved quality of records	monitoring process is reviewed quarterly and is embedded					
2012-2013,[a] para. 30	The Board recommended that UNODC field offices update fixed asset registers promptly for additions, disposals and any transfers required when project assets are completed or handed over	The recommendation has been implemented Following receipt of instructions from UNODC headquarters, all field offices have completed their fixed asset verification exercises, and reconciliations between the verification results and fixed asset register were submitted to the Financial Resources Management Service Relevant UNODC headquarters offices will continue to provide, on an as needed basis, technical expertise on the proper procedures for updating the fixed assets registers in case of additions, disposal and/or transfer of project assets	The testing of non-expendable property confirms that this area has shown clear improvement from the 2012-2013 findings. However, there are still minor errors, but the Board would expect this to some degree, as IPSAS implementation requires a change of culture that will take a longer period of time to embed	X				

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 34	The Board recommended that UNODC develop solutions for IPSAS implementation and embed timely data entry and validation requirements into the business as a matter of urgency	The recommendation has been implemented to the extent possible and taking into consideration the upcoming Umoja implementation. The Field Office Fixed Asset Register was further enhanced so that information regarding project assets are captured in the Register. To assess the data input and review data correctness and completeness, additional sampling was performed	Data provided for audit improved from the opening balances review to first IPSAS year end, but were produced through highly manual processes and large spreadsheets The trail from financial statement to relevant spreadsheets and information technology systems was sometimes quite convoluted, making it a time-consuming exercise to follow the data. In turn, the ability to validate the financial information quickly and easily remains compromised		X			
2012-2013,[a] para. 38	The Board recommended that, by June 2014, UNODC finalize its organizational risk register, by prioritizing the risks and identifying mitigating actions. The register should be reviewed regularly by the UNODC senior management team, and action taken to mitigate any risks that arise	The recommendation has been implemented Since the promulgation of the United Nations Office at Vienna/UNODC enterprise risk management risk register and governance structure and monitoring mechanism in August 2014, the Office has started the development of the risk response and treatment plans, and monitoring is ongoing through the monthly meetings of the risk management focal points. All staff have been invited to complete the online enterprise risk management	Good progress has been made (as indicated in the present report). However, there is no clear audit trail to demonstrate that mitigating actions have been developed and implemented. Also, UNODC is still in the process of rolling out the risk register to the field offices; therefore the Board considers this recommendation to be well in hand, but still under implementation and further work is planned by UNODC during 2015		X			

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		training and all related documents have been made available to staff on the Intranet. The mechanism implemented was to appoint the Office of the Director-General/Office of the Executive Director as the institutional enterprise risk management focal points for the United Nations Office at Vienna/UNODC. These focal points will report to senior management at the quarterly meetings of the Management Coordination Committee. The first report was completed in February 2015, when the meeting of the Committee for the first quarter took place						
2012-2013,[a] para. 40	The Board recommended that UNODC establish a reliable means of extracting information on the number of live projects it is managing; and the associated budgets and expenditure for each project	UNODC believes the recommendation to be implemented and states: "The Information Technology Service has developed a report that provides the number of live projects, including the associated budgets and expenditures. The report is available under the Budget Revision Forms application, Real-Time Requests, Financial Statements and Others"	The Board has reviewed extract reports reporting live projects, budget and expenditure	X				

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 45	The Board recommended that, where a project revision document proposes an increase in the budget or duration of the project, UNODC project managers specify clearly and succinctly, in the document, the additional outcomes to be achieved as a result of the increase	UNODC believes the recommendation to be implemented and states: "Recent project revisions follow the revised template where managers must specify outcomes that have been added/or changed through the revision"	The Board has reviewed a template requiring project managers to describe the "change in outcome" resulting from a project revision. However, it is common for this section to be answered "not applicable''. Guidance on completing the template is provided. Such responses will be challenged but there is more to do in terms of getting it right the first time Project revisions can be tracked through ProFi. This collects data on the details of project revisions in 2014, the number of submissions and their route, the number of project revisions without further comments and the number processed with comments or sent back for revision	X				
2012-2013,[a] para. 46	The Board recommended that, on a regular basis, UNODC analyse the reasons for project revisions and extensions, to assess whether the current project-based approach is the most efficient way to secure funding to deliver its outcomes; and to determine the scope to improve project planning	UNODC believes implementation of this recommendation is "in progress" and states: "Project revisions are to be done when the duration needs to be extended or the project budget increased. The current number of UNODC projects is significantly lower than earlier (e.g., in 2010) despite a much higher programme	The Board has reviewed evidence of the submissions of project revision and that this requires direct approval clearance by the Financial Resources Management Service and the Human Resources Management Service (in case of international staff recruitment) and mandatory consultations with technical		X			

Financial period first made	Summary of recommendation	Administration's comments on status — May 2015	Board's comments on status — June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
		volume. This provides evidence for a more rational number of projects and revisions. The UNODC Programme and Operations Manual and the Guidelines on the Integrated Programming Approach confirm that projects remain the operational vehicle for delivery."	and substantive headquarters sections before it is submitted for final review by the Field Operations Management Support Section and then sent for feedback to Division Directors. A sample review of all project revisions that were approved in the first quarter of 2014 shows that most of the 38 project revisions processed in that period were done for mainly administrative reasons: 24 project revisions requested extension in duration for various reasons and 9 project revisions were done for the sole purpose of making adjustments to the project staff The Board has learned of concerns in the field over the speed of approvals being given by headquarters					
2012-2013,[a] para. 48	The Board recommended that UNODC secure clear commitment to project objectives from beneficiary countries before implementing projects; and proceed with projects only where formal agreements are in place	UNODC believes that this recommendation is implemented and states: "The Board of Auditors raised the recommendation in relation to its audit of the UNODC Regional Office for Central Asia. Further to the earlier responses provided when the corresponding Management Letter was issued, UNODC is developing a new Regional	The Board has reviewed a checklist used for a project approval. This needs to be completed by project managers to confirm whether the agreement has been signed by a Member State. A copy of the signed agreement needs to be attached. Only once project signature is uploaded on ProFi, can the Financial Resources	X				

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		Office for Central Asia programme with full inclusion of Member States or recipient countries. UNODC notes that this recommendation came at the time when the Regional Programme for Central Asia was not in place. This Regional Programme is being developed and will be signed by all beneficiary countries and will be presented during the upcoming ministerial level memorandum of understanding meeting. Global Programmes, given their specific nature, do not require the same signature procedures as field-based programmes; however written evidence of the recipients' interest and willingness to participate in the programme is always sought in the form of written letters, designation of focal points or explicit request of assistance by Member States. Memorandums of understanding are also stipulated in selected cases when required."	Management Service release funds allowing the commencement of project activities					

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 53	The Board recommended that, for projects undertaken jointly with other United Nations agencies, UNODC establish, at the planning stage, whether there are any activities that might be undertaken unilaterally; and plan for these accordingly	UNODC believes that this recommendation is implemented and states: "UNODC noted that the recommendation was issued by the Board following its audit of the Liaison and Partnership Office in Brazil. So far, there have been no new agreements negotiated jointly by the Liaison and Partnership Office with other United Nations agencies. In other inter-agency projects, UNODC follows the joint programme approach of the United Nations. One example of recent UNODC joint projects is the 4-year programme entitled 'Global action to prevent and address trafficking in human beings and the smuggling of migrants'. This Programme will be implemented by UNODC in cooperation with relevant international organizations as Implementing Partners which will be responsible for implementing each distinct outcome under the Programme."	The Board understands that, at the field level, joint projects with other United Nations agencies remain an exception. Less than 5 per cent of all new project documents approved since the start of 2013 have been joint projects with other United Nations agencies. The project design clarifies for which outcomes/outputs UNODC is responsible	X				

Financial period first made	*Summary of recommendation*	*Administration’s comments on status — May 2015*	*Board’s comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 57	The Board recommended that UNODC Divisional Directors take corrective action where project managers fail to upload progress reports to the UNODC business intelligence portal (ProFi) within one month of the end of the period to which they relate, to give management and stakeholders clear sight of project progress, and the opportunity to address any problems with delivery on a timely basis	UNODC believes that this recommendation has been implemented and states: “Compliance with the requirement to upload annual and semi-annual progress reports has improved. Timely reporting of field office reports has been reiterated in repeated e-mails by Division Directors. All Divisions monitor compliance and regular reminders are sent when necessary.”	The Board has seen copies of generic e-mails sent to managers reminding them of need to complete annual progress report uploads. As of September 2014, 8 cases were marked as “still pending”. Compliance has improved since UNODC introduced a monitoring system. In parallel, the ProFi system was expanded and automated messages are sent to project managers alerting them to initiate progress reports and repeated automated reminders are sent if submission is overdue. Reporting compliance is further followed up (and colour coded) in quarterly monitoring reports. Reports that have missed their one-month deadline are further followed up by e-mails	X				
2012-2013,[a] para. 58	The Board recommended that UNODC review current reporting requirements, both for internal purposes and for donors, to determine whether there is a more economical way to carry this out, for example, by streamlining or rationalizing reporting requirements or by minimizing the input required by project staff	UNODC states that implementation of this recommendation is in progress. It continues: “With the introduction of the Annual Programmes Performance Report and a simplified template for this annual reporting, UNODC has streamlined and clarified field level reporting. This report also provides the source data for the UNODC annual report as of 2015.	The Board recognizes that with the introduction of Umoja, reporting requirements will be further rationalized/adjusted. The Board reviewed two existing programme performance reports, which ran to 23 and 29 pages, respectively		X			

Financial period first made	Summary of recommendation	Administration's comments on status — May 2015	Board's comments on status — June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
		With the new UNODC annual report process in place, all project and programme reporting will be reviewed accordingly in 2015."						
2012-2013,[a] para. 60	The Board recommended that UNODC require its divisional directors to take corrective action where managers for regional and country programmes fail to submit annual progress performance reviews for those programmes to the UNODC Programme Review Committee, so that progress is subject to challenge. The Programme Review Committee should report all instances of non-compliance to the Executive Director and the relevant Divisional Director	UNODC states that this recommendation is implemented and also states: "A message of the day issued by the Director of the Division for Operations on 14 November 2014 emphasized the importance of Field Office reporting. The Strategic Planning and Interagency Affairs Unit, the Secretariat of the Programme Review Committee and the Regional Sections establish the schedule for Committee review of the pending reports. The Programme Review Committee Secretariat also notifies Division Directors and Programme Managers of pending/delayed annual progress reports."	The Board has reviewed a memo sent by the Director of the Division for Operations in November 2014, reminding representatives of the list of reports that were requested to be prepared in January. A reminder was sent on 1 January 2015. The Board has not seen evidence of non-compliance The Board has seen the list of programmes identified and their duration	X				
2012-2013,[a] para. 64	The Board recommended that UNODC produce, by August 2014, a complete and accurate picture of spend with and through external parties, to determine where additional support, resources or compliance scrutiny might be required to assure UNODC that its capacity for	UNODC states that the recommendation has been implemented and also states: "To ensure completeness of spends, all UNODC Field Offices were requested to submit confirmation on external party engagements — including those solicited through	The Board has reviewed expenditure extract reports from ProFi, which demonstrated separately lines for grant expenditure and external parties. Such data are available routinely from ProFi downloads, which show budget allocations per line	X				

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	managing relationships with external parties is adequate. UNODC should update and review this information regularly, ideally quarterly and at least annually	UNDP. All Implementing Partners continue to be reported through the use of separate segments within projects where implementing partners are given allocation under implementing partner agreements. Grants awarded are recorded in a maintained 'grants tracker' for completeness as well as being reported under the grants expenditure line. As part of the financial closing process, payments to external parties reported under grants and implementing partners are reconciled to signed agreements to ensure completeness. As a result, a complete and accurate spend through external parties is available."						
2012-2013,[a] para. 70	The Board recommended that UNODC assess, as part of the selection process, the suitability and capability of external parties; and document and maintain a record of the processes used	UNODC states that this recommendation has been implemented and also states: "The process of selecting implementing partners is clearly outlined in the UNODC Implementing Partner Manual, which includes capacity assessments on the suitability and capability of external parties. Case files are created for each solicitation of an Implementing Partner. In addition, the process of	The Board is aware that the Committee on Grants and External Engagement approves implementing partners. The Board has seen evidence of challenge for the use of external partners. The Board has reviewed an audit trail showing evidence of a technical assessment upon capability to deliver	X				

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		selecting grantees is clearly outlined in the UNODC Grants Manual. Outlined in the Call for Proposals template, eligibility criteria for small grants under $60,000 is applied and documented for each case given to the Committee on Grants for review."						
2012-2013,[a] para. 72	The Board recommended that UNODC specify monitoring arrangements as part of the funding agreement for all parties to whom it provides funds	UNODC states that this recommendation has been implemented and also states: "Standard template for grant agreements includes monitoring arrangements. In addition, the Framework on the Engagement of External Parties (FEEP) includes extensive guidance and templates on this."	The Board has reviewed the monitoring arrangements for a sample of projects and the evidence provided in this process. The Board takes assurances over the wider implementation by the specification of monitoring arrangements within the Framework on the Engagement of External Parties	X				
2012-2013,[a] para. 75	The Board recommended that UNODC enhance its Framework on the Engagement of External Parties. The Board suggests the following enhancements: • Clarify that, even where an external partner is used, UNODC is ultimately responsible for the effective and efficient use of donor funds • Include a requirement, in the section on due diligence and selection, to	UNODC states that implementation of this recommendation is in progress. It continues: "Resources supporting the FEEP implementation (External Party Engagement Unit of the Division for Management) have been recruited and tasked to refine and improve the Framework and associated manuals by the end of 2015. Clarification on the FEEP is provided through ongoing	The Board notes that this is still to be implemented and the intention to review the Framework on the Engagement of External Parties in coming months. The Board learned of concerns over how the existing Framework was being applied to field operations, in particular its use in categorizing a range of delivery partners as implementing partners		X			

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	consult with UNODC colleagues and other United Nations organizations on whether the organization has met expected performance standards in previous engagements • Provide templates for implementing partner agreements • Make clear to project managers that project funding should be set aside to fund selection and monitoring activities • Provide guidance on minimum and maximum funding limits, and a limit on the overall length of relationship with a partner • Link monitoring options clearly to risk and materiality • Set out how field offices should capture and analyse the number, frequency and value of arrangements with all partners • Provide more guidance on compiling partner performance information, including a proportionate evaluation of a partner after the arrangement has concluded, including an assessment of value for money	consultations with clients, as well as circulating training materials on the FEEP and 'one-page' process diagrams."						

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2012-2013,[a] para. 77	The Board recommended that UNODC, in particular its Division for Operations, monitor compliance with the Framework on the Engagement of External Parties; and, by July 2015, analyse whether its introduction has resulted in any significant changes in the pace or scope of project delivery	UNODC does not appear to present a summary assessment but states, consistent with the recommendation in paragraph 75: "Resources supporting the FEEP implementation (External Party Engagement Unit of the Division for Management) have been recruited and tasked to refine and improve the Framework and associated manuals by the end of 2015. Implementation has been slowed by a delay in recruitment."	This recommendation links to that from paragraph 75, and should be addressed with the intended review of the Framework on the Engagement of External Parties by the end of 2015. The Board notes that the Office's own assessment indicates that progress is slower than anticipated		X			
2012-2013,[a] para. 81	The Board recommended that UNODC require the Financial Resources Management Service, Procurement and the Division for Operations to establish the means to gather and regularly analyse complete and reliable data on the volume and value of field office procurement, to determine where additional support, resources or compliance scrutiny might be required to assure UNODC that its procurement capacity is adequate	UNODC believes that this recommendation has been implemented and states: "Field office procurement reports are being extracted that monitor procurement volumes. Evaluation of optimal resources for procurement can only be done through verification visits." The Division for Management collects information on procurement value in the annual internal oversight report. The report also captures information on adherence to procurement rules	The Board has reviewed the OIOS annual internal oversight review, and recognizes that a database of obligations from procurement actions is monitored and that high-value procurement exercises are cross-checked and messages requesting vendor performance made	X				

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2012-2013,[a] para. 82	The Board also recommended that UNODC identify a means to secure assurance that field office procurement is being undertaken in accordance with the procurement rules of UNODC and the United Nations Office at Vienna	UNODC states that implementation is in progress. It goes on to state: "While the Procurement Unit has not participated in any interdivisional team assessments of field offices, a short assessment of the Regional Office in Panama was undertaken in September 2014 while procurement training was delivered. At that time, all procurement in Panama was undertaken by UNDP. More field assessment missions will take place in the future but their exact timing is not known at the moment. The Procurement Unit will continue to request and review the field office acquisition plans as they are submitted. Ad hoc and review assessment missions will be supported as requested and funded."	The Board is aware that field trips were made and training delivered to the Regional Office for Central America and the Caribbean in Panama in September 2014 and the Country Office for Nigeria in February 2015. Neither office had a delegated procurement authority and each relies on UNDP for procurement functions. Non-compliance includes failure to submit procurement plans, non-adherence to lead times, and inability to write good terms of reference. Training was delivered to both offices. The training focused on the procurement rules that will mitigate these issues. The Board expects all field offices that undertake procurement activity to have the necessary training and capability to deliver or the ability to challenge and scrutinize where UNDP is used for this function		X			
2012-2013,[a] para. 85	The Board recommended that UNODC determine if any field offices are, as a result of inadequate staffing, not applying appropriate separation of duties in line with procurement good practice	UNODC states that implementation is in progress. It goes on to state: "The Procurement Unit has conducted an analysis of field offices with delegated procurement authority. Out of 12 offices, 7 have reported to have both approving and	The Board is aware that 12 offices have delegated procurement authority up to $40,000. Six officers have delegated procurement authority alone. Five officers have both delegated procurement authority and certifying functions. One		X			

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		certifying functions. The unit will finalize its review to determine whether adequate segregation of functions exists by office."	officer no longer holds delegated procurement authority owing to his relocation. Insufficiency in the number of staff available is the reason why the five officers have both delegated procurement authority and certifying functions. To the extent possible, efforts have been made to avoid duplication of functions, but this is still a risk					
2012-2013,[a] para. 87	The Board recommended that field offices work with UNODC headquarters to develop and maintain a formal record of vendor performance that can be easily drawn on in future procurement exercises	UNODC states that implementation is in progress. It goes on to state: "The Vendor Performance Report is currently under testing."	The Board is aware that all field offices have been sent the vendor performance evaluation report for completion. However, the status of returns is not available		X			
2010-2011,[b] para. 29	UNODC to implement a consistent organizational approach to risk management planning	Not applicable	Recommendation is superseded by progress and comments at recommendation 2012-2013, paragraph 38				X	
2010-2011,[b] para. 38	UNODC to account for donations consistently and in accordance with United Nations regulations and rules and that any deviations from the regulations are properly recorded and justified at the point of receipt of the pledge	Implementation of the recommendation was in progress through 2014 as IPSAS was implemented	Superseded by events; income agreements were reviewed for IPSAS disclosure compliance and were found to be materially accurate				X	

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2010-2011,[b] para. 39	UNODC to circulate, to all staff, improved guidance and instructions on income, including the clearance process, to remind them of the criterion for recognizing income	Implementation of the recommendation was in progress through 2014 as IPSAS was implemented	Superseded by events; income agreements were reviewed for IPSAS disclosure compliance and were found to be materially accurate				X	
2010-2011,[b] para. 72	UNODC to: (a) discuss with United Nations Headquarters whether adequate resource allocations and funding will be made available to UNODC; and (b) revise its local IPSAS implementation plan in the light of progress to date	Implementation of the recommendation was in progress through 2014 as IPSAS was implemented	Superseded by events; IPSAS has now been implemented The UNODC financial management systems and staffing were inadequate for first-time IPSAS adoption, leading to a highly manual process of account preparation and a lack of senior level review. This, in turn, led to a number of errors				X	
2010-2011,[b] para. 79	When each strategic document is updated, UNODC to ensure it clearly aligns: (a) the aims and objectives set out in the documents; and (b) the timing of preparation of future strategies and supporting documents, including the thematic programmes	Standard indicators have been prepared for the thematic programmes on justice, corruption and terrorism prevention It was decided that the final two sets of standard indicators (transnational organized crime and illicit trafficking; and health and livelihoods) would be prepared in conjunction with the revision of their respective thematic programmes. This will allow for the inclusion of recently acquired mandates, and ensure better alignment of the standard indicators in these	The Board notes that memorandums were sent in February 2013 and September 2013 by the Executive Director, outlining the approval process for project revisions, namely through the Programme Review Committee and the Executive Director. However, this recommendation has been superseded by the Board's findings in relation to the need to develop a clear strategy and link this to its programme and project delivery, as well as defining a consistent set of key performance metrics that				X	

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		thematic areas. Work on these last two sets of indicators was completed in September 2013	map against the strategic priorities for each programme					
2010-2011,[b] para. 87	When updating each of its regional programmes, UNODC to: (a) specify a realistic and achievable set of priorities for the period of each programme; (b) establish robust, realistic and measurable performance indicators; (c) identify a manageable number of key performance indicators, balanced between outcome and output indicators; and (d) clearly link individual project performance indicators to the indicators set out in its strategic framework, so as to allow the aggregation of the indicators and provide senior management with a clear assessment of progress against its strategic objectives	See comments on the recommendation issued in paragraph 79 It should be noted that issues of indicator data availability and the development of data-collection plans for programmes are frequently raised with field offices, as evidenced by minutes of the Programme Review Committee, and there has been a particular focus on the establishment of indicator baselines. Though UNODC headquarters can support the development of data-collection strategies, ultimately the field offices themselves are in the best position to understand their local requirements and limitations During the annual review of country and regional programmes through the Programme Review Committee, field offices are asked to provide outcome-level data. The lack of data is noted, and offices are encouraged to seek alternative indicators or data-collection arrangements	See comments on the recommendation issued in paragraph 79				X	

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		The Strategic Planning Unit now requires offices that are preparing country and regional programmes to specify clearly how programme-level outcomes contribute to a specific strategic framework expected accomplishment It should be noted that with the introduction of the online log frame in the ProFi system, UNODC is working towards more robust use of the log frame as a management and reporting tool. The online system also requires the identification of relevant strategic framework expected accomplishments for each project as a whole						
2010-2011,[b] para. 90	UNODC to establish, by December 2012, a mechanism for reporting, both internally and to external stakeholders, progress on the implementation of the regional programmes	A new programme progress report format has been agreed upon with all divisions and is now being used on a trial basis for the annual reports of several country and regional programmes during the first half of 2013. The report format may be adapted based on the results of this trial. The template was finalized in 2013	In document A/69/353/Add.1, paragraphs 617-620, this recommendation is reported as implemented The Board notes from the report cited above that UNODC has developed standard indicators for all thematic areas covered by its country and regional programmes. Those programmes now contain a small and measurable number of indicators that have been set by the thematic branches.	X				

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			Support will continue to be provided to the field offices in the review and updating of the regional programme results frameworks					
2010-2011,[b] para. 93	By September 2012, UNODC to ensure that all new project proposals: (a) clearly and succinctly define the problem that a project is intended to address; (b) establish a clear baseline against which to assess delivery, or provide a clear explanation of how the baseline will be established; and (c) identify and document the material risks and mitigating actions, including setting aside an element of contingency within project budgets, to address unknown risks	Points (a) and (b) of the recommendation have been implemented The implementation of point (c) is in progress In July 2012, UNODC completed the revision of the template and guidelines for project design to reflect additional requirements, as recommended by the Board. The new guidelines, which have been made part of the UNODC Programme and Operations Manual, also reflect instructions and requirements on the establishment of baseline and risk mitigation actions. UNODC managers ensure compliance with these revised guidelines for all newly developed projects UNODC has started the development of a corporate risk mitigation methodology	In document A/69/353/Add.1, paragraph 621, this recommendation is reported as in progress, with UNODC still to review the feasibility of setting aside contingency funds in project budgets		X			

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2010-2011,[b] para. 96	By December 2012, UNODC to (a) capture summary progress information on projects and programmes, against milestones agreed at the beginning of the project or programme, as part of its central monitoring process; and (b) monitor spend against a realistic forward profile of expected expenditure	Implemented. All UNODC programmes and projects to date have clearly identifiable outcomes, indicators and verifiers. The log frame for each project was also standardized and is available on ProFi for all projects. All UNODC programmes and project reports report against these outcomes. Field office expenditure to date is attributed to donor contribution and the log frame activity codes are all available in automatic expenditure tracking created since 2012. This allows for periodic review of financial delivery against annual targets at the field and headquarters levels and facilitates financial reporting to management. In addition, a quarterly financial report containing delivery data is presented to the Executive Committee	The Board has reviewed two quarterly monitoring reports supplied by regional offices. These reports assess projects against timescales, spend against profile and provision of progress reports. The specific 2010-2011 recommendation has therefore been implemented However, as further highlighted in the present report, the mechanisms to capture timely and reliable summary information are immature and rely heavily on ongoing initiatives	X				

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		UNODC does not plan project expenditures on a straight-line basis, as commented upon by the Board earlier, which apparently was based on the example of the dashboard of one UNODC field office. Rather, the annual costed workplan of a project indicates which expenditure is planned per quarter The new template for the Global Programmes' annual reporting was launched in November 2014 and will be used for the 2014 annual programme report. The Global Programmes also adhere to the standard reporting requirements for annual and semi-annual progress reports						
2010-2011,[b] para. 105	UNODC to: (a) establish a detailed methodology for evaluating the regional programme for East Asia and the Pacific; (b) use the experience to inform the methodology for the remaining regional programmes; and (c) complete the evaluations in time to inform future regional programme development	Implementation of the recommendation is in progress	The Board notes that a regional methodology has been established, but recognizes that this needs to be tailored region by region To get evaluations completed in time is a recognized challenge (long lead-in times for projects means that they will be "started" before an evaluation on a previous project is completed). The Board accepts that this will take further time		X			

Financial period first made	*Summary of recommendation*	*Administration's comments on status — May 2015*	*Board's comments on status — June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2010-2011,[b] para. 111	In 2012, UNODC to: (a) determine how best to regularly collate and analyse project evaluation reports, to identify and disseminate lessons or recurring problems; (b) allocate responsibility to the relevant sections to implement any necessary improvements; and (c) determine the most effective and efficient way to coordinate and manage budgets for evaluations	Implementation of the recommendation is in progress (a) An evaluation portal, including a search function for evaluation reports, recommendations and lessons learned is about to be finalized (b) The recommendations database, included in this portal, would allow the allocation of responsibilities for the implementation of evaluation recommendations. In addition, the Independent Evaluation Unit has undertaken steps to develop a culture of evaluation within UNODC, including the development of an evaluation culture road map that identifies roles and responsibilities for various groups of stakeholders (c) The Independent Evaluation Unit ensures the allocation of necessary provisions for evaluations (consultation with and clearance by the Unit is now mandatory for all projects (direct project approval))	The Board notes that work to rate the quality of evaluations was outsourced (June 2015). The Board has reviewed a database of all recommendations made and lessons learned This has been analysed to determine the main areas in which recommendations are made. The Board notes that the results on lessons learned have been disseminated to managers and Member States. There is a notional budget of 2-3 per cent within projects to be assigned for evaluations. This is a positive step, although the Board is aware that this is challenging to enforce as they are not the budget holders. The Independent Evaluation Unit monitors the budgets at the project approval stage, but at this time budgets are not finalized/subject to change	X				

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2010-2011,[b] para. 100	By mid-2012, UNODC to: (a) coordinate the information technology application improvement projects being undertaken by the Finance Section, the Strategic Planning Unit and the Independent Evaluation Unit; and (b) implement the changes necessary to address the performance reporting limitations in its information technology systems, taking into account the current developments in those sections and of the Regional Centre for East Asia and the Pacific's dashboard tool and management reporting system of the Country Office for Pakistan	Implementation of the recommendation is in progress	Not applicable; superseded by the information technology change programme (Umoja)				X	
	Total			**15**	**13**	–	**7**	–
	Percentage			**43**	**37**	–	**20**	–

[a] See A/69/5/Add.10.
[b] See A/67/5/Add.9 and Corr.1.

Annex II

Further detail on workforce metrics

Staffing by grade, type and gender

	Number of personnel			
	2011	*2012*	*2013*	*2014*
Grade				
Senior managers	101	105	113	116
Other Professional	563	569	582	572
Field support staff	726	728	730	752
Total by grade	**1 404**	**1 432**	**1 447**	**1 470**
Ratio of Senior managers to all other personnel	1:19	1:20	1:21	1:22
Type				
International/headquarters staff	1 404	1 432	1 447	1 470
UNDP personnel	589	778	922	975
Ratio of staff to contractors	2.4:1	1.8:1	1.6:1	1.5:1
Gender (percentage of total staff)				
Male	54	53	53	54
Female	46	47	47	46

Notes:

Data include UNODC and the United Nations Office at Vienna.

Senior Manager is staff grade P-5 (or equivalent) and higher.

Other Professional includes staff grades P-1 to P-4, NA to ND, INT-1 to INT-11, T-1 to T-V and R-I to R-III.

Grade data above exclude temporary staff.

Personnel costs

(Thousands of United States dollars)

Description	*2011*	*2012*	*2013*	*2014*
International and headquarters staff costs	136 414	137 058	148 773	155 235
UNDP personnel costs	13 214	15 700	19 205	23 015
Training spend (central)	889	Not available	846	Not available
Cost per international/headquarters staff member	90	90	96	98
Cost per UNDP personnel	22	20	20	23
Cost per UNODC/United Nations Office at Vienna/UNDP personnel	71	66	68	70
UNODC/United Nations Office at Vienna/ headquarters personnel costs/total expenses	Not available	Not available	Not available	46%
UNDP personnel costs/total expenses	Not available	Not available	Not available	7%

Notes:

1. Training data is reported on a biennial basis. Annual data is not available.
2. Personnel costs include salaries or fees and all other benefits.
3. Costs include staff costs for both UNODC and the United Nations Office at Vienna.

Training

1. UNODC collates data biennially on expenditure on staff training and development. For 2011, expenditure was $889,689 and for 2013 it was $846,394 (a 4.8 per cent reduction from 2011). These figures relate to training budgets managed by the Staff Development Unit, but additional training takes place throughout UNODC through other funding sources.

2. For the end of the biennium 2014-2015, the numbers are expected to decrease, given the reduced funds received, especially in the areas of centrally coordinated programmes and upgrading of substantive and technical skills.

Joiners and leavers

3. Since 2011, 335 staff have joined UNODC and 268 have left. In the United Nations Office at Vienna, 636 have joined and 510 left. The majority of joiners are at entry level (for UNODC, 72 per cent of joiners were at entry level and 97 per cent of joiners at the United Nations Office at Vienna were at entry level). This is higher than the percentage of staff at this level (57 per cent and 72 per cent, respectively). The gender balance between joiners and leavers is opposite for UNODC: more males joined, whereas more females left. For the United Nations Office at Vienna, more females both joined and left.

Chapter III
Certification of the financial statements

Letter dated 31 March 2015 from the Chief of the Financial Resources Management Service of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2014 have been prepared in accordance with financial rule 106.10 of the Financial Regulations and Rules of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes and the accompanying schedules provide additional information on and clarification of the financial activities undertaken by UNODC during the period covered by these statements.

I certify that the appended financial statements of UNODC are correct on the basis of our records and reports from executing agencies.

(*Signed*) Polinikis **Sophocleous**
Chief, Financial Resources Management Service
United Nations Office on Drugs and Crime

Chapter IV
Financial report for the year ended 31 December 2014

A. Introduction

1. In accordance with General Assembly resolutions 46/185 C and 61/252, the Executive Director of the United Nations Office on Drugs and Crime (UNODC) is herewith submitting the financial report and financial statements for the year ended 31 December 2014 for UNODC.

2. This is the first year UNODC has prepared financial statements in compliance with the International Public Sector Accounting Standards (IPSAS). The significant IPSAS policies adopted, related transitional provisions and restatements of prior period financial comparatives are fully explained in the notes accompanying these financial statements. Prior to 1 January 2014, the Office's financial statements were prepared in accordance with the United Nations system accounting standards (UNSAS), which are based on a modified cash concept.

3. The financial report and financial statements provide the consolidated results related to the acquisition and utilization of voluntary contributions and the administration of regular budget resources entrusted to UNODC. The voluntary funds include the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund. The regular budget resources for UNODC have been approved by the General Assembly.

4. Information on the financial results for the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund is provided under Segment reporting (note 5 to the financial statements).

B. Operational context and activity overview

5. UNODC is mandated to work with Member States to enhance their responses to the interconnected problems of drug use, illicit drug trafficking, trafficking in human beings and firearms, transnational organized crime, corruption and terrorism. To achieve this, UNODC helps Member States to create and strengthen legislative, judicial and health systems to better safeguard their populations, especially the most vulnerable persons.

6. In 2014, at the intergovernmental level, UNODC supported the substantive and organizational preparations for the conduct of the high-level review by the Commission on Narcotic Drugs of the implementation by Member States of the Political Declaration and Plan of Action on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem. The Office also continued the preparations for the Thirteenth United Nations Congress on Crime Prevention and Criminal Justice, to be held in Qatar in 2015.

7. UNODC further expanded delivery of normative, policy and technical services within the framework of its global programmes that are designed to support the ratification and implementation of the international drug control conventions, the United Nations Convention against Corruption and the United Nations Convention

against Transnational Organized Crime and the Protocols thereto, and at promoting the development and global application of the United Nations standards and norms in crime prevention and criminal justice.

8. During the reporting period, UNODC expanded the number and volume of integrated regional and country programmes that provide the operational frameworks and cooperation platforms to support Member States in their national drug and crime control priorities and contribute to common regional strategies and action plans. UNODC is currently implementing 16 programmes with the full ownership of partner countries and regional entities. In addition to nine regional programmes (Afghanistan and neighbouring countries, the Caribbean, East Africa, Southern Africa, West Africa, Arab States, South Asia, South-East Asia and the Pacific, South-Eastern Europe), seven country programmes are being implemented in Afghanistan, Indonesia, Iran (Islamic Republic of), Kyrgyzstan, Pakistan, Paraguay and Viet Nam. In April 2014, the new regional programme in support of the Caribbean Community Crime and Security Strategy was launched.

9. The year 2014 saw good progress in ensuring a seamless integration between global normative and policy efforts and technical cooperation implemented through the regional and country programmes. In particular, a number of initiatives were launched to propose integrated solutions to complex problems. For instance, a global programme on combating wildlife and forest crime was developed to address issues related to both demand and supply and to tackle the trafficking in wildlife and forest products. Another notable initiative was the implementation of a comprehensive response in the Sahel region, whereby criminal justice systems in Burkina Faso, Chad, Mali, Mauritania and the Niger are being strengthened to effectively combat terrorism, illicit trafficking and organized crime and corruption. That initiative is being implemented in cooperation with and with the support of neighbouring countries, including Algeria, Libya and Morocco.

10. The Office has further strengthened its cooperation and coordination with other United Nations agencies, such as the partner entities of the United Nations system task force on transnational organized crime and drug trafficking as threats to security and stability. There has been increased collaboration with the United Nations Human Settlements Programme on the issue of safer cities and urban crime prevention and with the World Health Organization on access to pain medication and treatment for drug dependence. The Office has also stepped up its efforts to collaborate with the Office of the United Nations High Commissioner for Refugees, the Office and the United Nations High Commission for Human Rights and the International Organization on Migration on issues related to migrant smuggling. UNODC was an integral part of the United Nations system Technical Support Team that was assisting the Open Working Group on Sustainable Development Goals and co-chaired the team following up on Goal 16 on peaceful and inclusive societies, access to justice for all and effective, accountable and inclusive institutions at all levels.

C. Budget performance highlights

11. While the financial statements have been prepared on an accrual basis in accordance with IPSAS, the programme budget of UNODC continues to be formulated, managed and presented on a modified cash basis using UNSAS. A summary of the comparison of budget and actual amounts is shown in statement V.

12. All figures quoted in the present section as income and expenditures refer to modified cash basis figures, comparable with budgets (UNSAS).

13. The consolidated budget of UNODC is formulated on a biennial basis. The budget of general purpose funds (unearmarked contributions) is approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice, while the budget for special purpose funds (earmarked contributions) and the budget for programme support cost funds (administrative and programme support cost budget) is presented to the Commissions for their endorsement. Together, the unearmarked and earmarked contributions and administrative and programme support funds constitute the Office's extrabudgetary resources. The consolidated budget also includes information on the regular budget of UNODC, which is approved by the General Assembly.

14. Subsequent to the approval of the consolidated budget, the Director of the Division for Management of UNODC authorizes the allocation of funds for the implementation of programmes and projects on the basis of fund availability. At the end of the first year of the biennium, the budget is being revised to adjust to evolving needs. Such adjustments are approved/endorsed by the Commissions within the context of the implementation report on the first year of the biennium.

15. The initial budget approved by the Commissions in December 2013 for 2014 amounted to $354.7 million[7] of extrabudgetary resources. The revised budget approved by the Commissions in December 2014 amounted to $309.8 million,[8] reflecting revised projections in terms of implementation of voluntary funded programmes.

16. The total extrabudgetary implementation level has increased consistently over the years. With an expenditure level of $263.2 million in 2014, it has more than doubled from the 2006 level of expenditure of $112.9 million. Compared to $226.3 million in 2013, expenditure in 2014 represents an increase of $36.9 million (16.3 per cent).

17. The resource requirements of UNODC are grouped under each of the nine subprogrammes (Countering transnational organized crime and illicit drug trafficking; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; Research and trend analysis; Policy support; Technical cooperation and field support; Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board) and also provide components for executive direction and management and programme support.

18. Figure IV.I provides the distribution of 2014 expenditures by subprogrammes, and figure IV.II is a graphic illustration of annual budget expenditure over the past nine years.

[7] See table 5 of E/CN.7/2013/15-E/CN.15/2013/28.

[8] See annex II of E/CN.7/2014/18-E/CN.15/2014/21.

Figure IV.I
United Nations system accounting standards expenditures (excluding regular budget): distribution by subprogramme, 2014
(Millions of United States dollars)

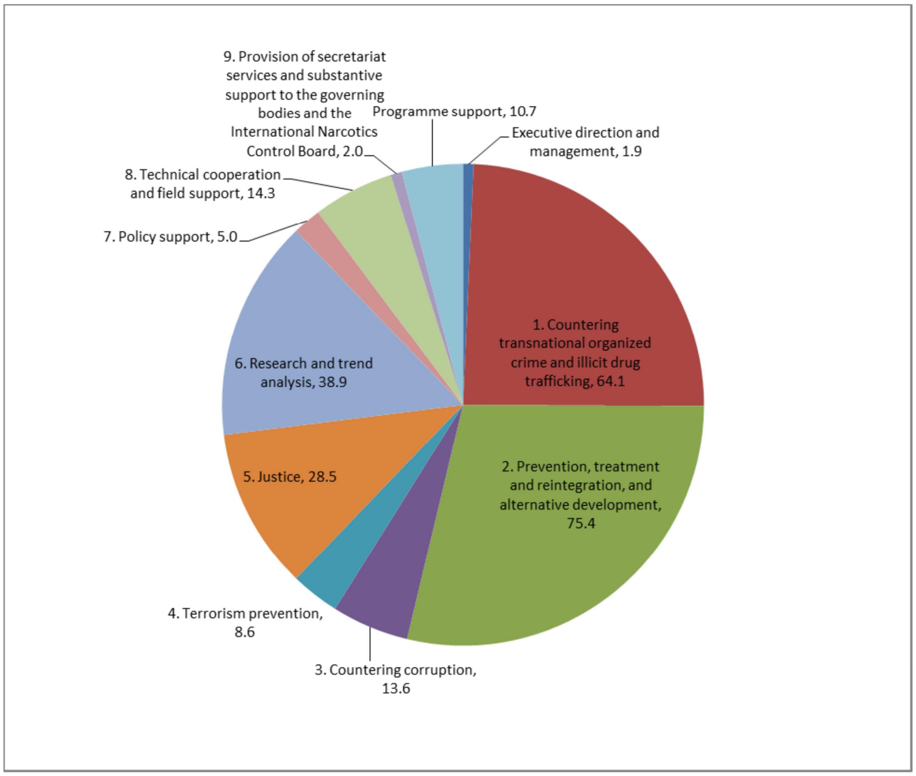
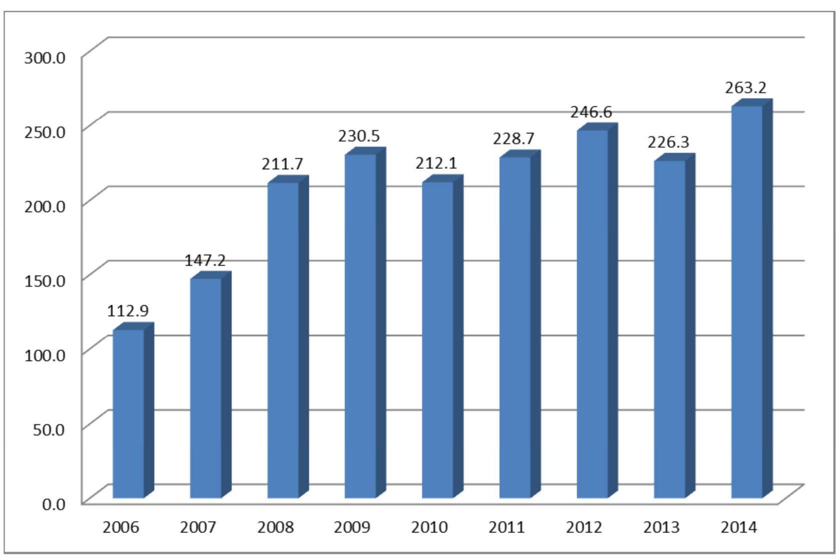


Figure IV.II
United Nations system accounting standards expenditures (excluding regular budget), 2006-2013
(Millions of United States dollars)



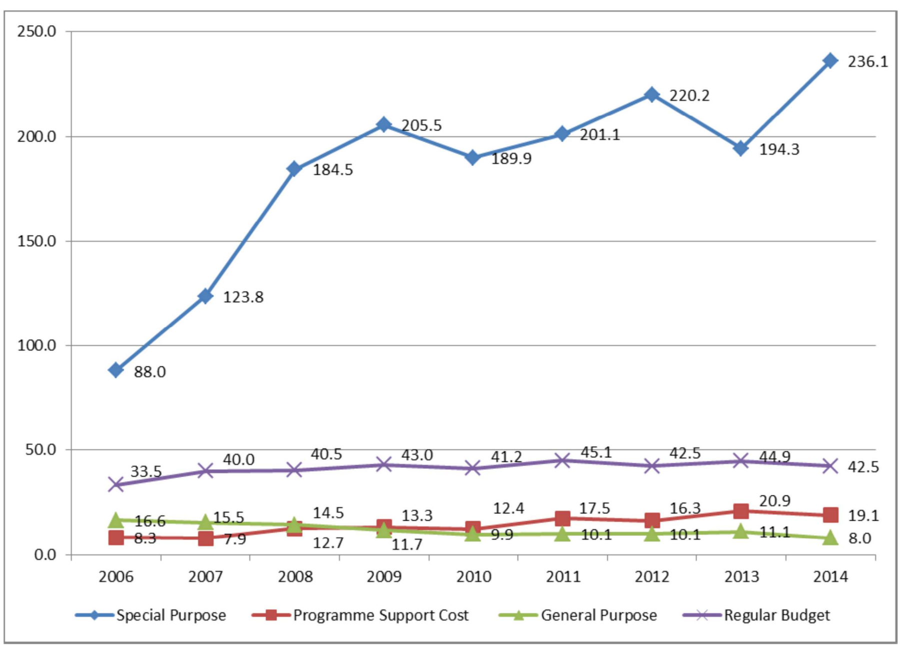
19. Table IV.1 shows 2014 expenditures, broken down in terms of special purpose funds (earmarked contributions), the related programme support cost funds (administrative and programme support cost budget) and general purpose funds (unearmarked voluntary contributions). Table IV.1 also shows expenditures from the regular budget.

Table IV.1
United Nations system accounting standards total expenditures, 2014
(Millions of United States dollars)

	2013 (UNSAS)		*2014 (UNSAS)*	
	Amount	*Percentage*	*Amount*	*Percentage*
Extrabudgetary resources				
Special purpose funds	194.3	71.6	236.1	77.2
Programme support cost funds	20.9	7.7	19.1	6.2
General purpose funds	11.1	4.1	8.0	2.6
Subtotal	**226.3**	**83.4**	**263.2**	**86.0**
Regular budget	44.9	16.6	42.5	14.0
Total	**271.2**	**100.0**	**305.7**	**100.0**

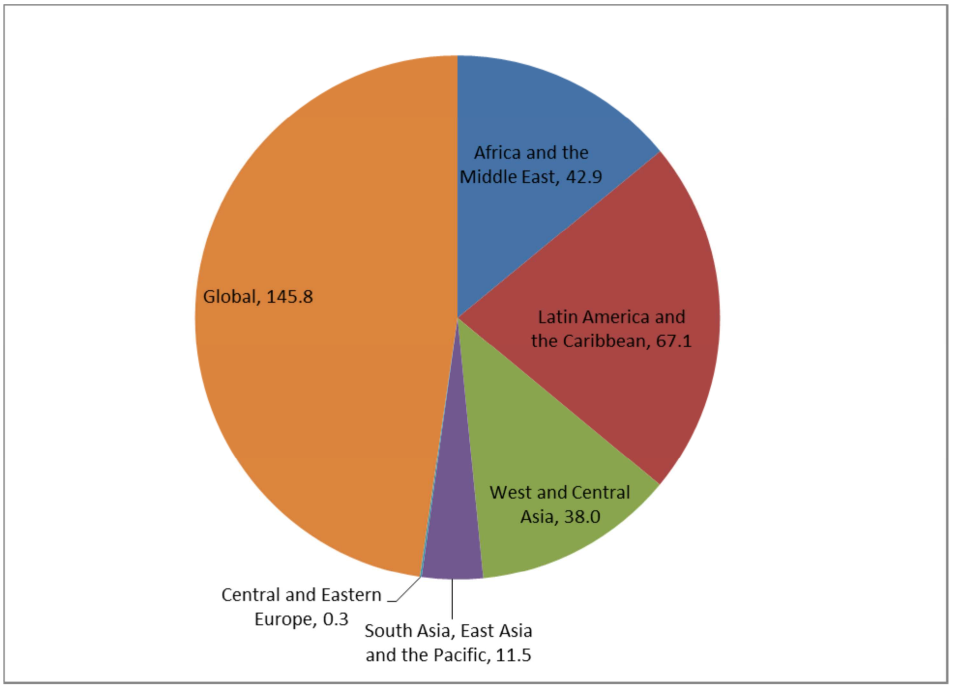
20. The evolution of the expenditure for special purpose funds, programme support cost funds, general purpose funds and regular budget is presented below.

Figure IV.III
Evolution of United Nations system accounting standards expenditures (including regular budget), 2006-2014
(Millions of United States dollars)



21. The 2014 expenditure by region is presented in figure IV.IV.

Figure IV.IV
United Nations system accounting standards expenditures of the United Nations Office on Drugs and Crime (including regular budget) by region, 2014
(Millions of United States dollars)



D. Financial analysis

22. This section reflects the results presented in the IPSAS-based financial statements and accompanying notes, unless otherwise stated.

23. As at 31 December 2014, the net assets amounted to $471.711 million (statement I), representing a decrease of $22.080 million (4.5 per cent) compared with the opening balance as at 1 January 2014. This decrease was a result of a net surplus in 2014 of $3.218 million (statement II) offset by the loss arising from the actuarial valuation of employee benefit of $25.748 million (statement III).

24. The total net assets value as at 31 December 2013 under UNSAS amounted to $475.095 million (note 4). The adjustment of the assets and liabilities in accordance with IPSAS resulted in an increase of $18.696 million of net asset value, which amounted to $493.791 million as at 1 January 2014. The most significant adjustments included the up-front recognition of voluntary contributions receivable ($171.924 million) as well as recognition of conditional arrangement on voluntary contribution and the corresponding deferred revenue and advance receipts ($155.046 million). In addition, $13.333 million was adjusted for the initial recognition of property, plant and equipment and a total of $17.098 million of open commitments were derecognized and accrued only for the portion of goods and services delivered in 2014.

25. Cash and cash equivalents amounted to $109.641 million (13.6 per cent of total assets as at 31 December 2014), an increase of $37.975 million compared to the beginning of the year. The statement of cash flows (statement IV) shows that the increase is primarily due to lower holdings in cash pool investments.

26. Voluntary contributions receivable represents uncollected amounts of pledges which are earmarked for specific purposes. As at the end of 31 December 2014, total outstanding voluntary contributions receivable amounted to $297.562 million, net of allowance for doubtful receivables of $16.416 million (note 9).

27. Implementing programmatic activities by engaging in partnerships with other United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations is an important element of the UNODC business model. Under the Office's newly established Framework of Engagement with External Parties, the Office transfers advances to its implementing partners and subsequently measures their utilization through partner reporting in a timely manner. As at the end of December 2014, a balance of $26.112 million in advances remained outstanding. Of this amount, $10.560 million relates to advances made in support of the efforts to reduce illicit crops and promote alternative development and a culture of legality in Colombia (note 10).

28. The overall property, plant and equipment decreased from the opening balance of $13.333 million to $12.402 million as at 31 December 2014 (note 12). During 2014, as part of its programmatic activities, UNODC made significant transfers of assets to end-beneficiaries ($13.393 million). This includes transfers of completed construction projects in Afghanistan and East Africa regions to local government authorities. At the end of 2014 there were four construction projects in the amount of $5.581 million still ongoing. These are anticipated to be completed by the end of 2015. It is noted that UNODC has invoked transitional provision for leasehold improvements and certain donated rights to use and therefore their value is not reported in the financial statements for the year ended 31 December 2014 (note 12).

29. As at 31 December 2014, UNODC reported advance receipts of $184.215 million. This amount represents $180.326 million of conditional voluntary contribution arrangements and $3.889 million of funds received from exchange transactions for services that had not been delivered by year end.

30. The Office's liability for employee benefits amounted to $119.065 million as at 31 December 2014, of which $110.078 million represents liability under defined benefit plans (note 16).

31. The total revenue of $328.639 million during 2014 came primarily from $290.003 million of voluntary contributions (88.2 per cent of total revenue) and $31.016 million of allocations from the United Nations regular budget. In addition, $3.183 million was derived from revenue producing activities, including fees from Member States and other international organizations (statement II) for software use and maintenance.

32. The total expenditures for the period amounted to $325.421 million, primarily composed of staff-related costs of $102.752 million (31.6 per cent) and non-employee compensation and allowances of $49.176 million (15.1 per cent). Some $38.244 million of expenditures represents the work delivered by the implementing partners during 2014, while $5.636 million represents grants to non-governmental organizations under authorized small-grants schemes. A further

$29.991 million was incurred for training, meetings and fellowship programmes (statement II).

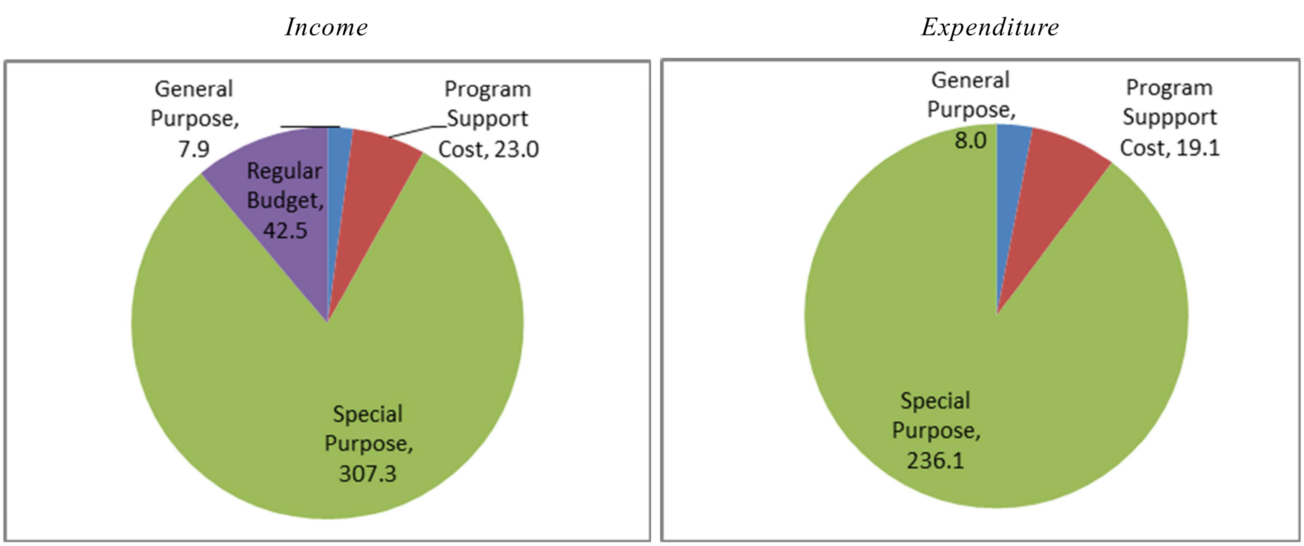
E. Challenges and improvements, 2014 and beyond

Introduction of full cost recovery

33. Table IV.1 and figure IV.III show that, despite a tremendous growth of its special purpose income (earmarked contributions) which reached $307.3 million in 2014, the level of general purpose income (unearmarked contributions) reached a low of $7.9 million in 2014. This situation puts a strain on the flexibility of UNODC to deliver its programmes.

34. Figure IV.V presents 2014 income and expenditure by source of funding (general purpose funds, programme support cost funds and special purpose funds).

Figure IV.V
United Nations system account standards income and expenditure of the United Nations Office on Drugs and Crime, by source of funding, 2014
(Millions of United State dollars)



35. In 2014, with the aim to address the persistent deterioration of general purpose income, UNODC introduced a new funding model rooted in full cost recovery, linking core and programme functions to a system of direct and indirect costing. In line with prevailing Secretariat-wide policies, repeated calls of the General Assembly and requirements to align the uses of funds with their intended purpose, UNODC set out to fairly, transparently, consistently and predictably cost its technical cooperation assistance. Accordingly, in 2014, UNODC took steps to devise consistent classifications of direct and indirect costs and support functions, developed cost models and budget systems, issued instructions, trained staff, provided location-specific cost statistics to Member States, adjusted to lessons learned and identified savings and other cost-reduction schemes both in the field and at Headquarters. All UNODC divisions have taken part in the relevant activities, which were overseen by the Senior-Level Full Cost Recovery Monitoring

Committee, reporting to the UNODC Executive Director. In addition, UNODC has increasingly engaged in outreach to Member States and donors in order to ensure the mechanisms and merits of full cost recovery were clarified.

36. While the transition to full cost recovery is due for completion in the 2016-2017 biennium, UNODC reports that all new contribution agreements are based on budgets that fairly and transparently reflect the full cost of ownership by planning all costs (direct and indirect) into the technical assistance programmes. Importantly, UNODC is in a position to track cross-office comparisons, which further strengthen the Office's cost-conscious culture.

37. In addition, in 2014 UNODC continued with a prudent approach in the management of programme support cost funds by keeping the expenditure level lower than the income to ensure the building up of a prudent set of fund reserves.

Framework of Engagement with External Parties initiative

38. In 2014, UNODC launched the Framework of Engagement with External Parties, a comprehensive framework and two manuals detailing guidelines, responsibilities, procedures, monetary limits and reporting during implementing partner and grantee engagements. The initiative covers transparent selection, capacity assessments, consistent programme execution, monitoring and closure. With this improvement, UNODC aims at strengthening accountabilities stemming from its fiduciary responsibilities against donor contributions.

Enterprise Risk Management initiative

39. In 2014, in line with the Secretariat-wide Enterprise Risk Management initiative, UNODC launched a comprehensive approach to risk management aimed at identifying, evaluating, mitigating, treating and escalating as appropriate programme and organizational risks. Thus far, efforts have been targeted at the identification and preparation of treatment plans for key Office-wide risks. The development of division- and office-specific risk registers to be linked to existing project and integrated programme risk plans is under way. UNODC was also a key participant in the Secretariat-wide working groups on Enterprise Risk Management.

40. UNODC fully recognizes that risk management is a necessary path towards improved strategy, programme delivery and resource management. Accordingly, the initiative is directly coordinated and overseen by the Office of the Executive Director.

Umoja: the enterprise resource management system

41. The deployment of Umoja, the enterprise resource management system of the United Nations, in Vienna and at UNODC field offices is scheduled for November 2015 as part of the cluster 4 deployment plan, along with Headquarters and other Secretariat offices. Preparatory work on the fit/gap analysis on existing UNODC applications has been completed and the onboarding of the dedicated resources to manage the deployment and organizational change is under way. Conversion planning is ongoing, and includes intensifying efforts to cleanse data and assign new roles and processes to users. While key staff have already been acquainted with the Umoja functionalities, training of "local process experts" for different functional processes is scheduled for the summer of 2015, with end-user training to occur two months before the deployment date.

42. In 2015, UNODC will intensify its work on new process mapping and role changes. Plans for post-production support are also being developed to ensure that UNODC and its field offices will be sufficiently supported after the go-live date.

43. Umoja is expected to introduce profound changes to the administrative and programme management processes of the Office. UNODC liaises closely with early adopter Secretariat entities for lessons learned in order to successfully transition to Umoja.

Results-based management

44. UNODC began its efforts to implement results-based management some time ago and is engaged in a continuous learning exercise based upon internal reviews and independent evaluations. The Office fully understands the calls from Member States to improve results-based management. The full cost recovery programme supports the implementation of results-based budgeting by enhancing full costing of programmes and related reporting.

45. UNODC is currently developing an annual appeal and an annual results-based programme report, with the aim of providing a holistic picture of achievements and funding requirements. It will also enhance the coherence of UNODC strategic objectives and programme delivery. In addition, these initiatives will further strengthen resource mobilization, planning processes, programme execution and reporting on results.

F. Implementation of the International Public Sector Accounting Standards

46. The 2014 financial statements are the first UNODC IPSAS-compliant financial statements. With the implementation of IPSAS, there are significant changes from the previous years' UNSAS-based financial statements. Highlights of the changes are set out in the paragraphs below.

47. UNODC now reports the value of the tangible and intangible assets on the face of the financial statements, whereas under UNSAS these costs were recorded as expenditure on acquisition and were disclosed as non-expendable property in the notes to the statements.

48. In relation to the non-exchange revenue, UNODC recognizes multi-year voluntary contributions and other donor agreements in full, irrespective of the duration of the funding agreement, unless there is a conditional arrangement attached to the agreement. With respect to revenue from exchange transactions, UNODC recognizes the revenue upon delivery of the goods or rendering of the services, and not upon collection of cash.

49. Expenses relating to goods and services are recognized in the financial statements when they have been received and accepted by UNODC, not when commitments are made.

50. UNODC reports one set of financial statements for all funds. The financial details of funds for the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice are disclosed in note 5, Segment reporting.

51. The financial statements take the view that UNODC reports on all the resources and results as an entity, irrespective of the funding source. Consequently, in addition to the results of the voluntary funds of UNODC, the statements include the resources and programme delivery financed by the regular budget.

Chapter V
Financial statements for the year ended 31 December 2014

United Nations Office on Drugs and Crime
I. Statement of financial position as at 31 December 2014
(Thousands of United States dollars)

	Note	*31 December 2014*	*1 January 2014*
Assets			
Current assets			
Cash and cash equivalents	7	109 641	71 666
Investments	8	172 383	214 304
Voluntary contributions receivable	9	231 928	200 802
Other receivables	9	586	988
Loans and advances to implementing partners	10	23 102	30 704
Other assets	11	3 329	6 291
Total current assets		**540 969**	**524 755**
Non-current assets			
Investments	8	145 269	165 339
Voluntary contributions receivable	9	65 634	90 615
Loans and advances to implementing partners	10	3 010	–
Property, plant and equipment	12	12 402	13 333
Intangibles	13	515	–
Other assets	11	38 141	39 334
Total non-current assets		**264 971**	**308 621**
Total assets		**805 940**	**833 376**
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	14	30 712	25 281
Transfers payable	21	237	425
Advance receipts	15	139 957	138 209
Employee benefits	16	3 561	4 373
Total current liabilities		**174 467**	**168 288**
Non-current liabilities			
Advance receipts	15	44 258	88 147
Employee benefits	16	115 504	83 150
Total non-current liabilities		**159 762**	**171 297**
Total liabilities		**334 229**	**339 585**
Net assets			
Accumulated surplus, unrestricted	17	25 278	39 233
Accumulated surplus, restricted	17	446 433	454 558
Total net assets		**471 711**	**493 791**
Total liabilities and net assets		**805 940**	**833 376**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Note	*31 December 2014*
Revenue		
United Nations regular budget allocation	18	31 016
Voluntary contributions	19	290 003
Exchange revenue	20	3 183
Investment revenue	21	2 435
Other revenue		2 002
Total revenue		**328 639**
Expenses		
Employee salaries, allowances and benefits	23	102 752
Non-employee compensation and allowances	23	49 176
Grants and other transfers	24	43 880
Supplies and consumables		134
Depreciation, amortization and impairment	12	1 093
Travel		14 019
Training, meetings and fellowship expenses		29 991
Other operating expenses	25	83 543
Other expenses		833
Total expenses		**325 421**
Surplus for the year		**3 218**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
III. Statement of changes in net assets for the year ended 31 December 2014
(Thousands of United States dollars)

	Note/statement	*Accumulated surplus/(deficit), unrestricted*	*Accumulated surplus/(deficit), restricted*
Net assets as at 31 December 2013 (UNSAS)	4	475 095	–
IPSAS adjustments (note 4)			
Change in the cash pool valuation	4	–	35
Initial recognition of property, plant and equipment	4, 12	388	12 945
Initial recognition of allowance for doubtful receivables	4, 9	–	(13 241)
Change in recognition of employee benefits accruals	4	(41 270)	(2 382)
De-recognition of unliquidated obligations	4	886	16 212
Initial recognition of accruals		(2 363)	(22 918)
Changes in accounting policy on voluntary contributions		(1 843)	18 722
Other adjustments to net assets		43 220	10 305
Transfer from unrestricted to restricted surplus		(434 880)	434 880
Total IPSAS adjustments		**(435 862)**	**454 558**
Restated net assets as at 1 January 2014 (IPSAS)		**39 233**	**454 558**
Change in net assets			
Actuarial loss on employee benefits	4, 16	(14 685)	(11 063)
Other adjustments to net assets	4, 17	(1 400)	1 850
Surplus for the year	Statement II	2 130	1 088
Total changes in net assets		**(13 955)**	**(8 125)**
Net assets as at 31 December 2014		**25 278**	**446 433**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
IV. Statement of cash flows for the year ended 31 December 2014

(Thousands of United States dollars)

	Note	*31 December 2014*
Cash flows from operating activities		
Surplus for the year		3 218
Non-cash movements		
Depreciation and amortization	12	1 093
Net loss on disposal of property, plant and equipment	12	13 257
Current service and interest cost on employee benefits liabilities	16	8 920
Changes in assets		
(Increase)/decrease in voluntary contributions receivable	9	(6 145)
(Increase)/decrease in other receivables	9	402
(Increase)/decrease in loans and advances to implementing partners	10	4 592
(Increase)/decrease in other assets	11	4 155
Changes in liabilities		
Increase/(decrease) in accounts payables and accruals	14	(36 899)
Increase/(decrease) in employee benefits		(3 125)
Net cash flows from operating activities		**(10 532)**
Cash flows from investing activities		
Pro rata share of net decrease in the cash pool		61 992
Additions of property, plant and equipment	12	(13 419)
Additions of intangibles	13	(515)
Net cash flows from investing activities		**48 058**
Cash flows from financing activities		
Adjustments to fund balances	17	449
Net cash flows from financing activities		**449**
Net increase in cash and cash equivalents		**37 975**
Cash and cash equivalents, beginning of the year		71 666
Cash and cash equivalents, end of the year	**7**	**109 641**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014
(Thousands of United States dollars)

	Publicly available budget[a]			
	Original	*Revised*	*Actual amounts (budget basis)*	*Difference*[b]
Revenue				
United Nations regular budget allocation	44 827	45 816	42 520	(7%)
Voluntary contributions	279 329	296 386	342 102	15%
Other revenue	2 677	2 257	(3 830)	(270%)
Total revenue	**326 833**	**344 459**	**380 792**	**11%**
Expense				
A. Policymaking organs	1 270	1 270	903	(29%)
B. Executive direction and management	4 353	4 229	3 821	(10%)
C. Programme of work				
1. Countering transnational organized crime and illicit drug trafficking	97 391	83 193	67 423	(19%)
2. Prevention, treatment and reintegration, and alternative development	92 797	89 258	76 196	(15%)
3. Countering corruption	26 893	21 606	16 020	(26%)
4. Terrorism prevention	10 695	10 245	9 843	(4%)
5. Justice	51 979	37 378	29 947	(20%)
6. Research and trend analysis	45 524	40 576	42 418	5%
7. Policy support	6 498	7 733	6 183	(20%)
8. Technical cooperation and field support	18 637	18 084	15 455	(15%)
9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board	7 711	8 363	7 533	(10%)
D. Programme support	35 755	33 735	29 933	(11%)
Total expenses	**399 503**	**355 671**	**305 675**	**(14%)**
Net surplus/(deficit)	**(72 670)**	**(11 211)**	**75 117**	**(770%)**

[a] The UNODC consolidated budget (E/CN.7/2014/18-E/CN.82014/21) includes United Nations regular budget resources of $44.827 million for 2014, covering direct programme delivery of $22.284 million (sections 1, 16 and 23 of the budget) and programme support to all United Nations Secretariat entities in Vienna of $20.543 million (section 29 of the budget). Accordingly, statement V above provides information on this basis. Notwithstanding this budgetary view, UNODC IPSAS financial statements only include regular budget resources directly attributable to the programme delivery and support to UNODC. Consequently, the IPSAS financial statements account for only a portion of section 29 of the United Nations regular budget.

[b] Revised budget minus actual expenditure divided by revised budget less final budget. Material differences are considered in note 6, Comparison to budget.

United Nations Office on Drugs and Crime
Notes to the financial statements

Note 1
Reporting entity

United Nations Office on Drugs and Crime, its objectives and activities

1. The United Nations Office on Drugs and Crime (UNODC) was established in 1997[9] through a merger between the United Nations Drug Control Programme[10] and the Centre for International Crime Prevention.[11] UNODC works with Member States to enhance their efforts to combat the intertwined problems of drug use, trafficking, transnational organized crime, corruption and terrorism by helping to create and strengthen legislative, judicial and health systems to safeguard some of the most vulnerable persons in society.

2. The policy directions of UNODC are grounded in the international drug control conventions, the United Nations Convention against Transnational Organized Crime and the Protocols thereto, the United Nations Convention against Corruption, the universal legal instruments against terrorism in all its forms and manifestations and related mandates adopted by the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice. The Office's work flows logically from these mandates and is reflected in its mission, which is "to contribute to the achievement of security and justice for all by making the world safer from drugs, crime and terrorism".

3. In order to enhance the Office's effectiveness and accountability, as well as to strengthen results-based management in line with General Assembly resolution 64/259, the programme of work for the biennium 2014-2015 has been organized into six thematic subprogrammes (Countering transnational organized crime and illicit drug trafficking; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; Research and trend analysis) and three subprogrammes under which the Office provides cross-cutting services to Member States (Policy support; Technical cooperation and field support; Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board). These subprogrammes are tailored to the crime and drug control priorities contained in the UNODC strategy for 2012-2015, as approved by Member States, and provide the foundation for the effective implementation of integrated programmes that are tailored to meet the needs of Member States. The programme of work is delivered by the three substantive divisions of UNODC, namely the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing

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[9] See A/51/950, sect. V, paras. 143-145.

[10] The United Nations International Drug Control Programme was established pursuant to General Assembly resolution 45/179 of 21 December 1990 as the body responsible for coordinated international action in the field of drug abuse control. The authority for the Fund of the Programme was conferred on the Executive Director by the General Assembly in its resolution 46/185 C of 20 December 1991.

[11] The Crime Prevention and Criminal Justice Programme was established by the General Assembly in its resolution 46/152 of 18 December 1991. Since 1997, the Programme has been implemented by the Centre for International Crime Prevention (see A/51/950, sect. V).

for leveraging of complementarities and synergies among divisions and the Office's extensive field office network. Thematic experts of the Office perform both normative and operational work and also facilitate the development and delivery of technical cooperation programmes at the global, regional and country levels. A fourth division, the Division for Management, is accountable for global administrative support through the provision of guidance, oversight and delivery of financial planning, human resources, procurement and conference management services.

4. The governing bodies of the Office are the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and its subsidiary bodies and the Commission on Crime Prevention and Criminal Justice. UNODC also supports the International Narcotics Control Board, the United Nations Congress on Crime Prevention and Criminal Justice, the Conference of the Parties to the United Nations Convention against Transnational Organized Crime and the Conference of the States Parties to the United Nations Convention against Corruption.

5. Headquartered in Vienna, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (10), programme offices (47) and liaison and partnership offices (2).

6. UNODC is primarily funded by voluntary contributions to the Fund of the United Nations Drugs Control Programme and to the United Nations Crime Prevention and Criminal Justice Fund. A small portion of UNODC funding comes from the regular budget of the United Nations approved by the General Assembly.

7. The Office's financial statements fully incorporate the financial transactions and results of the United Nations Interregional Crime and Justice Research Institute based in Turin, Italy. The Institute was established in 1967 by the Economic and Social Council following its resolution 1086 (XXXIX), which urged an expansion of United Nations activities in crime prevention and criminal justice. The Institute is overseen by a board of trustees, which includes one representative from UNODC. The Institute is governed by a statute adopted by the Council in its resolution 1989/56 and reports to the Secretary-General and the Council through the Commission on Crime Prevention and Criminal Justice. Strategic direction and programme support is provided by UNODC.

Note 2
Basis of preparation

Authorization

8. These financial statements are certified by the UNODC Chief of Financial Resources Management Service and were approved by the Executive Director of UNODC on 31 March 2015. The report of the Board of Auditors together with the financial statements are transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions and are transmitted to the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice.

Basis of preparation

9. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements and accompanying notes are prepared on an accrual basis in

accordance with the International Public Sector Accounting Standards (IPSAS). These statements present fairly the assets, liabilities, revenue and expenses of UNODC and the cash flows over the financial year. The underlying accounting policies have been applied consistently in the preparation and presentation of these financial statements.

10. This is the first set of financial statements prepared in compliance with IPSAS. Prior to 1 January 2014, the financial statements were prepared in accordance with UNSAS, a modified cash basis of accounting. The adoption of the new accounting standards resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the last audited balance sheet dated 31 December 2013 has been restated and the resulting changes are summarized in the statement of changes in net assets.

11. The financial statements have been prepared on a going-concern basis. The assertion is based on the approval by the Commissions and the General Assembly of the budget requirements for 2014-2015 and the historical trend of collection of assessed and voluntary contributions over the past years.

Measurement basis

12. The financial statements are prepared using the historic cost convention except for certain assets as stated in the accompanying notes. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Functional and presentation currency and treatment of foreign currencies

13. The functional currency of the Office is the United States dollar, which is also the presentation currency of these financial statements. The statement and notes are presented in thousands of United States dollars unless otherwise indicated.

14. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange as at the date of the transaction. The United Nations operational rate of exchange approximates the spot rates prevailing as at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the United Nations operational rate of exchange year-end rate. Non-monetary foreign currency items are carried at historical cost or fair value at exchange rates prevailing as at the date of the transaction or when the fair value was determined. Resulting exchange gains and losses are presented in the statement of financial performance on a net basis.

Materiality and use of judgment and estimates

15. The preparation of financial statements in accordance with IPSAS requires use of estimates, judgments and assumptions. Materiality is central to the UNODC decision-making process and guides accounting treatment related to presentation, disclosure, aggregation, offsetting and timing of application of changes in accounting policies. In general, an item is considered material if its omission or aggregation would affect the conclusions or decisions of users of the financial statements.

16. Accounting estimates and underlying assumptions, including actuarial measurements, asset useful lives, impairment, inflation and discount rates are

reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the changes in estimates take place.

International Public Sector Accounting Standards transitional provisions

17. As permitted on first-time adoption of IPSAS, the following transitional provisions have been applied:

(a) IPSAS 1, Presentation of financial statements: comparative information has not been provided; however, opening balances in accordance with IPSAS are presented in the statement of financial position;

(b) IPSAS 4, Effects of changes in foreign exchange rates: the cumulative translation differences that may have existed at the date of first-time adoption of IPSAS are deemed to be zero;

(c) IPSAS 17, Property, plant and equipment, allows a transitional period of up to five years prior to full recognition of capitalized property, plant and equipment. UNODC has partially invoked this transitional provision and has not recognized certain long-term donated-rights-to-use arrangements and leasehold improvements. Specifically, in line with other Vienna-based organizations residing in the Vienna International Centre that initially implemented IPSAS with different adoption dates, UNODC has not recognized the right to use of the Vienna International Centre in the current financial statements;

(d) IPSAS 31, Intangible assets recognition, is applied prospectively. Intangible assets acquired or internally developed before 1 January 2014, inter alia, ProFi and the "Go" family of software, have not been capitalized in these financial statements.

Future accounting pronouncements

18. The progress and impact of the following significant future International Public Sector Accounting Standards Board accounting pronouncements on the Office's financial statements continue to be monitored:

(a) Reporting service performance information: pronouncement on the use of a principles-based approach to develop a consistent framework for reporting service performance information of public sector programmes;

(b) Public sector combinations: pronouncement on accounting treatment for public sector combinations and the standardization of classification and measurement of public sector combinations, such as transactions or other events that bring two or more separate operations into a single public sector entity;

(c) Public sector specific financial instruments: pronouncement on policy guidance on public sector specific financial instruments which are outside the scope of those covered by IPSAS 28, Financial instruments: presentation; IPSAS 29, Financial instruments: recognition and measurement; and IPSAS 30, Financial instruments: disclosures;

(d) Social benefits: pronouncement on identification of the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in the financial statements.

Future International Public Sector Accounting Standards requirements

19. On 30 January 2015, the IPSAS Board published five new standards, four of which have the potential to affect the reporting entity's future financial statements, including IPSAS 34, Separate financial statements; IPSAS 35, Consolidated financial statements; IPSAS 36, Investments in associates and joint ventures; IPSAS 37, Joint arrangements; and IPSAS 38, Disclosure of interests in other entities. Application of these standards is required for periods beginning on or after 1 January 2017. The impact of these standards on the Office's financial statements is being evaluated for application by 1 January 2017.

Note 3
Significant accounting policies

Revenue recognition and financial statements treatment

Non-exchange revenue: regular budget allocation

20. In its consolidated biennial budget, UNODC includes the regular budget resources that directly finance its programmatic delivery and the total support resources for all United Nations operations in Vienna. The relevant sections of the United Nations regular budget are: 1, 16, 23 (covering programme delivery) and 29 (covering support). Statement V on the comparison between budgeted and actual amounts preserves the budget view and includes the section 29 results in their entirety. With the exception of statement V, the UNODC IPSAS financial statements take a strict UNODC entity view and only include the regular budget resources directly attributable to the programme delivery and support to UNODC. Consequently, the IPSAS financial statements account for only a portion of section 29 of the United Nations regular budget; that is, they exclude the section 29 support resources used for other United Nations Secretariat entities in Vienna.

21. Upon approval, the total United Nations regular budget is assessed to the Member States in accordance with the scale of assessments determined by the General Assembly. The management and collection of the regular budget assessments is performed centrally by the Secretariat. As a result, UNODC does not control the individual assessment receivables and therefore does not recognize them in its financial statements.

22. UNODC deems within its control and therefore recognizes in its financial statements the assets acquired and liabilities incurred during programme execution, including employee receivables and payables, long-term employee benefits, accounts payable and accruals, other receivables and property, plant and equipment. The yearly allocation utilized is recognized as revenue in the statement of financial performance and assumed as fully received in the statement of financial position. Any net asset position of the regular budget fund in UNODC financial statements represents a legal obligation of the regular budget towards UNODC.

Non-exchange revenue: voluntary contributions

23. Voluntary contributions and other transfers supported by firm enforceable pledges or other agreements, and not subject to restrictions with regard to the probable inflow of resources, are recognized as revenue in full irrespective of the duration of the agreement. Contributions subject to specific restrictions are recorded as liabilities and the revenue is recognized only when the conditions are met.

Contributions and other transfers not supported by enforceable agreements are recognized as revenue only upon receipt of cash.

24. Voluntary contributions receivable balances represent uncollected revenue from enforceable agreements and are stated at nominal value, less any specific impairments. A general allowance for doubtful receivables is applied based on historical collection experience.

Non-exchange revenue: in-kind contributions

25. Outright in-kind contributions and donated rights to use of goods over $5,000 are recognized as revenue to the extent that future economic benefits or service potential to the Office is probable and their measurement reliable. Contributions in kind are initially measured at their fair value as at the date of receipt and determined by reference to observable market values or by independent appraisals. In-kind contributions of services are not recognized as revenue but rather disclosed in the notes to the financial statements to the extent that they exceed $20,000.

Exchange revenue

26. Exchange transactions are those in which the Office provides goods or services, such as training, software and conference management support, to governments, United Nations entities and other partners. Revenue is recognized at fair value when the goods are delivered or the services rendered. Related amounts billed but not collected are included within other receivables.

Investment revenue and cash pool assets

27. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities, including UNODC, and other participating entities. Participation in these United Nations cash pools implies sharing the risks and returns on investments with the other participants; each participant is exposed to the overall risk of the investment portfolio to the extent of the amount of cash invested.

28. The Office's share of United Nations investment in the cash pools is reported under cash and cash equivalents, short-term investments and long-term investments depending on the maturity period. The Office's share of the investment cash pool revenue, realized gains on sale of cash pool securities and realized and unrealized gains and losses are reported in the statement of financial performance.

Expenses and financial statement treatment

29. UNODC delivers technical assistance programmes through projects in Vienna and its worldwide network of field offices. Projects are executed through direct project delivery or through implementing partners.

30. In accordance with IPSAS, expenses are reported according to the delivery principle. Expenses are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

Employee salaries, allowances and benefits

31. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is

defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.

32. Employee benefits are classified into short-term, long-term, post-employment and termination benefits.

(a) *Short-term employee benefits*

33. Short-term employee benefits (other than termination benefits) are those falling due within 12 months and comprise first-time employee benefits (assignment grants), wages, salaries and allowances, compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes, home leave, paid annual leave). Amounts accrued but not yet paid are reported as current liabilities in the statement of financial position.

(b) *Post-employment benefits*

34. Post-employment benefits comprise payments for end-of-service benefits including the United Nations Joint Staff Pension Fund, after-service health insurance, repatriation benefits and other end-of-service allowances.

35. Post-employment benefits are categorized as defined benefit plans, where the UNODC is obliged to provide agreed benefits and therefore bears all risks. Plan obligations, with the exception of the end-of-service allowances, are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the underlying plans. Changes in the liabilities, including actuarial gains and losses, are presented in the statement of financial performance under surplus/deficit. The Office does not hold any plan assets as defined by IPSAS 25.

36. UNODC participates in the United Nations Joint Staff Pension Fund, which is a funded, multi-employer defined benefit plan established by the General Assembly to provide retirement, death and disability benefits. The plan exposes UNODC to actuarial risks associated with the current and former employees of other participating organizations. Participants in the Pension Fund jointly determined that there is no consistent and reliable basis for allocating the assets and liabilities and performance (costs) among them to such participants. Therefore, as permitted by IPSAS 25, and consistent with Secretariat-wide policy, UNODC treats the Pension Fund as a defined contribution plan with the obligations for contributions to the Pension Fund presented as employee benefit expenses in the statement of financial performance.

(c) *Termination benefits*

37. Termination benefits are expensed to the extent that there are formal detailed plans in place to terminate staff employment before the normal retirement date, or offers made during voluntary redundancy schemes. Termination benefits not falling due within 12 months are discounted if the impact of discounting is material.

(d) *Other long-term employee benefits*

38. Other long-term employee benefits are those not falling due within 12 months and comprise home leave and annual leave.

(e) *Non-employee compensation*

39. Non-employee compensation and allowances consist of expenses incurred with respect to consultant and contractors, ad hoc experts and United Nations Volunteers. Contracts are held directly with third parties or through other United Nations agency service providers. Non-employees do not earn key allowances and benefits provided to United Nations employees such as assignment and education grants, pension, health insurance, leave and severance pay.

Implementation through external parties: advance transfers (to implementing partners) and grants

(a) *Advance transfers*

40. UNODC often implements programmatic activities through implementing partners, such as United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations. Partner deliverables are agreed in joint project and programme cooperation agreements. Advance cash transfers are amounts provided up front to partners to deliver the agreed programme; these are initially recognized as assets and subsequently expensed based on submitted financial reports. In the absence of such financial reports, an informed assessment is made to accrue based on estimates of work completion after close consultation with the UNODC office responsible for managing the agreement. Binding agreements to fund implementing partners not paid out by the end of the reporting period are shown as commitments under accounts payable and other accrued expenses.

41. In the case of agreements on construction works, UNODC measures the work delivered based on engineering reports submitted by the implementing partner/subcontractor and the Office's own site engineering team.

(b) *Grants*

42. UNODC operates outright grant schemes to end-beneficiaries provided conditions in project and donor covenants so permit. Individual grant awards are limited to $60,000. Outright grants are fully expensed upon disbursement, which normally coincides with the grant signature.

Assets

General treatment and classification

43. Assets are assessed at each reporting date. Where it is determined that grounds for impairment exist, the corresponding losses are recognized in a timely manner.

44. Receivables are recognized at their nominal value unless the effect of discounting to their net present value is material. Allowances for doubtful receivables are recognized based on historical collection experience.

45. Offsetting and netting off assets and liabilities in the statement of financial position is applied only when a legally enforceable right exists.

46. Assets with maturities in excess of 12 months as at the reporting date are categorized as non-current assets.

Cash and cash equivalents

47. Cash and cash equivalents comprise cash in bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition. Holdings denominated in foreign currencies are revalued at the year-end United Nations operational rate of exchange.

Property, plant and equipment

Measurement of cost at recognition

48. Property, plant and equipment items are stated at historical cost less accumulated depreciation and impairment. For donated assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

49. Assets utilized in the delivery of UNODC programmes or projects are categorized as project assets, whereas those used for non-project specific activities are categorized as management assets. Project assets that are not controlled by UNODC are expensed upon purchase.

Depreciation and useful life

50. Property, plant and equipment items are fully depreciated over their estimated useful life using the straight-line method. Land, assets under construction and project assets in transit are not subject to depreciation. The table below shows the estimated useful lives and capitalization thresholds for the various classes of property, plant and equipment.

Estimated useful life and capitalization threshold of property, plant and equipment

Asset class and sub-class	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Buildings[a]	20 000	7-50
Communications and information technology equipment[a]	20 000	4-7
Vehicles	5 000	6-12
Furniture and fixtures	20 000	3-10
Machinery and equipment[a]	20 000	5-20
Self-constructed assets	100 000	–
Leasehold improvements	100 000	Shorter of lease term or 5 years

[a] Lower threshold of $5,000 applies to prefabricated buildings, satellite communication systems, generators and network equipment.

Assets under construction

51. UNODC enters into construction works, such as building of prisons and court houses, for the benefit of Member States. Upon completion, these assets are delivered to end-beneficiaries. Work completion is measured based on engineering reports submitted by the implementing partner/subcontractor and the Office's own site engineering team. As these assets are not used by UNODC but rather delivered to end-beneficiaries, no depreciation charge is recognized in the financial statements.

Disposal and impairment

52. Gains or losses resulting from the disposal or transfer of assets are reported in the statement of financial performance under other revenue or other expenses.

53. Impairment reviews for property, plant and equipment are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Intangible assets

Measurement of cost at recognition

54. Intangible assets developed for use by UNODC are carried at cost less accumulated amortization and impairment. Capitalized costs may include acquired computer software licences, direct development costs (for example, employee costs, consultant costs and applicable overheads) and other costs incurred to acquire and bring the specific software to use. For donated intangible assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

Amortization and useful life

55. Intangible assets with definite useful lives are fully amortized using the straight-line method over their estimated useful lives. The table below shows the estimated useful lives and thresholds of major classes of intangible assets.

Estimated useful lives and thresholds of intangible assets

Class	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Acquired externally software	20 000	3-10
Internally developed software	100 000	3-10
Licences and rights	20 000	2-6 (period of licence/right)
Assets under development	100 000	Not amortized

Impairment

56. Impairment reviews for intangibles are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Liabilities

Treatment and classification

57. Liabilities are normally recognized at fair value. Liabilities which are expected to be settled in less than 12 months are reported as current, whereas others are classified as non-current. Certain liabilities relating to employee benefits are subject to actuarial valuation.

Accounts payable and other payables and accruals

58. Accounts payable and other payables comprise liabilities in respect of invoiced goods or services that have been acquired and received. Accruals provisions are made for goods and services received but not yet invoiced as at the reporting date.

Employee benefits

59. UNODC recognizes liabilities and accruals for:

(a) Short-term employee benefits, measured at nominal value;

(b) Post-employment benefits and termination benefits, calculated by independent actuaries using the projected unit credit method. Unfunded actuarial gains and losses arising from changes in actuarial assumptions are recognized in the statement of changes in net assets;

(c) Other long-term employee benefits, measured at nominal value;

(d) United Nations Joint Staff Pension Fund. In line with the requirements of IPSAS 25, UNODC has treated this plan as if it were a defined contribution plan. Accordingly, the Office’s contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. Liabilities to the fund are recognized only to the extent the contributions payable as at the statement date have not been settled.

Leases

(a) *Operating leases*

60. UNODC enters into lease arrangements for property, plant and equipment where all of the risks and rewards of ownership are not substantially transferred to the Office. Such arrangements are classified as operating leases. Payments made under operating leases are expensed over the term of the lease.

(b) *Finance leases*

61. Leases of tangible assets, where UNODC has substantially all the risks and rewards incidental to ownership of an asset, are classified as finance leases.

62. Assets leased under finance leases are capitalized and included in property, plant and equipment, and the corresponding liability to the lessor is included under other liabilities. A finance lease and the corresponding liability are recognized initially at the lower of the fair value of the asset or present value of the minimum lease payments. Finance charges payable are recognized over the term of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

(c) *Donated rights to use*

63. Depending on the nature of the agreement, donated-rights-to-use arrangements can be treated as operating or finance leases. Long-term donated-rights-to-use building and land arrangements where the Office does not have exclusive control over the building and title to the land is not granted are accounted for as operating leases. The threshold for the recognition of revenue and expense for an operating lease is $20,000. UNODC normally estimates such donated rights by reference to market values for similar properties.

Provisions and contingent liabilities

64. Provisions are recognized if, as a result of a past event, the Office has a probable and measurable legal or constructive obligation as at the reporting date. Amounts provided represent the present value of the amount expected to be paid upon settlement.

65. Contingent liabilities, including those related to legal proceedings or labour claims, are possible obligations arising from past events whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not wholly within the control of UNODC and, therefore, are not recognized. Contingent liabilities are also considered to be those present obligations arising from past events but not recognized as it is not probable that an outflow of resources will be required to settle these obligations, or because the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of resource outflow is remote.

Commitments

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

Note 4
First implementation of International Public Sector Accounting Standards: opening balances

67. The present financial statements are the first to be prepared under IPSAS. The table below summarizes the adjustments made to the audited 2012-2013 statement of assets, liabilities, reserves and fund balances in order to align these balances to an IPSAS-compliant opening financial position as at 1 January 2014.

Summary of changes with the implementation of International Public Sector Accounting Standards

(Thousands of United States dollars)

	Published financial statements, 31 December 2013 (UNSAS)	*Effect of transition to IPSAS*	*Statement I, 1 January 2014 (IPSAS)*
Assets			
Current assets			
Cash and cash equivalents	25 822	45 844	71 666
Investments	425 452	(211 148)	214 304
Voluntary contributions receivable	132 734	68 068	200 802
Interfund receivables	37 681	(37 681)	–
Other receivables	2 021	(1 033)	988
Loans and advances to implementing partners	30 072	632	30 704
Other assets	827	5 464	6 291
Total current assets	**654 609**	**(129 854)**	**524 755**
Non-current assets			
Investments	–	165 339	165 339
Voluntary contributions receivable	–	90 615	90 615
Property, plant and equipment	–	13 333	13 333
Other assets	–	39 334	39 334
Total non-current assets	**–**	**308 621**	**308 621**
Total assets	**654 609**	**178 767**	**833 376**
Liabilities			
Current liabilities			
Unliquidated obligations, current period	16 870	(16 870)	–
Unliquidated obligations, future periods	228	(228)	–
Accounts payable and accrued expenses	–	25 281	25 281
Other payables	10 979	(10 979)	–
Interfund payables	35 832	(35 832)	–
Transfers payable	425	–	425
Advance receipts	71 310	66 899	138 209
Employee benefits	–	4 373	4 373
Total current liabilities	**135 644**	**32 644**	**168 288**
Non-current liabilities			
Advance receipts	–	88 147	88 147
Employee benefits	43 870	39 280	83 150
Total non-current liabilities	**43 870**	**127 427**	**171 297**
Total liabilities	**179 514**	**160 071**	**339 585**
Net assets			
Accumulated surplus/(deficit), unrestricted	475 089	(435 856)	39 233
Accumulated surplus, restricted	–	454 558	454 558
Reserves	6	(6)	–
Total net assets	**475 095**	**18 696**	**493 791**
Total liabilities and net assets	**654 609**	**178 767**	**833 376**

68. The aggregate of adjustments and reclassifications effected to generate the 1 January 2014 IPSAS opening position in statement I resulted in a $18.696 million increase in net assets. Line-by-line explanation of the adjustments to net assets are shown in statement III.

Note 5
Segment reporting

69. In accordance with the provisions of IPSAS 18, Segment reporting, the Office's revenue, expenses, assets and liabilities are presented in the tables below by reference to two major segments: the International Drugs Control Programme (Drug Programme) and the United Nations Crime Prevention and Criminal Justice Programme (Crime Programme).

Statement of financial position as at 31 December 2014
(Thousands of United States dollars)

	Drug Programme	*Crime Programme*	*Elimination*[a]	*Totals*
Assets				
Current assets				
Cash and cash equivalents	66 912	42 729		109 641
Investments	89 894	82 489		172 383
Voluntary contributions receivable	86 851	145 077		231 928
Loans and advances to implementing partners	17 500	5 602		23 102
Other assets	5 637	993	(2 715)	3 915
Total current assets	**266 794**	**276 890**	**(2 715)**	**540 969**
Non-current assets				
Investments	76 854	68 415		145 269
Voluntary contributions receivable	12 808	52 826		65 634
Loans and advances to implementing partners	–	3 010		3 010
Property, plant, equipment and intangibles	6 705	6 212		12 917
Other assets	20 462	17 679		38 141
Total non-current assets	**116 829**	**148 142**		**264 971**
Total assets	**383 623**	**425 032**	**(2 715)**	**805 940**
Liabilities				
Current liabilities				
Accounts payable	15 059	15 890		30 949
Advance receipts	42 806	97 151		139 957
Employee benefits	1 862	1 699		3 561
Other liabilities	–	2 715	(2 715)	–
Total current liabilities	**59 727**	**117 455**	**(2 715)**	**174 467**

	Drug Programme	*Crime Programme*	*Elimination*[a]	*Totals*
Non-current liabilities				
Advance receipts	17 655	26 603		44 258
Employee benefits	61 479	54 025		115 504
Total non-current liabilities	**79 134**	**80 628**	**–**	**159 762**
Total liabilities	**138 861**	**198 083**	**(2 715)**	**334 229**
Net assets				
Accumulated surplus/(deficit), unrestricted	27 590	(2 312)		25 278
Accumulated surplus, restricted	217 172	229 261		446 433
Total net assets	**244 762**	**226 949**		**471 711**
Total liabilities and net assets	**383 623**	**425 032**	**(2 715)**	**805 940**

[a] Elimination of interfund receivable/payable.

Statement of financial performance for the period ended 31 December 2014
(Thousands of United States dollars)

	Drug Programme	*Crime Programme*	*Elimination*	*Totals*
Revenue				
United Nations regular budget allocation	16 640	14 376	–	31 016
Voluntary contributions	133 041	156 962	–	290 003
Exchange revenue	432	2 751	–	3 183
Investment revenue	1 435	1 000	–	2 435
Other revenue/income	1 918	84	–	2 002
Total revenue	**153 466**	**175 173**	**–**	**328 639**
Expenses				
Employee salaries, allowances and benefits	49 169	53 583	–	102 752
Non-employee compensation and allowances	28 892	20 284	–	49 176
Grants and other transfers	30 578	13 302	–	43 880
Depreciation, amortization and impairment	700	393	–	1 093
Training, meeting and fellowship expenses	12 745	17 246	–	29 991
Other operating expenses	41 388	42 155	–	83 543
Other miscellaneous expenses	7 782	7 204	–	14 986
Total expenses	**171 254**	**154 167**	**–**	**325 421**
Surplus/(deficit) for the year	**(17 788)**	**21 006**	**–**	**3 218**

70. Some internal activities lead to accounting transactions that create intersegment balances in the financial statements. During the year ended 31 December 2014, activities have resulted in the amount of $2.715 million interfund receivable/payable between the Crime Programme and the Drug Programme.

71. The deficit position for the Drug Programme is primarily the result of the utilization of earmarked contributions received in prior years.

Note 6
Comparison to budget

72. UNODC budgets are prepared on a modified cash basis, the results of which are presented in statement V. Explanations for material differences between the final budget amounts and actual expenditure amounts on a modified cash basis are considered in the table below.

Explanations for material differences between final budget amounts and actual expenditure amounts

Budget caption	*Material differences*
Subprogramme 1, Countering transnational organized crime and illicit drug trafficking	The variance of $15.7 million relates mainly to delayed implementation of two of the main UNODC projects in Nigeria (projects related to illicit drug trafficking and trafficking in persons), as well as low implementation of the Regional Programme in Afghanistan and Neighbouring Countries, low implementation of a project on strengthening of the justice and security sectors in Guatemala and low implementation of the Pakistan Country Programme.
Subprogramme 2, Prevention, treatment and reintegration, and alternative development	The deviation of $13.1 million relates mainly to low implementation in the area of HIV/AIDS projection in Brazil and low implementation of the Regional Programme on Afghanistan and Neighbouring Countries, as well as lower than budgeted implementation of the UNODC-World Health Organization Programme on Drug Dependence Treatment and Care and of two projects in Colombia (projects related to sustainable livelihood and drug control).
Subprogramme 3, Countering corruption	The deviation of $5.6 million relates mainly to the delayed implementation of support to anti-corruption in Nigeria, as well as lower than budgeted implementation of the global programmes against corruption, including the Stolen Assets Recovery Initiative and the Anti-corruption Mentor Programme.
Subprogramme 5, Justice	The deviation of $7.4 million relates mainly to the delayed implementation of the Maritime Crime Programme in the Indian Ocean and the Horn of Africa, of the Regional Programme for East Africa and of the Support to the Justice Sector in Nigeria.
Programme support	The deviation of $3.8 million relates to: (a) delayed recruitment of vacant posts, (b) lower than anticipated charges for joint building management and joint medical services (savings to be spent in 2015) and (c) substitution of planned acquisition with existing assets.

Reconciliation between actual amounts on a comparable basis and the statement of cash flows

73. A reconciliation between the actual amounts on a comparable basis under statement V and the Office's cash flows under statement IV is set out in the table below.

Reconciliation of actual amounts on a comparable basis to the statement of cash flows
(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total as at 31 December 2014*
Actual amounts on a comparable basis (statement V)	**(305 675)**	**–**	**–**	**(305 675)**
Basis differences	269 705	–	–	269 705
Entity differences	11 504	–	–	11 504
Presentation differences	13 934	48 058	449	62 441
Actual amounts in the statement of cash flows (statement IV)	**(10 532)**	**48 058**	**449**	**37 975**

74. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, non-cash elements such as unliquidated budgetary commitments of $18.459 million and payments against prior year budgetary commitments ($14.848 million) are included as basis differences. In addition, other IPSAS-specific differences such as the treatment of employee benefits ($9.773 million) and indirect cash flows relating to changes in receivables and accrued liabilities are included.

75. Entity differences arise when the budget includes programmes that are not part of the UNODC financial statements reporting and vice versa. UNODC financial statements encompass a portion of the United Nations regular budget allocated to the administrative budget of the United Nations Office at Vienna in support of the Office's programme delivery.

76. Presentation differences are the differences in the format and classification schemes between the statement of cash flows and the statement of comparison of budget and actual amounts. The latter does not include the changes in cash pool balances ($61.992 million). Other presentation differences include that the amounts included in the statement of comparison of budget and actual amounts are not segregated into operating, investing and financing activities such as cash flows on property, plant and equipment ($13.419 million).

77. Timing differences occur if the budget period differs from that of the financial statements. As the budget results under statement V reflect only the 2014 proportion of the biennium, there are no timing differences.

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2014
Cash in bank and on hand	17 490
Cash and term deposits in cash pools	88 805
Cash-in-transit	3 346
Total cash and cash equivalents	**109 641**

78. Cash in bank and on hand includes currency holdings of 1.093 million euros and 36,812.836 million Colombian pesos. The holdings in Colombian pesos relate to contributions from the national donor for UNODC-executed programmes under way in Colombia. Cash-in-transit represents 2.743 million euros.

79. Cash and term deposits in cash pools consist of $84.877 million United States dollars and 3.221 million euros.

Note 8
Investments

(Thousands of United States dollars)

	31 December 2014
Current assets	
Investments in United States dollars cash pool	164 567
Investments in euro cash pool	7 816
Total current assets	**172 383**
Non-current assets	
Investments in United States dollars cash pool	145 269
Total non-current assets	**145 269**
Total	**317 652**

80. Investments comprise amounts held in the United Nations cash pools and comprise short- and long-term investments. Cash from the cash pool is reported under cash in bank and on hand in note 7. Further investment details and an analysis of related exposure are provided in notes 21 and 22.

Note 9
Outstanding voluntary contributions receivable and other receivables

Current and non-current voluntary contributions receivable
(Thousands of United States dollars)

	31 December 2014
Current voluntary contributions receivable	
Member States	103 495
Other governmental organizations	119 992
United Nations organizations	7 106
Private donors	1 335
Total current voluntary contributions receivable (statement I)	**231 928**
Non-current voluntary contributions receivable	
Member States	37 198
Other governmental organizations	44 179
United Nations organizations	154
Private donors	519
Non-current voluntary contributions receivable before allowance	**82 050**
Allowance for doubtful receivables	(16 416)
Total non-current voluntary contributions receivable (statement I)	**65 634**
Net voluntary contributions receivable	**297 562**
Total other receivables (statement I)	**586**

Movements in allowances for doubtful receivables
(Thousands of United States dollars)

	31 December 2014
Opening allowance for doubtful receivables	13 241
Amounts written off	(3 020)
Doubtful receivables adjustment for 2014	6 195
Closing allowance for doubtful receivables (note 21)	**16 416**

81. Amounts written off (see table above) consist mainly of voluntary contributions for completed projects in the amount of $3.013 million with no cash effect on the accounts.

Aging of outstanding receivables

(Thousands of United States dollars)

	31 December 2014
Neither past due nor impaired	226 290
Less than one year	57 162
One to two years	17 777
Two to three years[a]	5 447
More than three years	7 888
Total outstanding receivables	**314 564**

[a] 100 per cent allowance has been provided against one of the voluntary contributions due to uncertainty surrounding the collection.

82. Other receivables primarily include amounts due from employees or from the United Nations and other entities for goods supplied, services rendered and operating lease arrangements.

Note 10
Loans and advances to implementing partners

(Thousands of United States dollars)

	Current	*Non-current*	*31 December 2014*
United Nations entities	7 100	–	7 100
Specialized agencies	749	–	749
Other external parties	15 253	3 010	18 263
Total advances to implementing partners	**23 102**	**3 010**	**26 112**

83. Loans and advances to implementing partners include funds issued to the implementing partners responsible for delivering programmes on behalf of UNODC. Advances are issued based on established agreements and expensed when either the service delivery is confirmed through the submission of certified financial reports by the partners or, in the absence of reports, UNODC estimates an accrual for programme delivery after consultation with the responsible UNODC unit.

84. Included under United Nations entities are $0.620 million with the United Nations Office for Project Services, $6.225 million with the United Nations Development Programme and $0.255 million with the United Nations Children’s Fund. Included under other external parties is $10.560 million with various implementing partners to support the implementation and monitoring of an integrated and sustainable strategy to reduce illicit crops and promote alternative development and a culture of legality in Colombia.

85. Also included in the above figures is $7.703 million in advances to various implementing partners of the United Nations Interregional Crime and Justice Research Institute, mainly for projects on strengthening biosafety and biosecurity capabilities in South Caucasus and Central Asian countries; implementing the action plan on strengthening chemical, biological, radiological and nuclear security; and

enhancing European coordination for national research programmes in the area of security at major events.

Note 11
Other assets

(Thousands of United States dollars)

	Current	*Non-current*	*31 December 2014*
Allocation receivables	294	38 141	38 435
Inter-Secretariat receivables	590	–	590
Advances to vendors	172	–	172
Advances to staff	1 399	–	1 399
Other	874	–	874
Total other assets	**3 329**	**38 141**	**41 470**

86. Other assets include education grant advances and prepayments that are expensed when goods are delivered or services rendered by the other party.

87. UNODC enters into legal commitments with third parties, including employees, in the course of executing activities authorized under the United Nations regular budget. The allocation receivables of $38.435 million represents the total fair value of such commitments as at 31 December 2014. The non-current portion of allocation receivables of $38.141 million represents end-of-service liabilities of employees holding regular budget posts. All commitments of this nature are reimbursable to UNODC by the United Nations regular budget.

Note 12
Property, plant and equipment

88. The movements and balances for the property, plant and equipment of UNODC as at 31 December 2014 are provided below.

Movements and balances for property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communication and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost as at 1 January 2014	**2 105**	**20**	**1 080**	**7 894**	**1 486**	**6 155**	**18 740**
Additions	14	57	640	2 224	1 635	8 849	13 419
Completed assets under construction	8 999	–	–	–	–	(8 999)	–
Disposals	(10 954)	–	(31)	(1 853)	(961)	–	(13 799)
Other changes	322	–	(21)	49	–	–	350
Cost as at 31 December 2014	**486**	**77**	**1 668**	**8 314**	**2 160**	**6 005**	**18 710**
Accumulated depreciation as at 1 January 2014	**11**	**–**	**592**	**4 566**	**238**	**–**	**5 407**
Depreciation	53	1	172	758	109	–	1 093
Disposals	–	–	(9)	(360)	–	–	(369)
Other changes	142	–	(11)	46	–	–	177
Accumulated depreciation as at 31 December 2014	**206**	**1**	**744**	**5 010**	**347**	**–**	**6 308**
Carrying amount							
1 January 2014	2 094	20	488	3 328	1 248	6 155	13 333
31 December 2014	**280**	**76**	**924**	**3 304**	**1 813**	**6 005**	**12 402**

89. As at the end of 31 December 2014, UNODC holds a total of $12.402 million in property, plant and equipment, 96.65 per cent of which are located in offices away from Headquarters. Total property, plant and equipment comprises $3.443 million in management assets and $8.959 million in project assets. The reduction of $13.799 million reported under disposals is mainly attributable to the delivery of project assets to the beneficiaries.

90. As part of its programme delivery, UNODC enters into construction works such as the building of prisons, police stations and court houses for the benefits of Member States. Once completed, these assets are handed over to the local governments, and the ownership of the property is then fully transferred. During 2014, construction projects in the amount of $10.954 million were transferred to the beneficiaries. The ongoing construction projects amounting to $5.581 million as at the end of 2014 are anticipated to be completed in 2015 and handed over to the beneficiaries.

91. As at 31 December 2014, $0.106 million of fully depreciated assets identified as impaired are included in the ending balance.

92. The table above does not include the cost of the Vienna International Centre premises, for which UNODC took the transitional provisions under IPSAS 17. The United Nations Office at Vienna entered into a “Headquarters Agreement” with the Government of Austria in 1979 for a 99-year lease for its share of the Vienna International Centre premises for a nominal rent of 1 Austrian schilling per year. As part of the agreement, the United Nations Office at Vienna must operate its headquarters seat from Austria, otherwise the Office must return its share of the Centre premises to the Government of Austria.

Note 13
Intangibles

93. As part of UNODC programme delivery, UNODC has developed several software products, namely goAML, goCase and goPRS. These software products are currently under service level agreements with the Member States and other international organizations for the use and maintenance of the software. Transitional provision has been invoked for intangible assets and consequently all costs related to the development of these software products incurred in previous years are not capitalized.

94. During 2014, a total of $0.515 million incurred for the development of software products, inter alia, goPRS, I2ES and PEN online, deemed to have future economic and service potential, have been capitalized. Development is due for completion in 2015.

Note 14
Accounts payable and accrued expenses

(Thousands of United States dollars)

	31 December 2014
Vendor payables	2 552
Payables to other Secretariat reporting entities	4 731
Accruals for goods and services	13 210
Other	10 219
Total accounts payable and accrued expenses	**30 712**

95. Other accounts payable and accrued expenses represent amounts owed to government agencies, individuals, including staff members, and donors for closed projects.

Note 15
Advance receipts

(Thousands of United States dollars)

	31 December 2014
Current	
European Union	135 707
Others	4 250
Total current advance receipts	**139 957**
Non-current	
European Union	44 100
Others	158
Total non-current advance receipts	**44 258**
Total advance receipts	**184 215**

96. Advance receipts consist of cash collected in the amount of $3.889 million for exchange transactions, cash collected in the amount of $31.970 million for non-exchange transactions and uncollected amounts for non-exchange transactions of $148.356 million, for which there is a corresponding voluntary contribution receivable.

Note 16
Employee benefits liabilities

Employee benefits liabilities

(Thousands of United States dollars)

	31 December 2014
Current	
Accrued salaries and allowances	769
Annual leave	764
After-service health insurance	1 240
Repatriation benefits	788
Current employee benefits	**3 561**
Non-current	
Annual leave	7 454
After-service health insurance	92 981
Repatriation benefits	10 847
Other end-of-service allowances[a]	4 222
Non-current employee benefits	**115 504**
Total employee benefits	**119 065**

[a] Upon separation, certain staff in Austria and Italy are entitled to end-of-service allowances based on local employment regulations.

97. After-service health insurance is a United Nations-wide plan that provides worldwide coverage for medical expenses of eligible retirees and their dependents. The plan is a defined benefit scheme, membership is optional and eligibility is based on factors such as years of participation in a United Nations health plan while in service. The liabilities are based on actuarial valuations and represent the present value of the share of the Office's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff.

98. Staff meeting certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to the repatriation grant and travel and removal expenses. Such liabilities are calculated based on actuarial valuations and confirmed eligibility.

99. Actuarial valuations are usually undertaken every two years. The most recent actuarial valuation was conducted for the period ended 31 December 2014 and the liabilities have been rolled forward to 31 December 2014. The post-employment benefits for the end-of-service allowance for General Service staff are calculated internally at UNODC.

100. UNODC has commenced funding after-service health insurance liabilities by levying an assessment of 9 per cent of the net base salary with effect from December 2012.

Movements in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	After-service health insurance	*Repatriation grant*	*Total as at 31 December 2014*
Opening defined benefit obligation	64 056	10 463	74 519
Current service cost	3 446	939	4 385
Interest cost	2 838	430	3 268
Actual benefits paid	(1 128)	(935)	(2 063)
Actuarial losses	25 009	738	25 747
Subtotal	**94 221**	**11 635**	**105 856**
Other end-of-service allowances			4 222
Total defined benefit liabilities			**110 078**
Current			2 028
Non-current			108 050
Total			**110 078**

Discount rate sensitivity analysis

(Thousands of United States dollars)

	After-service health insurance	*Repatriation grant*
Increase of discount rate by 1 per cent	(21 785)	(1 215)
As a percentage of end-of-year liability	(23)	(10)
Decrease of discount rate by 1 per cent	29 687	1 371
As a percentage of end-of-year liability	32	12

101. In accordance with the actuarial report, the effect of an increase/decrease of one percentage point in the assumed medical cost trend is shown in the table above.

102. The changes in discount rates are driven by the discount curve, which is calculated based on corporate or government bonds. The bond markets vary over the reporting year and the volatility affects the discount rate assumption.

Note 17
Net assets

(Thousands of United States dollars)

	Unrestricted	*Restricted*	*Total as at 31 December 2014*
Opening balance as at 1 January 2014	39 233	454 558	493 791
Net surplus for the year	2 130	1 088	3 218
Actuarial losses	(14 685)	(11 063)	(25 748)
Other adjustments	(1 400)	1 850	450
Closing net assets as at 31 December 2014	**25 278**	**446 433**	**471 711**

103. The unrestricted balances consist of unearmarked project fund balances.

104. The restricted balances consist of earmarked fund balances from donor contributions and actuarial gains and losses on employee benefits.

105. Other adjustments comprise net transfers between UNODC and other United Nations Secretariat funds of $0.293 million, as well as prior-year adjustments of $0.157 million.

Note 18
Regular budget allocation

(Thousands of United States dollars)

	31 December 2014
Revenue	
United Nations regular budget allocation	31 016
Expenditure	
Direct programme activities	22 608
Support (administrative) activities	8 197
Total expenditure	**30 805**
Excess of income over expenditure	211

106. UNODC efforts financed by the United Nations regular budget encompass direct programme activities, namely executive direction and management, research, normative work, secretariat support to the intergovernmental bodies and the Commissions and substantive support to the International Narcotics Control Board.

107. Support activities represent administrative services, including finance, human resources and procurement, provided by the United Nations Office at Vienna to UNODC under section 29 of the regular budget. Activities under this caption represent 28.5 per cent of the total administrative budget of the Office at Vienna. The remainder of the Office at Vienna’s administrative operations (71.5 per cent) support other Secretariat entities residing in Vienna. The allocation recognized consists of $22.168 million under section 16, $0.607 million under section 23, $5.326 million under section 29 and $2.915 million under section 36.

108. The expenditures incurred comprise $22.053 million under section 16, $0.555 million under section 23, $5.282 million under section 29 and $2.915 million under section 36.

Note 19
Voluntary contributions

(Thousands of United States dollars)

	31 December 2014
Voluntary monetary contributions	
Member States	223 416
Other governmental organizations	58 215
United Nations organizations	8 605
Private donors	2 169
Total voluntary monetary contributions (annex I)	**292 405**
Total voluntary in-kind contributions	1 816
Refunded to donors	(4 218)
Total voluntary contributions	**290 003**
Voluntary monetary contributions	
Unrestricted	7 177
Restricted	285 228
Total voluntary monetary contributions	**292 405**

109. Voluntary in-kind contributions reflect primarily donated rights to use for premises for UNODC field offices, typically provided by governments.

110. Restricted voluntary contributions relate to funds that are earmarked to specific UNODC projects.

Services in kind

111. In-kind contributions of services received during the year are not recognized as revenue and are therefore not included in the above in-kind contribution revenue. The value of in-kind technical assistance and expert services provided to the Office, based on estimated salary costs and information provided by donors, was $1.006 million. In addition, other in-kind services received consisted of transportation, with a value of $0.119 million.

Note 20
Exchange revenue

(Thousands of United States dollars)

	31 December 2014
Software support and maintenance fees	2 290
Training fees	459
Other supportive services	431
Consultancy services	3
Total exchange revenue	**3 183**

112. Revenue-producing activities mainly consist of the provision of software support and maintenance, the training of individuals and other support services to UNODC governing bodies.

Note 21
Financial instruments and financial risk management

Financial assets, liabilities and net income

(Thousands of United States dollars)

	Note	*31 December 2014*
Financial assets		
Carried at fair value through surplus or deficit		
Short-term investments, cash pools	8, 22	172 383
Long-term investments, cash pools	8, 22	145 269
Total investments carried at fair value through surplus or deficit		**317 652**
Loans and receivables		
Cash and cash equivalents	7, 22	109 641
Voluntary contributions (current)	9	231 928
Voluntary contributions (non-current)	9	65 634
Other assets (excludes deferred charges)	11	39 025
Other receivables	9	586
Total loans and receivables		**446 814**
Total carrying amount of financial assets		**764 466**
Of which relates to financial assets held in cash pools	22	406 457
Financial liabilities at amortized cost		
Accounts payable and accrued expenses	14	30 712
Transfers payable		237
Total carrying amount of financial liabilities		**30 949**

	Note	*31 December 2014*
Summary of net income from cash pools		
Cash pool investment revenue	22	2 265
Cash pool unrealized losses	22	(126)
Cash pool interest and gains		**2 139**
Cash pool bank fees		
Net cash pool income[a]		**2 139**
Other investment revenue		296
Net income from financial instruments		**2 435**

[a] Cash pool foreign exchange losses of $1.454 million are reported under operating expenses.

Financial risk management: overview

113. The Office has exposure to the following financial risks: credit risk, liquidity risk and market risk.

114. This note presents information on the Office's exposure to these risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Risk management framework

115. The Office's risk management practices are in accordance with the Financial Regulations and Rules of the United Nations and Investment Management Guidelines (the Guidelines). The Office defines the capital that it manages as the aggregate of its net assets, which consists of accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The Office manages its capital in the light of the global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Credit risk management

116. Credit risk is the risk of financial loss if a counterpart to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions and credit exposures to outstanding receivables. The carrying amount of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

117. The investment management function is centralized at Headquarters, and other areas are not permitted in normal circumstances to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Credit risk: contributions receivable and other receivables

118. A large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities that do not have significant credit risk. As at the reporting date, the Office did not hold any collateral as security for receivables.

Credit risk: allowance for doubtful receivables

119. The Office evaluates the allowance for doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the Office will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approve write-offs under the Financial Regulations and Rules or are reversed when previously impaired receivables are collected. The movement in the allowances account during the year and the ageing of voluntary contributions receivable and associated allowances are shown in the tables below.

Movement in the allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2014	**13 241**
Additional allowance for doubtful receivables	6 195
Receivables written off during the period as uncollectible	(3 020)
As at 31 December 2014	**16 416**

Ageing of voluntary contributions receivable and associated allowances

(Thousands of United States dollars)

	Allowance (percentage)	*Gross receivable*	*Allowance*
Neither past due nor impaired	–	226 290	–
Less than one year	–	57 162	–
One to two years	25	17 777	4 444
Two to three years[a]	60	5 447	4 084
More than 3 years	100	7 888	7 888
Total		**314 564**	**16 416**

[a] 100 per cent allowance has been provided against one of the voluntary contributions due to uncertainty surrounding the collection.

120. There is no allowance for other receivables.

Credit risk: cash and cash equivalents

121. The Office had cash and cash equivalents of $109.641 million as at 31 December 2014, which is the maximum credit exposure on these assets.

Liquidity risk

122. Liquidity risk is the risk that the Office might not have adequate funds to meet its obligations as they fall due. The Office's approach to managing liquidity is ensuring that it will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Office's reputation.

123. The Financial Regulations and Rules of the United Nations require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions. Exceptions to incurring expenses prior to the receipt of funds are only permitted if established risk management criteria are adhered to with regard to the amounts receivable.

124. The Office performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. Investments are made with due consideration to the cash requirements for operating purposes based on cash flow forecasting. The Office maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

125. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations. As at the reporting date, the Office has not pledged any collateral for any liabilities or contingent liabilities and during the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities, based on the earliest date at which the Office can be required to settle each financial liability, are set out in the table below.

Maturities for financial liabilities

(Thousands of United States dollars)

	< 3 months	*3 to 12 months*	*> 1 year*	*Total*
Accounts payable and accrued expenses	30 712	–	–	**30 712**
Transfers payable	237	–	–	**237**
Total	**30 949**	**–**	**–**	**30 949**

Market risk

126. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the Office’s income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Office’s financial position.

Market risk: interest rate risk

127. Interest rate risk is the risk of variability in financial instruments’ fair values or future cash flows owing to changes in interest rates. In general, as interest rates rise, the price of fixed income securities falls, and vice versa. Interest rate risk is commonly measured by the duration of the fixed income securities, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk. The main exposure to interest rate risk relates to the cash pools and is considered in note 22, Financial instruments: cash pools.

Market risk: currency risk

128. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Office has transactions, assets and liabilities in currencies other than its functional currency and is exposed to currency risk arising from fluctuations in exchange rates. Management policies and the Guidelines require the Office to manage its currency risk exposure.

129. The Office's financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollars financial assets relate primarily to investments, in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The Office maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars. The Office mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for operational purposes. National laws of Colombia restrict the transfer of contributions collected in Colombia outside of the country.

130. The most significant exposure to currency risk relates to cash-pool cash and cash equivalents and voluntary contributions. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Colombian pesos, as shown in the table below.

Currency exposure as at 31 December 2014

(Thousands of United States dollars)

	USD	*EUR*	*COP*	*Other*	*Total*
Investments	309 836	7 816	–	–	317 652
Cash and term deposits in cash pools	84 876	3 929	–	–	88 805
Subtotal, cash pool	**394 712**	**11 745**	**–**	**–**	**406 457**
Cash and cash equivalents	443	1 333	15 481	233	17 490
Cash in transit	–	3 346	–	–	3 346
Loans and advances to implementing partners	15 326	226	10 560	–	26 112
Voluntary contributions	112 312	154 521	5 889	24 840	297 562
Total	**522 793**	**171 171**	**31 930**	**25 073**	**750 967**

Currency risk: sensitivity analysis

131. A strengthening/weakening of the euro and Colombian peso United Nations operational rate of exchange as at 31 December 2014 would have affected the measurement of investments denominated in a foreign currency, and affected the net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Currency exposure sensitivity analysis as at 31 December 2014

(Thousands of United States dollars)

	Net assets/surplus or deficit	
	Strengthening	*Weakening*
Euro (10 per cent movement)	17 117	(17 117)
Colombian pesos (10 per cent movement)	3 193	(3 193)
Other (10 per cent movement)	2 507	(2 507)

Market risk: other market

132. The Office is not exposed to significant price risk, as it has limited exposure to price-related risk linked to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

133. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits, receivables and payables, the carrying amount is a fair approximation of fair value. Investments carried at fair value through surplus or deficit are predominantly cash pool assets. The fair value hierarchy is presented in note 22, Financial instruments: cash pools.

Note 22
Financial instruments: cash pools

134. In addition to directly held cash and cash equivalents and investments, UNODC participates in the United Nations cash pools. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents and short- and long-term investments) and income is based on each participating entity's principal balance.

135. The Office participates in two United Nations Treasury-managed cash pools:

(a) The main cash pool, which comprises operational bank account balances in a number of currencies and investments in United States dollars;

(b) The euro cash pool, which comprises investments in euro currency; the pool participants are mostly Offices of the Secretariat away from Headquarters who may have a surplus of euros from their operations.

136. As at 31 December 2014, the cash pools held total assets of $9,608.8 million; of this amount $406.5 million was due to UNODC. The net income to UNODC from the cash pools was $2.435 million (see tables below).

Sum of assets and liabilities of the cash pools

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total as at 31 December 2014*
Fair value through surplus or deficit			
Short-term investments	3 930 497	97 011	4 027 508
Long-term investments	3 482 641	–	3 482 641
Total investments carried at fair value through surplus or deficit	**7 413 138**	**97 011**	**7 510 149**
Loans and receivables			
Cash and cash equivalents	2 034 824	48 819	2 083 643
Accrued investment income	14 842	119	14 961
Total loans and receivables	**2 049 666**	**48 938**	**2 098 604**
Total carrying amount of financial assets	**9 462 804**	**145 949**	**9 608 753**
Cash pool liabilities			
Payable to UNODC	394 712	11 744	406 456
Payable to other cash pool participants	9 068 092	134 205	9 202 297
Total liabilities	**9 462 804**	**145 949**	**9 608 753**
Net assets			

Summary of net income and expenses of the cash pools

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total for the year ended 31 December 2014*
Investment revenue	62 511	132	62 643
Financial exchange losses	(7 064)	(14 396)	(21 460)
Unrealised gains/(losses)	(3 084)	9	(3 075)
Bank fees	(214)	(2)	(216)
Net income from cash pools	**52 149**	**(14 257)**	**37 892**

Financial risk management

137. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

138. The investment management objectives are to preserve capital and ensure sufficient liquidity to meet operating cash requirements, while attaining a competitive rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the rate of return component of the objectives.

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

Credit risk

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

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

142. The credit ratings used are those determined by major credit-rating agencies; Standard & Poor's, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. Credit ratings at year's end are set out in the table below.

Investments of the cash pools by credit ratings as at 31 December 2014
(Thousands of United States dollars)

Main pool	*Ratings*
Bonds	S&P: 31.2% AAA, 59.8% AA+/AA/AA- and 1.3% A+; 7.7% not rated by S&P; Moody's: 69.3% Aaa and 30.7% Aa1/Aa2/Aa3; Fitch: 52.2% AAA, 21.4% AA+/AA/AA- and 26.4% not rated
Discounted instruments	S&P: 100% A-1+; Moody's: 70.0% P1 and 30.0% not rated; Fitch: 90.0% F1+ and 10.0% not rated
Term deposits	Fitch: 64.1% aa- and 35.9% a+/a/a-

Euro pool	*Ratings*
Bonds	S&P: 100% AA+; Moody's: 100% Aaa; Fitch: 100% not rated
Term deposits	Fitch: 22.1% aa- and 77.9% a+/a/a-

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

Liquidity risk

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

Interest rate risk

145. Fixed income investments are the cash pool's interest-bearing financial instruments. As at the reporting date, the cash pools invested primarily in securities with shorter terms to maturity, with the maximum being less than five years. The average durations of the main pool and the euro pool were 1.10 years and 0.22 years, respectively, which is considered to be an indicator of low risk.

Cash pool interest rate sensitivity analysis

146. The analysis shown in the table below illustrates how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase/decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). These basis point shifts are illustrative.

Cash pools interest rate risk sensitivity analysis as at 31 December 2014

Shift in yield curve *Basis points*	*-200*	*-150*	*-100*	*-50*	*0*	*50*	*100*	*150*	*200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool	205.5	154.1	102.7	51.4	–	(51.3)	(102.7)	(154.0)	(205.3)
Euro pool	0.6	0.5	0.4	0.1	–	(0.1)	(0.3)	(0.5)	(0.6)
Total	**206.1**	**154.6**	**103.1**	**51.5**	**–**	**(51.4)**	**(103.0)**	**(154.5)**	**(205.9)**

Market price risk

147. The cash pools are not exposed to significant price risk, as they do not sell short, or borrow securities, or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value, cash pool

148. For cash and cash equivalents, carrying value is a fair approximation of fair value.

Fair value hierarchy

149. The table below presents financial instruments carried at fair value, by the fair value hierarchy levels. The levels are defined as:

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

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

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

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

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

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

Fair value hierarchy

(Thousands of United States dollars)

	Level 1	*Level 2*	*Total as at 31 December 2014*
Financial assets at fair value through surplus or deficit			
Main pool			
Bonds, non-United States agencies	2 154 956	–	2 154 956
Bonds, non-United States sovereigns	691 489	–	691 489
Bonds, supranationals	440 169	–	440 169
Bonds, United States treasuries	1 297 290	–	1 297 290
Discounted instruments	999 234	–	999 234
Term deposits	–	1 830 000	1 830 000
Subtotal, main pool	**5 583 138**	**1 830 000**	**7 413 138**
Euro pool			
Bonds, non-United States sovereigns	6 157	–	6 157
Term deposits	–	90 854	90 854
Subtotal, euro pool	**6 157**	**90 854**	**97 011**
Total cash pools	**5 589 295**	**1 920 854**	**7 510 149**

Note 23
Employee salaries, allowances and benefits and non-employee compensation and allowances

Employee salaries, allowances and benefits
(Thousands of United States dollars)

	31 December 2014
Salaries	73 053
Pension contributions	11 627
Medical insurance, current	1 550
Other personnel costs and allowances	10 093
End-of-service actuarial valuation	6 429
Total	**102 752**

Non-employee compensation and allowances
(Thousands of United States dollars)

	31 December 2014
Individual contractors	37 301
Consultants and other non-employee compensations	11 875
Total	**49 176**

153. Employee salaries, allowances and benefits include salaries, post adjustments, entitlements, pensions, health plans and travel costs relating to home leave, education grant, assignment, separation and annual leave.

154. Non-employee costs refer to contracted services from individuals on the basis of time or delivery of defined outputs. Such contracts do not carry employment benefits made available to United Nations employees.

Note 24
Grants and other transfers

Grants and other transfers
(Thousands of United States dollars)

	31 December 2014
Other transfers (implementing partners)	38 244
Grants	5 636
Total	**43 880**

155. Other transfers to implementing partners relate to programmatic delivery executed on behalf of UNODC by other organizations. The amount of $38.244 million represents the work delivered for the year 2014 on the basis of certified financial reports provided by the implementing partners (see table above). In the absence of certified reports, UNODC estimated the work performed by reference to the duration

of the agreement and in consultation with the responsible programme managers. Related outstanding advances (i.e., cash transfers given to implementing partners for which work was yet to be delivered as at 31 December 2014) are shown as loans and advances to implementing partners in statement I.

156. Grants of $5.636 million represent funds given to non-governmental organizations under authorized small grant programmes limited to $0.060 million per award. Payments under these arrangements are fully expensed at the time of the award.

157. A summary of expenditures to implementing partners by type of entity is shown in the table below.

Summary of expenditures to implementing partners
(Thousands of United States dollars)

	31 December 2014
United Nations system organizations	3 013
International organizations	2 011
Member State Governments and government agencies	4 383
Non-governmental organizations	28 837
Total	**38 244**

158. Within the total of $28.837 million of non-governmental organizations, an amount of $24.919 million relates to awards to farming cooperatives under the alternative livelihoods programmes in Colombia.

Note 25
Other operating expenses

(Thousands of United States dollars)

	31 December 2014
Bad debt expense, voluntary contributions (note 9)	6 195
Expense recognized for contributions in kind, plant and equipment	2 455
Expense recognized for contributions in kind, premises (note 12)	10 954
Exchange losses	15 917
Acquisitions for non-expendable equipment	9 223
Contracted services	20 174
Joint activities	1 538
Maintenance expenses	11 287
Rent	4 113
Stationery and office supplies	1 399
Miscellaneous expenses	288
Total	**83 543**

159. Exchange losses consist of revaluation losses on bank accounts of $4.925 million, operational losses of $1.318 million and revaluation losses on voluntary contributions of $9.674 million.

Note 26
Related parties

Key management personnel

160. The key management personnel of UNODC are the Executive Director, the directors of the four UNODC divisions and the director of United Nations Interregional Crime and Justice Research Institute, as they all have authority and responsibility for planning, directing and controlling the activities of the Office. Their compensation is set out below.

Compensation of key management personnel

(Thousands of United States dollars)

	Number of posts	*Salaries and post adjustments*	*Entitlements*	*Pension and health benefits*	*Total remuneration*	*Outstanding advances against entitlements as at 31 December 2014*
Key management personnel	6	1 200	70	304	**1 574**	102

161. Key management personnel earn post-employment benefits at the same level as other employees. With the exception of pension fund benefits, other post-retirement benefits cannot be reliably quantified.

162. Entitlements include mobility and hardship allowance, home leave and rental subsidy.

163. The key management personnel do not hold any other interests with UNODC.

Note 27
Leases and commitments

Operating leases

164. The total operating lease expenditure recognized for the year amounted to $3.400 million. This total includes $1.816 million of donated-rights-to-use arrangements for which corresponding revenue is included in statement II and presented within the voluntary contributions revenue (note 19).

165. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Minimum lease obligations
(Thousands of United States dollars)

	31 December 2014
Due in less than one year	518
Due in one to five years	339
Total minimum operating lease obligations	**857**

166. The contractual leases entered into by UNODC are typically between one to five years with some leases allowing extension clauses and/or permitting early termination mostly within 30, 60 or 90 days. The amounts in the table above present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements.

Contractual commitments

167. As at the reporting date, the commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered are set out in the table below.

Commitments for property, plant and equipment, intangible assets and goods and services
(Thousands of United States dollars)

	31 December 2014
Property, plant and equipment	258
Goods and services	3 282
Total open contractual commitments	**3 540**

Note 28
Contingent liabilities and contingent assets

168. In accordance with IPSAS, claims classified as possible but not probable losses are not recognized for accounting purposes. As at 31 December 2014, a possible claim estimated at $0.118 million related to a labour dispute in a country field office remained unsettled. In the process, a judgment lien against a UNODC bank account was instated for the same. In the light of the privileges and immunities of the United Nations before national courts, management does not expect a resolution with an adverse impact to UNODC. Assessment of this case is performed on an ongoing basis and any changes will be reported accordingly.

Note 29
Events after the reporting date

169. The reporting date for these financial statements is 31 December 2014. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Annex I

Revenue from voluntary contributions for the year ended 31 December 2014

(Thousands of United States dollars)

Donor	*Drugs Programme*	*Crime Programme*	*Total*
A. Voluntary contributions from Member States			
Australia	200	1 791	1 991
Austria	559	1 908	2 467
Bangladesh	1	–	1
Bolivia (Plurinational State of)	150	–	150
Brazil	746	190	936
Canada	–	449	449
Chile	–	11	11
China	1 014	270	1 284
Colombia	61 276	3 474	64 750
Côte d’Ivoire	5	–	5
Denmark	–	1 224	1 224
Finland	1 987	490	2 477
France	1 361	2 375	3 736
Germany	4 635	274	4 909
Hungary	63	–	63
India	300	–	300
Israel	–	5	5
Italy	–	1 236	1 236
Japan	5 949	2 616	8 565
Kazakhstan	100	–	100
Kuwait	5	–	5
Libya	688	–	688
Liechtenstein	28	–	28
Luxembourg	138	212	350
Mexico	922	2 327	3 249
Monaco	–	479	479
Netherlands	1 030	8 894	9 924
Norway	873	5 271	6 144
Oman	10	–	10
Pakistan	1	–	1
Panama	3	41 673	41 676
Portugal	10	–	10
Qatar	–	1 970	1 970
Republic of Korea	195	138	333

Donor	Drugs Programme	Crime Programme	Total
Russian Federation	2 284	1 843	4 127
Saudi Arabia	239	72	311
Singapore	5	5	10
South Africa	–	475	475
Spain	125	41	166
Sweden	3 801	9 667	13 468
Switzerland	–	767	767
Thailand	60	245	305
Tunisia	1	–	1
Turkey	600	250	850
United Arab Emirates	3 867	30	3 897
United Kingdom of Great Britain and Northern Ireland	2 178	5 405	7 583
United States of America	17 579	16 558	34 137
Subtotal, A	**112 988**	**112 635**	**225 623**
B. Voluntary contributions from other government organizations			
Abruzzo region	–	58	58
Agroinnova, Universita di Torino	–	15	15
Association of Southeast Asian Nations	85	–	85
Bureau of Public Procurement, Nigeria	–	1 598	1 598
Engineering Ingegneria Informatica	–	54	54
European Commission	10 003	33 154	43 157
Inter-American Development Bank	–	180	180
Fundacio Privada Clinic per a la Recerca Biomedica	–	55	55
Ingenieria de Sistemas para la Defensa de Espana	–	63	63
Instituto de la Mujer Duranguense	–	285	285
International Criminal Police Organization (INTERPOL)	–	389	389
Nano 4 You GmbH	–	47	47
Organization of American States	–	22	22
Politecnico di Torino, Dipartimento di Autonomia e Informatica	–	49	49
United States Agency for International Development	8 251	–	8 251
World Bank	–	1 500	1 500
World Bank/United Nations Office on Drugs and Crime Star Trust Fund	–	200	200
Subtotal, B	**18 339**	**37 669**	**56 008**

Donor	Drugs Programme	Crime Programme	Total
C. Funds received under interorganization arrangements			
Food and Agriculture Organization of the United Nations	–	92	92
Joint United Nations Programme on HIV/AIDS	49	–	49
One UN, Albania	15	–	15
One UN, Viet Nam	30	198	228
One UN, United Republic of Tanzania	–	844	844
Peacebuilding Fund	–	1 961	1 961
Trust Fund to Support Initiatives of States Countering Piracy	–	2 979	2 979
United Nations Counter-Terrorism Centre	–	181	181
United Nations Children's Fund, Headquarters	–	6	6
United Nations Children's Fund, Somalia	–	45	45
United Nations Development Programme	332	549	881
United Nations Development Programme, AIDS Joint Programme, Uganda	22	–	22
United Nations Trust Fund for Human Security	–	711	711
World Health Organization	591	–	591
Subtotal, C	**1 039**	**7 566**	**8 605**
D. Public donations			
Abt Associates	71	–	71
Banco de la Republica	12	–	12
Cassa di Rispamio di Torino	–	82	82
Drug Abuse Prevention Centre, Japan	189	–	189
Drosos Foundation	–	861	861
French Sole, Ltd.	–	2	2
Galp Energia	–	41	41
Grupo 8 Seguranca	–	3	3
Lions Club International Foundation	100	–	100
Modern Times Group	–	38	38
Natural Resource Governance Institute	–	41	41
People Share Privatstiftung	–	55	55
Public donations	–	168	168
San Paolo Foundation	–	506	506
Subtotal, D	**372**	**1 797**	**2 169**
Total, A+B+C+D	**132 738**	**159 667**	**292 405**

Annex II

Status of outstanding voluntary contributions as at 31 December 2014

(Thousands of United States dollars)

Donor	Drugs Programme	Crime Programme	Total
A. Voluntary contributions from Member States			
Australia	1 043	1 101	2 144
Austria	–	923	923
Bolivia (Plurinational State of)	79	–	79
Brazil	11 083	5 041	16 124
Canada	1 962	2 773	4 735
Colombia	5 680	209	5 889
Denmark	491	3 011	3 502
Finland	915	–	915
Germany	1 936	–	1 936
Italy	334	860	1 194
Japan	449	–	449
Libya	4 069	3 000	7 069
Mexico	–	277	277
Monaco	–	463	463
Netherlands	3 819	7 294	11 113
Norway	–	2 649	2 649
Panama	–	41 530	41 530
Qatar	–	1 076	1 076
Republic of Korea	99	118	217
Saudi Arabia	183	–	183
Singapore	–	5	5
South Africa	–	477	477
Spain	–	150	150
Sweden	–	4 878	4 878
Switzerland	284	574	858
Thailand	–	18	18
Turkey	–	250	250
United Arab Emirates	5 179	–	5 179
United Kingdom of Great Britain and Northern Ireland	776	3 585	4 361
United States of America	4 449	17 601	22 050
Subtotal, A	**42 830**	**97 863**	**140 693**

Donor	*Drugs Programme*	*Crime Programme*	*Total*
B. Voluntary contributions from other government organizations			
Australian Agency for International Development	–	2 998	2 998
Bureau of Public Procurement, Nigeria	–	770	770
European Commission	46 292	101 527	147 819
Inter-American Development Bank	–	18	18
International Criminal Police Organization (INTERPOL)	–	111	111
Organization of Petroleum Exporting Countries Fund	300	–	300
United States Agency for International Development	11 191	214	11 405
World Bank	–	750	750
Subtotal, B	**57 783**	**106 388**	**164 171**
C. Funds received under interorganization arrangements			
Food and Agriculture Organization of the United Nations	–	18	18
International Labour Organization	–	132	132
Joint United Nations Programme on HIV/AIDS	5 774	–	5 774
United Nations Children’s Fund, Somalia	–	45	45
United Nations Counter-Terrorism Centre	–	84	84
United Nations Development Programme	300	231	531
United Nations Trust Fund for Human Security	–	292	292
World Health Organization	384	–	384
Subtotal, C	**6 458**	**802**	**7 260**
D. Public donations			
Abt Associates	47	–	47
Abruzzo region	–	19	19
Agroinnova, Universita di Torino	–	46	46
Banco Comercial Portugues	–	18	18
Cassa di Risparmio di Lucca	–	80	80
Cassa di Risparmio di Torino	–	68	68
Drosos Foundation	–	612	612
Engineering Ingegneria Informatica	–	59	59
Fundacio Privada Clinic per a la Recerca Biomedica	–	29	29
Grupo 8 Seguranca	–	1	1
Ingeneria de Sistemas	–	31	31

Donor	Drugs Programme	Crime Programme	Total
International Organization for Migration, Ethiopia	–	64	64
Modern Times Group	–	38	38
Nano 4 You GmbH	–	46	46
Natural Resource Governance Institute	–	20	20
Politecnico di Torino, Dipartimento di Autonomia e Informatica	–	116	116
San Paolo Foundation	–	465	465
SICPA Security Solutions	–	95	95
Subtotal, D	**47**	**1 807**	**1 854**
Total, A+B+C+D	**107 118**	**206 860**	**313 978**

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