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United Nations

United Nations Office on Drugs and Crime

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

General Assembly
Official Records
Seventy-third Session
Supplement No. 5J

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Report of the Board of Auditors

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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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Letter of transmittal

Letter dated 31 March 2018 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 406.3, I have the honour to transmit the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2017, 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 24 July 2018 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 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Chapter I

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

Opinion

We have audited the 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 2017 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNODC, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2017, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNODC to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends to either liquidate UNODC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UNODC.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit 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 internal control of UNODC.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNODC to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNODC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance with regard to, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in 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 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*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

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

24 July 2018

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2017. The Board examined financial transactions and operations at UNODC headquarters in Vienna and in the field operations in El Salvador and Panama.

Opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Office on Drugs and Crime as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards.

Overall conclusion

The Board did not identify significant errors, omissions or misstatements from the review of financial records of UNODC for the year ended 31 December 2017. However, the Board identified some deficiencies in the financial statements which were corrected by management in the course of the audit. The Board found areas for improvement in the implementation of the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat and travel management as well as in UNODC contributions to the Sustainable Development Goals.

Key findings

Financial management

The Board noted that UNODC recognized all revenues from contribution agreements and pledges as non-exchange revenues. UNODC recognized service deliveries through service agreements as exchange revenue. In particular, UNODC reported the project on the consolidation of the criminal procedure reform in Panama as non-exchange revenue. However, the project met all criteria for an exchange transaction. The review process of donor agreements for incoming contributions and pledges did not identify the incorrect treatment of revenue. The Board is of the opinion that all contributions need to be reviewed with regard to their classification in the financial statements.

UNODC used a model of full cost recovery for direct field office costs which were not fully attributable to individual projects. Data was manually processed by means of Excel spreadsheets and therefore was a time-consuming exercise. Often, journals were not posted immediately to Umoja when budget allocations were not sufficient. One cause for insufficient budget allocations was that project owners had not adequately monitored and reviewed the actual costs of their projects.

The second most significant element of UNODC liabilities on the statement of financial position of UNODC were liabilities for after-service health insurance. UNODC continued to gradually reserve more funding for after-service health insurance. This funding was kept within operating cash and not in a clearly separated pool. The Board is of the opinion that after-service health insurance funding represents cash that needs to be managed with due care. That could be done through a separate cost collector, such as a fund, in Umoja.

The global environment of UNODC operations can carry a considerable risk of foreign currency exposure. Some contributions agreements are made in euros with a fixed foreign exchange rate to translate expenses to United States dollars. UNODC bears the currency risk in that case. UNODC manually calculated the foreign exchange gain or loss for those agreements and reported it in the year in which the corresponding expenses were made. In addition, in order to prepare the table in note 21 of the financial statements, UNODC used data from Umoja and manually reclassified items to the "correct" currency. The Board noted that there were no clear guidelines or audit trails as to which items were reclassified.

Programme and Operations Manual

The Programme section of the Programme and Operations Manual encompassed about two thirds of the Office's framework for the substantive work on programmes and projects for the Division for Operations, the Division for Treaty Affairs and the Division for Policy Analysis and Public Affairs. The Programme section is meant to provide basic information on substantive and administrative processes that are common to the functioning of UNODC. The Board found that important information in the Programme section was outdated, inaccurate and lacking. For example, the Programme section referred to the outdated strategic framework for the period 2014−2015 instead of to the current strategic framework for 2018–2019. Strategic frameworks can be considered translations of the Secretariat's legislative mandates into programmes and subprogrammes.

Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat

The Board noted that UNODC had not undertaken systematic fraud risk assessments to identify areas where it was most susceptible to fraud. The Board considers it important that UNODC assess its specific fraud risks. Furthermore, the Board noted that UNODC fully relied on the Office of Internal Oversight Services for investigating fraud cases and that the investigation capacity of UNODC was limited. In particular, investigations in field offices were reported to be difficult owing to the need to travel, the lack of language skills and expertise on the subject matter and a lack of knowledge relating to the conducting of investigations.

Travel management

Authorizations for travel management are accomplished using either Umoja or through Lotus Notes, depending on which platform the traveller prefers to use. The Lotus Notes application facilitates a quarterly travel plan, while Umoja does not offer a similar application. The Board considers it important that the overall travel process be recorded in Umoja to enhance transparency and facilitate data analyses.

Procurement

In accordance with section 8.1 of the United Nations Procurement Manual, procurement offices shall set up acquisition plans for the forthcoming budgetary period on an annual basis. For 2017, UNODC did not set up an overall procurement plan. As of the end of April 2018, UNODC had not set up the overall procurement plan for 2018 owing to an insufficient response rate. The Board noted that the established institutional structure to collect the consolidated procurement plans did not function properly. UNODC had not established a procedure on how to respond if headquarters and field offices did not comply with the annual request for consolidated procurement plans.

Sustainable Development Goals

The Board noted that there was no clear structure to encourage and enable the exchange of experience on the Sustainable Development Goals among individual field offices and with the informal working group at UNODC headquarters. Training materials on the 2030 Agenda for Sustainable Development could be enhanced with topics such as promoting the Goals and on fundraising for projects for their achievement. The UNODC Intranet website did not provide information on ways to internally disseminate specific methods on integrating the Goals into the work of UNODC. Goals 10 and 11, for which UNODC is providing United Nations-wide methodological guidance, are not mentioned in the UNODC strategic framework for the period 2018–2019.

Main recommendations

The main recommendations are that UNODC:

Financial management

- **Incorporate a check for criteria of exchange revenues into the clearance process of incoming contributions and treat them as exchange revenues when applicable.**
- **Ensure that project owners review their costs and outstanding commitments more frequently by means of, for example, business intelligence reports, which highlight overspent budget lines.**
- **Clearly separate the after-service health insurance funding from operational cash in future.**
- **Review its currency risk and develop internal guidelines for handling currency exposures.**

Programme and Operations Manual

- **Review the Programme section of the Programme and Operations Manual, update it as soon as possible and keep it up-to-date and accurate.**
- **Integrate documents concerning substantive work, including the Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development, into the Programme and Operations Manual.**

Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat

- **Assess the Office's specific fraud risks at its headquarters and field offices in a timely manner.**
- **Provide information about fraud and corruption in a special section on its Intranet website.**

Travel management

- **Take efforts, in liaison with the United Nations Secretariat, to customize the Umoja travel module to facilitate advance travel planning and to pool the overall travel process within Umoja.**

Procurement

- **Ensure immediate action to enable the establishment of an overall procurement plan for 2018, and enhance the already established structure, in order to capture the consolidated procurement plans of the subordinate entities in a timely manner.**

Sustainable Development Goals

- **Establish a network of field operational focal points and, together with the members of the informal working group at UNODC headquarters, advertise the network internally.**
- **Develop a training package to deliver comprehensive guidance and advice on how the Sustainable Development Goals can be best integrated into the work of UNODC.**
- **Develop a knowledge platform to enable and support the internal flow of information on the Goals across UNODC.**
- **Thoroughly analyse all projects and programmes, and consider enhancing future strategic frameworks, with regard to all the Goals and targets to which UNODC can contribute.**

Key facts

Core staff of 588 from 71 locations

$303.2 million: original budget for 2017 in the biennium 2016–2017

$392.1 million: revenues in 2017

$308.7 million: expenses in 2017

$278.4 million: net contributions receivable, from donors, under current agreements

$624.1 million: cash and investments in the United Nations cash pool

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 588 from 71 locations. Almost all of the activities of UNODC are undertaken through individual projects at global, regional and country levels (280 active projects).

2. The Board of Auditors audited the financial statements of UNODC and reviewed its activities for the year ended 31 December 2017, 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 Regulations and Rules of UNODC, as well as the International Standards on Auditing.

3. The audit was conducted to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNODC as at 31 December 2017 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 in the field operations in El Salvador and Panama.

4. The Board reviewed the activities of UNODC and, as provided in section 7.5 of the Financial Regulations and Rules of the United Nations, made 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 Office's financial position and reviewed elements of its travel management and procurement processes. In its audit, the Board has included the cross-cutting issues of the implementation of the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat and the Office's contribution to the Sustainable Development Goals.

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

B. Follow-up of previous recommendations of the Board

6. Of the 42 outstanding recommendations made by the Board up to the year ended 31 December 2016, 26 (62 per cent) were fully implemented, while 16 (38 per cent) remained under implementation (see table II.1). Details of the implementation of the previous years' recommendations are provided in the annex to chapter II.

Table II.1
Status of implementation of recommendations

	Fully implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
Total	26	16	0	0
Percentage	62	38	0	0

Source: Board of Auditors.

7. Overall, there has been positive progress across many of the recommendations still marked as under implementation, including in the areas of financial management and reporting; gaining an accurate picture of progress information on projects and programmes against milestones; and collecting better data on the volumes and value of field office procurement. Actions must be taken by management to address 38 per cent of recommendations which have yet to be implemented.

C. Financial overview

8. UNODC is mainly funded through voluntary contributions. In 2017, net voluntary contributions amounted to $341.2 million (2016: $292.5 million) of total revenue of $392.1 million (2016: $347.0 million). Revenue also included $30.6 million from the United Nations regular budget (2016: $30.1 million). Expenses for the year were $308.7 million (2016: $241.9 million), resulting in a surplus of $83.4 million (2016: $105.1 million). This was largely due to the fact that contributions were received late in the year and the projects were not implemented until 2018. The Board further noted the continued trend towards earmarked resources. The Board noted that efficient project control was necessary in order to quickly implement projects when funding was received, particularly when the inflow of funding was uneven throughout the year.

9. The Board's analysis of capital structure ratios demonstrates that, despite the competitive environment for donor funds, the current financial position of UNODC remains sound and has slightly improved compared with 2016, with an assets to liabilities ratio of 2.73. The current ratio is even better, with a value of 4.18. The analysis of ratios shows relative consistency over the past financial years (see table II.2). The figures for 2016 have been restated in accordance with restatements in the financial statements.

Table II.2
Capital structure ratios

Description of ratio	*31 December 2017*	*31 December 2016 (restated)*	*31 December 2015*
Total assets: total liabilities[a]	2.73	2.72	2.46
Assets: liabilities			
Current ratio[b]	4.18	4.05	3.04
Current assets: current liabilities			
Quick ratio[c]	4.07	3.86	2.95
Cash + short term investments + accounts receivable: current liabilities			
Cash ratio[d]	2.92	2.64	1.72
Cash + short-term investments: current liabilities			

Source: Board analysis of UNODC financial data.

[a] A high ratio indicates an entity's ability to meet its overall obligations.

[b] A high ratio indicates an entity's ability to pay off its current liabilities.

[c] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[d] The cash ratio is an indicator of an entity's liquidity; it measures the amount of cash, cash equivalents or invested funds that are in current assets to cover current liabilities.

10. The two major components of the UNODC asset base are cash and investment balances, which totalled $624.1 million (2016: $509.0 million) and voluntary

contributions receivable from donors of $278.4 million (2016: $249.0 million). Cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNODC cash balances totalled $6.7 million (2016: $3.5 million). Voluntary contributions receivable represent the remaining sums due over the lifetime of the current agreements with donors, of which an amount of $99.3 million (2016: $86.4 million) is due in more than one year's time. The level of voluntary contributions receivable increased by 12 per cent during 2017 (2016: decrease of 3 per cent), which represents a decline in the receipt of voluntary contributions, as could be seen already in previous years.

11. The Office's most significant liability is for the advance receipt of conditional voluntary contributions of $154.7 million (2016: $120.0 million). The advance receipt stems from current European Union agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. Advance receipts represent, from the perspective of UNODC, 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, depend on UNODC continuing to deliver current projects and programmes in line with expectations.

12. The second most significant element of UNODC liabilities results from employee benefits of $120.7 million (2016: $110.5 million). The employee benefits liabilities represent obligations incurred at year-end, the largest element being the estimate for the cost of after-service health insurance of $91.4 million (2016: $82.9 million). The effect of an increased discount rate alongside other experience adjustments and updated demographic assumptions resulted in an overall net actuarial valuation loss of $2.0 million (2016: $3.0 million) on the after-service health insurance liability, as disclosed in note 14 to the financial statements. It remains important to ensure that currently funded projects provide sufficient contributions to meet any associated increases in costs so that past project activities do not require substantive funding from future donors.

D. Main findings and recommendations

1. Financial management and internal control

Financial reporting — exchange revenue

13. The main sources of income for UNODC are voluntary contributions. Within voluntary contributions, IPSAS standards distinguish between contributions from exchange transactions and contributions from non-exchange transactions. In 2017, UNODC reported $341.2 million contributions from non-exchange transactions and $6.3 million contributions from exchange transactions.

14. Paragraph 11 of IPSAS 9, defines exchange transactions as transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange. All transactions that do not meet these criteria are defined as non-exchange transactions.

15. UNODC assumed that all incoming contribution agreements and pledges from donors represented non-exchange transactions.

16. No contribution agreements or pledges were signed for the provision of software support and services. Instead, UNODC negotiated service agreements with the service recipient. These services were presented as exchange transactions and are disclosed in note 20 to the financial statements.

17. The Board noted that the project on the consolidation of the criminal procedure reform in Panama met all criteria for an exchange transaction. Nevertheless, UNODC classified it as non-exchange revenue. UNODC did not notice the incorrect treatment of revenues when the agreement was negotiated nor when the revenues were recorded. UNODC had no checklist containing criteria for distinguishing between exchange and non-exchange transactions.

18. In the 2017 financial statements, UNODC retroactively amended the treatment of the project in Panama. Prior-year figures were restated.

19. IPSAS-compliant financial statements need to appropriately distinguish between exchange and non-exchange revenues. The Board is of the view that all contributions need to be reviewed with regard to their classification in the financial statements. The Office's current review process of incoming pledges does not cover exchange transactions. For future contributions, the review process should result in a complete and compliant reporting of revenues.

20. **The Board recommends that UNODC create a checklist with respect to all new pledges or agreements to ensure completeness and the correct classification of revenues.**

21. **The Board further recommends that UNODC incorporate the aforementioned checklist of exchange revenues into the clearance process of incoming contributions and treat them as exchange revenues when applicable.**

Full cost recovery

22. UNODC is mainly funded through earmarked voluntary contributions. When projects are executed, UNODC incurs direct and indirect costs. Direct costs also include field office budgets and functions which cover more than one project.

23. UNODC used a model of full cost recovery for those direct field office costs that were not fully attributable to individual projects. With the full cost recovery, such direct field office costs were distributed to projects on the basis of distribution keys.

24. Each month, headquarters in Vienna prepared an Excel file containing all field office costs for distribution. The file was then sent to all 17 country and regional offices for review. Each field office reviewed its costs and prepared a journal to be posted to Umoja.

25. The Board noted that data were processed manually by means of spreadsheets prepared using Excel, and that a systems integrated approach was not used. While no errors were identified during its audit, the Board considers that this approach represents a potential source for error. Furthermore, the process was time-consuming for both the field offices and headquarters in Vienna.

26. **The Board recommends that UNODC review the monthly distribution of expenses with the aim of further streamlining the full cost recovery process.**

27. Journals often could not be posted immediately to Umoja. This occurred when budget allocations were not sufficient. A journal can only be posted in Umoja if enough unutilized budget funds are still available at a project or specific cost-class level.

28. The Board noted that one cause for insufficient budget allocations was that project owners did not monitor and review the actual costs of their projects with due care. In some cases, project owners were not aware of their ability to access adequate business intelligence reports. In addition, the use of additional business intelligence reports would enable project owners and the finance team to identify mistaken transactions at the outset.

29. **The Board recommends that UNODC project owners review their costs and outstanding commitments more frequently by means of, for example, business intelligence reports, which highlight overspent budget lines.**

30. **The Board further recommends that UNODC seek ways to enhance financial management visibility through additional business intelligence reports and corresponding training.**

31. The Board noted that another cause for insufficient budget allocations was that electronic inter-office vouchers were not cleared in a timely manner. In addition, commitments were not reviewed and adjusted or cleared in a timely fashion. In these cases, budgets were blocked and could not be used for full cost recovery allocations.

32. The Board welcomes the Office's suggestions to undertake a process review to identify potential steps for improvement. Other steps suggested included additional business intelligence reports that highlight overspent budget lines and the tracking of late charging to projects, as well as filters to identify mistaken transactions at the outset. The Board encourages the implementation of the steps proposed.

33. **The Board recommends that UNODC project owners ensure that electronic inter-office vouchers and commitments are cleared and charged to projects in a timely way.**

After-service health insurance funding

34. The second largest liabilities on the statement of financial position of UNODC were liabilities for after-service health insurance within employee benefits liabilities. They amounted to $91.4 million as at 31 December 2017. The liabilities have constantly increased over the past years.

35. As a funding strategy for future payments on after-service health insurance, UNODC started levying 9 per cent of gross salaries within voluntarily funded activities in 2012. Until 31 December 2017, UNODC continued to gradually reserve funding for its after-service health insurance. UNODC has been building up funding for after-service health insurance and has not started to use the funding. Instead, UNODC continues to follow a "pay-as-you-go" practice for the time being.

36. The Board noted that this funding was kept within operating cash and not within a clearly separated pool. If the funding is not kept in a separate pool, UNODC faces the potential risk of diverting the funding for operating purposes.

37. The Board is of the opinion that after-service health insurance funding represents cash that needs to be managed with due care, since it is kept on behalf of UNODC employees. UNODC could accomplish this by setting up a separate cost collector, such as a fund, in Umoja, to be exclusively used for after-service health insurance payments.

38. **The Board recommends that UNODC keep the after-service health insurance funding clearly separated from operational cash in future.**

39. **The Board further recommends that UNODC analyse the current funding level and assess whether the funding level will be sufficient for all areas in the long term.**

Foreign currency management

40. UNODC prepares its financial statements in United States dollars. However, in 2017 UNODC received contributions in United States dollars and in other currencies, including euros, for example. To adequately present and disclose currencies in the

financial statements and to pay due regard to currency risks, UNODC was required to calculate currency effects at various stages.

41. In some instances, pledges were agreed and recorded in Umoja in one currency, but related payments were made in tranches of a different currency. This could require the manual recalculation of foreign exchange gains or losses at year-end.

42. The Financial and Administrative Framework Agreement between the European Community, represented by the Commission of the European Communities and the United Nations, defines terms for contributions from the European Community. Contributions agreements under the Framework Agreement are made in euros with a fixed foreign exchange rate to translate expenses in United States dollars to their equivalent in euros. UNODC bears the currency risk in this case. For correct treatment in the financial statements, UNODC needed to manually calculate the foreign exchange gain or loss and report it in the year in which the corresponding expenses were made.

43. The Board noted that UNODC reported the foreign exchange gain or loss on such agreements within voluntary contributions in the statement of financial performance. In addition, UNODC amended the presentation in the financial statements retroactively. For future reporting periods, the gains or losses will be presented within other revenues or other operating expenses.

44. The Board is of the opinion that the global environment of UNODC operations could face considerable risk in terms of foreign currency exposure, particularly with regard to voluntary contributions receivable. Therefore, transactions in foreign currencies need to be regularly reviewed.

45. **The Board recommends that UNODC review its currency risk and develop an internal guideline for handling currency exposures.**

46. UNODC stated that the overall investment strategy and foreign exchange rate policy for pooled funds was determined by the Secretariat. UNODC further stated that an operational guideline could not be created because the Office would need to continue accepting foreign currency pledges irrespective of the currency fluctuations, as the final allotments were based on cash amounts received.

47. The Board recognizes that UNODC takes part in the Secretariat-wide management of the United Nations Treasury and follows related investment and foreign currency policies. The Board, however, wishes to emphasize that there is an additional foreign currency risk resulting from the currency fluctuations of pledge agreements. These are not included in the overall currency strategy. UNODC should know and monitor the related risk. An internal guideline could include the potential risks of foreign currency exchange fluctuations, sources and categorization of the risks, as well as countermeasures, if necessary.

48. Note 21 to the financial statements discusses UNODC exposure to currency risks. Investments, cash and receivables are presented by currency, and the main currencies are United States dollars, euros and Colombian pesos.

49. In order to prepare the table in note 21, UNODC used data from Umoja and manually reclassified items to the “correct” currency. A reclassification was necessary, for example, when allowances were posted in United States dollars rather than in the currency of the agreement, or when pledges were not posted in the same currency as partial cash receipts.

50. The Board noted that UNODC had no clear guidelines or audit trails in place regarding which items were reclassified.

51. **The Board further recommends that UNODC prepare the notes on currency exposure in a systematic approach with a clear trail of changes in cases in which modifications to Umoja data were necessary.**

Cash management

52. UNODC participates in the United Nations Secretariat cash pool. The cash pool consists of house banks located in various countries with different currencies that include, for example, a bank account holding United States dollars in New York, a bank account containing euros in Vienna and a bank account holding Swiss francs in Geneva. All bank accounts are held in the name of the United Nations and do not belong to individual entities. Within the cash pool, each entity can use all house bank accounts as needed.

53. The Board noted that the Regional Office for Central America and the Caribbean located in Panama had no access to a cash pool account in Panama. The Board was provided with the information that a house bank account in Panama existed but could not be used, owing to technical issues. As a result, the Office outsourced all payments to another United Nations entity, incurring a service fee.

54. Through the cash pool, the Regional Office had access to the bank account located in New York. Bank transfers from the United States of America to Panama led to international transaction fees and were used only occasionally.

55. The Board is of the opinion that cash pools need to be utilized wherever possible. If technical issues hinder the use of a cash pool, they need to be solved in liaison with the United Nations Treasury.

56. **The Board recommends that UNODC liaise with the United Nations Treasury in New York to enable access to the cash distribution functionality of the bank account in Panama.**

57. **The Board further recommends that UNODC perform a review to ascertain whether there are additional cases where access to the cash pool is restricted.**

58. The line item “cash and cash equivalents” in the statement of financial position comprises the UNODC share in the United Nations cash pool as well as petty cash and imprest accounts. Cash held in the United Nations cash pool amounted to $577.34 million. Petty cash accounts amounted to $0.036 million.

59. UNODC managed 47 petty cash accounts at its headquarters and field offices, according to the list of general ledger accounts. The Board reconciled cash count statements provided by UNODC with the respective general ledger accounts balances. The Board found that:

- Balances recorded in general ledger accounts corresponded to their respective cash count statements in 32 cases. In 15 cases, the statements had formal errors (e.g., the statement was not dated or the second signature was missing).
- Two petty cash accounts were not in use. Nevertheless, both general ledger accounts had balances carried forward or ending balances. In the two cases, the latest replenishment was in November 2015.
- Four cash count statements amounting to a total of $1,457.50 were missing.

60. Although the cash count exercise provided better results compared with prior years, there is still room for improvement. The Board is of the view that petty cash accounts need to be managed more accurately. Petty cash accounts not in use with balances carried forward should be cleared.

61. **The Board reiterates its previous recommendation that UNODC improve the control for petty cash balances, collect cash count statements for each petty cash account and ensure that cash count statements comply with relevant formal rules.**

62. Rule 104.4 of the Financial Regulations and Rules of the United Nations stipulates that the Under-Secretary-General for Management shall designate the banks in which the funds of the United Nations shall be kept, shall establish all official bank accounts required for the transactions and shall designate those officials to whom signatory authority is delegated for the operation of those accounts. Pursuant to rule 104.4 (a), bank accounts shall be designated official accounts of the United Nations.

63. The Board found that nine petty cash accounts were in use for Colombia. Eight of those accounts were imprest bank accounts instead of petty cash amounting to a total of $6,611.30. Nevertheless, balances were posted to general ledger cash accounts instead of general ledger bank accounts. Field office staff provided respective imprest claim statements according to the bank statements.

64. UNODC is not entitled to open bank accounts in its own name and on its own account. Staff members who acted in their own names and as account holders disregarded the above rules. The Board is of the opinion that the current situation bears the risk of fraud and loss of financial resources.

65. **The Board recommends that UNODC take action to align the handling of petty cash in Colombia with the Financial Regulations and Rules of the United Nations.**

66. UNODC stated that accounts in Colombia were duly authorized and that access to local banks was not available in remote locations. UNODC also stated that, owing to the lack of local banking infrastructure and banking facilities, the current procedure was chosen to ensure programme delivery and for reasons of safety.

67. The Board recognizes the operational need for the current procedure. Nevertheless, the Board reiterates its recommendation that UNODC take efforts, if necessary in liaison with United Nations Headquarters, to review the process regarding the handling of petty cash accounts in Colombia. If UNODC deems that United Nations bank accounts in Colombia are not practicable, the solution, in any case, must follow the Financial Rules and Regulations. If exceptions to the standard process are necessary, the new process needs to be transparent, duly agreed and well documented.

Voluntary contributions receivable

68. UNODC reported gross voluntary contributions receivable and current other receivables of $296.24 million. Receivables are financial assets. According to paragraph 75 of IPSAS 1, information about expected dates of realization of financial assets is useful in assessing the liquidity and solvency of an entity. For each class of financial asset an entity should disclose information about the extent and nature, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows (see IPSAS 15, para. 54 (a)).

69. UNODC separates the gross voluntary contributions receivables into the following ageing categories: (a) neither past due nor impaired; (b) less than one year; (c) one to two years; (d) two to three years; and (e) more than three years (see note 7 of the financial statements).

70. UNODC stated that the ageing of receivables was calculated as the difference between the year-end date (31 December 2017) and the due date. The number of days between the two dates conclusively determined the ageing of the receivable.

71. The "due date" refers either to (a) the agreement with the donor, if payment terms and due dates are indicated therein; (b) the field office's estimated date of payment by the donor; or (c) the last day of the pledge, if cash is expected to be received on a regular basis.

72. In cases in which the field office determines a new best estimate, UNODC intends to replace the former due date in Umoja with this new due date. Future calculations of ageing categories will depend on the new due date ("due date revised").

73. The Board noted that it was not possible to evaluate the accuracy of the categorization of receivables owing to the fact that no clearly identifiable and traceable due dates were available; therefore, the dates did not necessarily refer to original agreements.

74. **The Board recommends that, to the extent possible, UNODC should define payment terms and due dates in every agreement so as to define a clear and easy reference in the ageing process.**

75. **The Board further recommends that UNODC improve the ageing process so that there is minimal manual intervention relating to due dates. UNODC should establish rules to define the dates that refer to the ageing process accordingly.**

Segment reporting

76. In segment reporting (see note 3 of the financial statements), UNODC makes a distinction between "drug programme" segments and "crime programme" segments. UNODC explained that the segment reporting was structured to match the two pillars of UNODC (i.e., anti-drug activities and anti-crime activities). UNODC does not provide information on the details of subprogrammes nor on geographical regions as part of segment reporting.

77. UNODC allocates revenues and expenditures to segments on the basis of their use. Funds specifically used for anti-drug activities are allocated to the drug programme segment, while funds specifically used for anti-crime activities are allocated to the crime programme segment. Funds used for both types of activities are allocated by the Accounts Section of the Financial Resources Management Service after manual calculations of their shares.

78. IPSAS 18 requires segment reporting to support the evaluation of an entity's past performance in achieving its objectives, and the taking of decisions about the future allocation of resources. IPSAS 18 distinguishes between service segments and geographical segments and permits either for segment reporting.

79. The current segment reporting of UNODC conclusively meets the requirements of IPSAS 18. However, the Board is of the opinion that segment reporting can be enhanced further. The Board noted that the content of the subprogramme performance evaluations of UNODC and the reports on regional programmes might be used to enhance segment reporting. The Board noted that it might be easier to distinguish expenses rather than revenues, assets and liabilities.

80. **The Board recommends that, as a first step, UNODC should start enhancing its segment reporting by distinguishing expenses not only between drug and crime programmes but also among geographical regions and/or subprogrammes.**

81. **The Board recommends that, as a second step, UNODC should determine the feasibility of enhancing segment reporting further by distinguishing revenues, assets and liabilities among geographical regions and/or subprogrammes. The aforementioned recommendations should be implemented**

once the allocations to new segments are compliant with the requirements of IPSAS 18 and can be applied consistently over the years. This would enable readers to compare segment reporting among financial statements.

Lease management

82. UNODC discloses leases and commitments in the financial statements. The information comprises non-cancellable lease-in contracts as well as donated rights-to-use arrangements:

- Disclosed lease-in contracts cover rental agreements in various field offices. Owing to contractual terms, UNODC is not able to terminate all lease-in contracts immediately and therefore needs to disclose respective commitments pursuant to IPSAS 13.
- Donated rights-to-use arrangements include offices and buildings for which a host country has provided the right to use those premises. The information is stored in the Umoja module RE-Navigator.

83. The reporting tool does not offer an input option to distinguish between lease-in contracts and donated rights to use nor does it offer an option to distinguish between cancellable and non-cancellable lease-in contracts. Moreover, stored data was not suitable for further processing since the field offices provided incomplete information. As a result, captured information was stored in a database outside Umoja (in an Excel spreadsheet) and was continually updated.

84. The audit for the financial year 2016 resulted in a restatement of the 2015 figure, resulting in a reduction of $329,845, and a correction to the 2016 figure, resulting in an increase of $476,784. The current-year commitments also need to be adjusted.

85. The Board noted that a complete overview of all lease-in contracts and submitted information cannot be ensured, although UNODC had made progress in improving the process. The Board is of the opinion that there is room for improvement. A periodic exercise should be conducted to capture respective data for further processing. Ownership of all parts of the process needs to be clearly identified and allocated to the appropriate parties involved. The Director of the Division for Operations needs to take action if the field offices provide inadequate or no data.

86. **The Board recommends that UNODC enhance the overall process of recording all leases in the supplier relationship management database in Umoja.**

87. **The Board further recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to customize the Umoja real estate module to facilitate the identification of lease-in versus lease-out contracts as well as cancellable versus non-cancellable lease-in contracts. A database outside Umoja would then become redundant in the future.**

2. Programme and Operations Manual

88. The Board audited the Programme and Operations Manual as presented in Lotus Notes on 15 February 2018. The Manual was developed in 2005 and is written for staff in headquarters and field offices. Since 2011, the Manual has been accessible as an electronic document through Lotus Notes.

89. The Manual includes a section on Programmes and a section on Operations. The Programme section encompasses about two thirds of the UNODC framework for the substantive work on programmes and projects for the Division for Operations, the Division for Treaty Affairs and the Division for Policy Analysis and Public Affairs. The remaining third of the UNODC substantive framework is maintained separately

from the Manual in documents such as “UNODC: The Integrated Programme Approach (IPA): A ‘How To’ Guide” of June 2014.

90. According to its introduction, the Manual is meant to provide basic information on substantive and administrative processes that are common to the functioning of UNODC. It is not designed as a detailed handbook for any specific section of the Office, nor is it intended to be a list of rules and principles. Rather, the Manual is designed to be a tool to assist in the planning and implementation of the Office’s programme of work and to guide staff through the various stages that need to be followed and the ways that particular actions should be taken.

Programme section

91. The Strategic Planning and Interagency Affairs Unit in the Division for Policy Analysis and Public Affairs is responsible for maintaining 8 of 10 subsections in the Programme section. Of the remaining two subsections, the Independent Evaluation Unit is responsible for subsection 9, “Evaluation”, and the Information Technology Service is responsible for subsection 11, “ProFi”, which discusses the Programme and Financial Information Management System (subsection 7 does not exist). Table II.3 shows the subsections, the entities responsible for them and the most recent updates to all or parts of a subsection.

Table II.3
Programme and Operations Manual subsection, entity responsible and most recent update

Subsection	*Entity responsible*	*Most recent update*
1. Introduction to the Manual	SPIA	2014
2. The Integrated Programme Approach	SPIA	2014
3. Formulation	SPIA	2014
4. Financial	SPIA	2012
5. Approval	SPIA	2009, 2010, 2013
6. Implementation	SPIA	2005
7. [Does not exist]		
8. Monitoring and Reporting	SPIA	2010, 2013
9. Evaluation	IEU	2010
10. Termination	SPIA	2010
11. ProFi	ITS	2012

Source: Board of Auditors.
Abbreviations: IEU, Independent Evaluation Unit; ITS, Information Technology Service; ProFi, Programme and Financial Information Management System; SPIA, Strategic Planning and Interagency Affairs Unit.

92. The Board found outdated, inaccurate and incomplete information. For instance, subsections 2, “The Integrated Programme Approach”, and 3, “Formulation”, refer to the outdated strategic framework for the period 2014–2015 instead of to the current strategic framework for 2018–2019. The Board noted that strategic frameworks could be considered translations of the Secretariat’s legislative mandates into programmes and subprogrammes. In addition, not all subsections reflect changes caused by Umoja related to processes and systems such as programme planning, monitoring and reporting.

Umoja Extension 2

93. The Programme section refers to the Programme and Financial Information Management System (ProFi), which supports the Office's project/programme life cycle from start to finish. ProFi includes applications, reports and workflows that help record, approve, track, monitor and report on financial, substantive and administrative activities and developments in the UNODC trust fund programmes, projects and offices. It includes financial, substantive and administrative data and an evaluation application to manage all UNODC independent evaluations.

94. The Board noted that Umoja Extension 2 might possibly replace ProFi functionalities. Umoja Extension 2 will complement the enterprise resource system already deployed with the following:

- Strategy management for the creation and maintenance of logical frameworks and any strategic plans and local programmes of work, and the maintenance of project-specific logical frameworks
- Portfolio and project management for project planning, review, implementation and monitoring
- Grantor management
- Business planning and consolidation for budget formulation (programmes and projects)
- Fundraising and donor relations

95. The Board noted that the strategy management application was expected to be based on the Office's framework for substantive work on programmes and projects, that is, mainly on the Programme section of the Programme and Operations Manual. UNODC was still working with other United Nations Secretariat entities and the Office of Enterprise Resource Planning — Umoja in New York on design details. Furthermore, the Board noted that no decision had yet been taken on how the UNODC substantive framework documents were to be made available in Umoja.

96. In the Board's view, the Programme section of the Manual was at least partly outdated and inaccurate. That outdated and inaccurate information was sometimes of major importance, as when, for example, references were made to the strategic framework. Regardless of some weaknesses in terms of timeliness and accuracy, the Programme section does encompass some two thirds of the substantive knowledge of UNODC, and the Board considers the section to be a unique and valuable body of written knowledge that has been built up over a long time. If UNODC does not maintain the section with due care and keep it up-to-date, that knowledge will further lose its value.

97. In its field visits, the Board learned that staff members, especially those new to UNODC, were encouraged to study the Manual. If such a central document is inaccurate and not up-to-date, the quality of work may decline. Furthermore, staff may lose trust in the Programme section and possibly stop using it.

98. Moreover, the knowledge of programme and project management in the Programme section of the Manual, and in ProFi, for UNODC substantive work serves as an important basis and source for implementing substantive processes in and migrating data to Umoja. The Board is of the view that outdated and inaccurate information could make implementation in Umoja more complex and put such implementation at risk. Furthermore, it would be more user-friendly if users could easily print a copy of the Manual if they needed it, for instance, in locations without a stable Internet connection.

99. **The Board recommends that UNODC review the Programme section of the Programme and Operations Manual, update it as soon as possible and keep it up-to-date and accurate.**

100. UNODC agreed with the recommendation to update the Programme section as soon as possible and establish an internal mechanism to keep it up-to-date and accurate, and stated that it would undertake measures to do so. UNODC also stated, however, that once the Manual had been updated and aligned with other strategic guidance documents, such as the newly developed UNODC Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development, UNODC envisaged a relaunch of the Manual on an appropriate platform. Furthermore, UNODC envisaged an integration of the Manual into training activities in close coordination with relevant responsible entities in-house. Those activities would be regularly carried out by the Strategic Planning and Interagency Affairs Unit for UNODC staff on topics such as results-based planning, monitoring and reporting in the context of the 2030 Agenda. Relevant sections of the Manual referring to the strategic framework for the period 2018–2019 had already been updated, while technical issues concerning the migration of ProFi into Umoja or into other platforms were currently being discussed.

101. **The Board recommends that UNODC make the knowledge in the Programme and Operations Manual available in such a way that users can easily print a copy.**

102. UNODC stated that the Manual was currently printable, but agreed that it was not very user-friendly. The printable version was developed upon advice by the Information Technology Service. Further enhancement would require alignment and compatibility with the new Secretariat-wide sharing platform.

Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development

103. The Board noted that the Strategic Planning and Interagency Affairs Unit had drafted a Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development based on the Programme and Operations Manual. The United Nations Office at Vienna/UNODC Executives Committee approved the Handbook in 2018.

104. According to the background chapter in a draft of the Handbook from February 2018, the main purpose of the Handbook was to provide UNODC staff with common ground to ensure a consolidated approach to national, regional and global programme planning, monitoring and reporting, based on best results-based management practices within the overall framework of the 2030 Agenda for Sustainable Development. The Handbook was intended to serve as a succinct, user-friendly reference resource that explained key concepts and tools in ways that would facilitate the operationalization of harmonized results-based management approaches within UNODC.

105. The Board noted that the Handbook was not intended to replace the Programme section of the Programme and Operations Manual or to make it redundant. The Handbook was meant to complement the Programme section of the Manual through the provision of user-friendly and detailed guidance for staff working on programmes and projects. Nonetheless, the structure of the Programme section of the Manual did not match the structure of the Handbook. Throughout the Handbook no references were made to the Manual's Programme section or to other important UNODC documents such as the "UNODC: The Integrated Programme Approach (IPA): A 'How To' Guide" of June 2014.

106. As the Programme section of the Manual provides only basic information on substantive processes, the Board acknowledges that UNODC developed the Handbook to increase detailed guidance for programme and project staff. However, while both the Programme section of the Manual and the Handbook give guidance on the same substantive processes, the fact that the structures of both documents differ and that the Handbook does not include references to the Manual or other substantive UNODC documents makes the Handbook not user-friendly. In the Board's view, the knowledge about programme and project management should preferably be kept in one document to avoid errors and ambiguities.

107. **The Board recommends that UNODC integrate the Handbook for Results-Based Management and the 2030 Agenda for Sustainable Development and the document "UNODC: The Integrated Programme Approach (IPA): A 'How To' Guide" into the Programme and Operations Manual.**

108. UNODC agreed to integrate the Handbook into the Manual.

109. The Board recognizes that UNODC will integrate the Handbook into the Manual. Nevertheless, the Board reiterates its recommendation that UNODC also integrate the document "UNODC: The Integrated Programme Approach (IPA): A 'How To' Guide" into the Manual.

Operations section

110. The Operations section of the Programme and Operations Manual contains information about the following services: general services, financial resources management, human resources management, procurement, safety and security and information technology. The Division for Management is responsible for the information in the Operations section.

111. The Board noted that the Operations section is intended to provide information to staff members who deal with programme and project management about which service to turn to when they need information for projects, for example, to complete staffing tables in project documents.

112. The subsections of the Operations section were last updated in 2010. The Operations section has not reflected changes over the past seven years, including the transition to Umoja in 2015.

113. The Board is of the opinion that the outdated Operations section will not be very useful for staff in programme and project management.

114. **The Board recommends that UNODC review the Operations section of the Programme and Operations Manual. If UNODC considers the Operations section as no longer helpful even after an update, the Operations section should be abolished.**

3. Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat

115. In 2016, the Under-Secretary-General for Management issued an information circular outlining the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat dated 9 September 2016 (ST/IC/2016/25). As an integral part of the Secretariat (see ST/SGB/2015/3), UNODC has the duty to comply with the Framework.

116. The objective of the Framework is to assist the Secretariat in promoting a culture of integrity and honesty within the Organization by providing guidance and information to staff members and other Secretariat staff on how the Secretariat acts to prevent, detect, deter, respond to and report on fraud and corruption. The issuance

of the Framework was accompanied by a Secretariat-wide communications campaign to raise awareness and to ensure that relevant risks are effectively mitigated.

117. Pursuant to the Framework and staff rule 1.2 (c) of the Staff Regulations and Rules of the United Nations, staff members have the duty to report cases of suspected misconduct, including suspected fraudulent acts, to either a head of department/ office, the Assistant Secretary-General for Human Resources Management or the Office of Internal Oversight Services (OIOS). Heads of department/office and programme managers are accountable to the Secretary-General and have the delegated responsibility for ensuring that the existing internal control system, including all measures aimed at preventing and detecting fraudulent acts, is functioning effectively; that all measures aimed at preventing and detecting fraudulent acts are put in place; and that an appropriate and robust internal control environment is maintained, including those components related to integrity and ethical values, compliance requirements and disclosure. Systematic fraud risk assessments should be undertaken in accordance with the Secretariat's enterprise risk management and internal control policy and methodology.

Fraud risk assessment

118. The Board noted that UNODC had not undertaken systematic fraud risk assessments to identify areas where it was most susceptible to fraud. Although initial attempts had been made, UNODC had not analysed its fraud risks systematically. In February 2018, a Secretariat-wide fraud and corruption risk register was approved. The Board noted that work had been undertaken by the Secretariat to identify fraud risks, but considers it important that UNODC assess its specific fraud risks. UNODC stated that it had contributed to the Secretariat's assessment of fraud risk areas and that the risk assessment would form the basis for the Office's tailored risk assessment scheduled for the first quarter of 2019. The Board recognizes these steps and considers it important that UNODC adhere to the mentioned schedule.

119. **The Board recommends that UNODC assess its specific fraud risks in headquarters and field offices in a timely manner.**

Anti-fraud training

120. Although UNODC stated that its Human Resources Management Service had suggested listing the online course entitled "Preventing Fraud and Corruption at the United Nations" under mandatory training, UNODC did not monitor completion of the course, nor did it offer any additional training on preventing fraud and corruption. Moreover, UNODC did not specifically recommend to staff members working in high-risk areas that they complete the training course. Eventually the course was made mandatory.

121. **The Board recommends that UNODC start monitoring completion of the online training course entitled "Preventing Fraud and Corruption at the United Nations" through the Inspira learning management system.**

122. **The Board also recommends that UNODC consider offering additional training on fraud and corruption.**

Information on the Intranet site

123. The Board noted that the Intranet site of the United Nations Office at Vienna/ UNODC did not provide a section about fraud and corruption. Some information regarding fraud and corruption was available only through the search function. Although the United Nations Intranet site provides such information, the Board is of the opinion that UNODC should make its approach to fraud and corruption clearer to

its staff by providing that information in a special section on its own Intranet site. The Board holds that UNODC especially should take the lead in raising awareness and tackling fraud. The Board also noted that the section about the related topic of enterprise risk management had not been updated since June 2016.

124. **The Board recommends that UNODC provide information about fraud and corruption in a special section on its Intranet site and that UNODC update its Intranet site regularly.**

125. **The Board also recommends that UNODC include in the section about fraud and corruption a clear statement by its Executive Director to make the Office's approach to fraud and corruption clear.**

Agreements with implementing partners

126. The Board found that the current template for agreements with implementing partners did not include a clause on the prevention of fraud and corruption. The updated template includes such a clause, but has not yet been finalized.

127. UNODC stated that, as part of the process of developing a standardized and Organization-wide implementing partners agreement, the Office of the Controller in the Office of Programme Planning, Budget and Accounts at United Nations Headquarters would be defining Secretariat-wide anti-fraud and anti-corruption clauses applicable to the entire Secretariat, including UNODC. UNODC anticipated that the standardized agreement template would be shared with all departments and offices by the end of December 2018 at the latest. In the interim, UNODC had received guidance from the Office of Legal Affairs on the clauses that would be included in the agreements until the formal approval/publication of the template by the Office of the Controller.

128. **The Board recommends that UNODC ensure that all its prospective agreements with implementing partners contain a clause on fraud and corruption prevention.**

Focal points on fraud

129. The Board reviewed the UNODC "Joint Panel, Body and Focal Point Registry" (within the Electronic Office System portal in Lotus Notes) and found that no focal points on fraud were listed, nor were any mentioned on the Intranet site. Upon request, UNODC stated that no focal points on fraud were assigned in headquarters and field offices. UNODC stated that it relied on "natural" focal points for reporting fraud: the Office of the Executive Director, the Office of the Director of the Division for Management, the heads of divisions and offices, chiefs of the respective services and OIOS through its official website. The Board is of the opinion that focal points could be helpful to advise staff members with regard to, for example, researching details about the procedure to report fraud.

130. **The Board recommends that UNODC consider appointing focal points on fraud at its headquarters and field offices.**

131. **The Board also recommends that UNODC disseminate information about the focal points on its Intranet site and list them in the "Joint Panel, Body and Focal Point Registry".**

Investigation capacity

132. According to the Anti-Fraud and Anti-Corruption Framework, OIOS is the main entity typically responsible for conducting investigations of high-risk cases involving complex matters and/or serious criminal cases, including serious or complex fraud.

Cases involving lower risk are typically handled by programme managers or other dedicated investigative bodies. The administrative instruction on unsatisfactory conduct, investigations and the disciplinary process (ST/AI/2017/1), provides the procedures for handling cases of fraud and presumptive fraud by Secretariat entities. Under the administrative instruction, OIOS retains the ultimate authority to decide which cases it will consider and shall determine whether the information of unsatisfactory conduct received merits any action, and if so, is better handled by OIOS or by the head of department/office of the staff member. At UNODC, the Executive Director has delegated the authority to the Director of the Division for Management.

133. The Board noted that UNODC fully relied on OIOS to investigate fraud cases and that its own investigation capacity was limited. In particular, investigations in field offices were reported to be difficult owing to the need to travel, the lack of language skills and expertise on the subject matter and a lack of knowledge relating to the conducting of investigations. In addition, investigations at UNODC headquarters were considered difficult owing to the lack of qualified staff members trained in investigations. The Board considers capacity-building through training to be important, since UNODC could assume responsibility for conducting investigations.

134. UNODC stated that it relied on OIOS for handling fraud cases because OIOS had expertise that UNODC should not duplicate locally. Furthermore, UNODC mentioned a need for independence between investigators and the requesting department.

135. The Board notes that OIOS retains the ultimate authority to decide which cases it will consider and which cases should be considered by UNODC itself, and understands the UNODC point of view on the matter.

136. **The Board recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to train more staff members on fraud investigations to build adequate capacity.**

4. Travel management

Authorization of official travel

137. The administrative instruction on official travel (ST/AI/2013/3) stipulates in section 3, in accordance with staff rule 7.4 of the Staff Regulations and Rules of the United Nations, that all official travel must be authorized in writing before it is undertaken. At UNODC, the immediate supervisor is responsible for granting the authorization. This step is done either in Umoja or in Lotus Notes depending on which platform the traveller prefers to use.

138. Staff members interviewed stated that some field offices preferred using Lotus Notes for authorization since the Lotus Notes application facilitated a quarterly travel plan. Staff members were requested to provide this schedule on a quarterly basis to the immediate supervisor. Umoja does not offer a similar application. The Board considers it important that the entire travel process be recorded in Umoja to enhance transparency and facilitate data analyses. Therefore, the respective application in Lotus Notes might be terminated. The termination could be announced in a staff circular and, if deemed necessary, accompanied by an e-learning module. Moreover, a quarterly travel plan should be mandatory in order to enhance budget utilization as well as liquidity forecasts. The Umoja travel module should be customized to facilitate this schedule.

139. UNODC concurred, in principle, with the idea of recording the entire travel process in Umoja, but underlined the importance of the respective amendments needed to Umoja.

140. **The Board recommends that UNODC take efforts, in liaison with the United Nations Secretariat, to customize the Umoja travel module to facilitate advance travel planning and to pool the overall travel process within Umoja.**

Advance purchase policy

141. The administrative instruction on official travel (ST/AI/2013/3) stipulates in section 3, in accordance with staff rule 7.8 of the Staff Regulations and Rules of the United Nations, that all travel arrangements for individuals travelling on behalf of the United Nations, including advance booking and purchase of tickets, should be finalized 16 calendar days in advance of commencement of official travel. Programme managers are required to provide justification on all official travel arrangements that could not be finalized 16 calendar days in advance.

142. At UNODC, the target for submission of a travel request is 21 or more days in advance of commencement of travel. During the additional five days, the trip is certified by the travel and shipment approver and approved by the travel processing officer.

143. The 16-day advance purchase policy was based on private sector experiences, and the General Assembly decided to adopt it. The impact of the policy has not been evaluated. Since the price and sales policies of airlines have changed in recent years owing to more competition and innovative sales strategies, it is questionable whether the policy still achieves its objective of yielding savings.

144. **The Board recommends that UNODC consider requesting a review of the advance purchase policy by the United Nations Secretariat as well as an evaluation on how best prices for travel can be achieved.**

Compliance with the advance purchase policy

145. As a result of its analysis of the Umoja business intelligence report on advance purchase policy compliance (provided by UNODC in January 2018), the Board found that 17,218 of 22,527 travel tickets were purchased fewer than 16 days in advance of commencement of travel (76.4 per cent). Through its evaluation of the travel requests that did not comply with the advance purchase policy, the Board found that an entry for justification was lacking in 6,925 cases (40.2 per cent).

146. Furthermore, the Board noted that the entries for justification (10,293 cases) could be entered (by the traveller) in a free-text format and were in some cases just a dot and in other cases hardly meaningful or convincing, and included justifications such as “late confirmation”, “admin issues” or “mission arrangement”. Therefore, an analysis of the justifications provided was not possible.

147. The Board also noted that 18,786 of the 22,527 travel requests were submitted fewer than 21 days in advance of commencement of travel. Of the 17,218 tickets purchased fewer than 16 days in advance, travel requests for 17,027 of them were submitted fewer than 21 days in advance of commencement of travel. The remaining 191 travel requests were submitted at least 21 days in advance of commencement of travel, but were not finalized at least 16 days in advance. For instance, in 126 cases it took more than five days to certify the travel, and in 68 cases it took more than five days to approve the travel. In 124 of the 191 travel requests, an entry for justification was lacking.

148. Although there will always be a certain number of travels that occur at short notice, the Board considers a non-compliance rate of 76.4 per cent in the advance purchase policy to be significant. In particular, scheduled events such as major conferences and meetings and scheduled travel on home leave can normally be planned in advance. UNODC stated that, based on the nature of its business model, compliance rates would continue to remain low.

149. The Board considers it important that the provision of justifications for late travel requests be made mandatory and that the justification must be selected from a standardized list to permit UNODC to analyse the reasons for late travel requests.

150. Moreover, the Board is of the opinion that all parties involved in the travel process should provide justifications as to why delays occur.

151. UNODC stated that a solution in the Umoja travel module was expected to be implemented in 2018 whereby justifications for non-compliance would require selecting a response from a drop-down list.

152. **The Board recommends that UNODC remind its staff of the current advance purchase policy and their duty to comply with it.**

153. **The Board also recommends that UNODC regularly evaluate its compliance with the advance purchase policy and immediately initiate corrective actions when necessary.**

Expense reports

154. The administrative instruction on official travel (ST/AI/2013/3) stipulates in section 13 that staff members shall, within two weeks after completion of travel other than under the lump-sum option, submit an expense report.

155. There are two types of expense reports. In the first type, the traveller does not claim any costs additional to the initial travel request. These reports are automatically recognized and processed as express expense reports in Umoja. In the second, the traveller claims additional costs such as a daily subsistence allowance or miscellaneous expenses that were not certified and approved with the travel request. These reports are processed as regular expense reports and approved manually. According to UNODC, 30 per cent are the first type and 70 per cent are the second type. Since express expense reports do not differ from the travel request, a travel and shipment approver does not have to certify them, nor does a travel claims processor need to approve them. Umoja settles open items automatically. If travellers claim additional costs or their expense reports differ from their original request (e.g., with regard to itineraries or dates), the travel and shipment approver must certify the expense report and the travel claims processor must review the report and cross-check whether the necessary documents are attached and whether the daily subsistence allowance and terminal expenses were calculated accurately.

Express expense reports

156. The Board found that there was no automated control mechanism in place to monitor express expense reports. From time to time the Accounts Section of the Financial Resources Management Service generates lists of express reports and manually selects samples for post facto audit. The criteria for choosing the samples are the amount and the processing office. The Accounts Section stated that it audited 2 per cent of the total expenses claimed by employees submitting express expense reports.

157. The Board generally considers express expense reports to be an efficient application since that solution accelerates, simplifies and streamlines the process.

Nevertheless, the Board is of the opinion that an automated control mechanism needs to be implemented. Random samples need to be selected from all processed express expense reports. The portion of cases selected needs to be meaningful and reliable. Continuous monitoring has the advantage that a travel claims processor only needs to review a few cases each day, compared with periodically reviewing a long list.

158. **The Board recommends that UNODC consider, in liaison with the United Nations Secretariat, implementing an automated control mechanism in Umoja to monitor and review express expense reports.**

Travel without expense reports

159. The Board analysed the Umoja business intelligence report on trips with missing expense reports (provided by UNODC in January 2018). The report comprised 2,481 approved trips without expense reports. According to the report, in 333 cases travel advances had been requested. In 137 of those cases an advance was paid, and expense reports were overdue for 134 of them (97.8 per cent). Sixteen cases related to staff members/family members and 118 cases related to non-staff members. Non-staff members have the duty to submit all necessary documents to draft an expense report, which is done by a travel administrator, since non-staff members do not have access to Umoja.

160. If a staff member fails to submit an expense report within two weeks after completion of travel, recovery of travel advances through payroll deduction shall be automatically performed by Umoja.

161. The Board noted that drafts of expense reports blocked automatic recovery through payroll. The respective cases were not cleared.

162. Most travel is undertaken by non-staff members. Since non-staff members are not on payroll, a recovery through payroll is not possible, but further payments are blocked in Umoja.

163. UNODC stated in April 2018 that, in 86 of the 118 cases, travel expense reports had been approved in the meantime. The remaining 32 cases were not cleared.

164. **The Board recommends that UNODC consider, in liaison with the global enterprise resource planning team, improving the process of handling cases with pending expense reports.**

165. UNODC stated that a solution to address the situation was expected to be implemented in mid-2018. UNODC also stated that the changes included an improvement in the claim submission process and a “housekeeping” tool. The first component was to serve as an incentive for claimants to submit their expense reports more quickly and efficiently and the second tool would permit finance users to review and/or close open items.

Resubmitted or returned expense reports

166. The Board also analysed the Umoja business intelligence report on trips with missing expense reports with regard to resubmitted or returned expense reports. The report comprised 169 cases. In 61 cases, travel advances were requested. In 31 of those cases, advances were paid. According to the report, expense reports were overdue in all of those cases (17 related to staff members and 14 related to non-staff members). UNODC stated in April 2018 that 14 of the 17 cases regarding staff members and 10 of the 14 cases regarding non-staff members had not been cleared, as initiated expense reports had blocked them. UNODC stated further that, in the remaining seven cases, travel expense reports had been approved in the meantime.

167. **The Board recommends that UNODC review, in liaison with the United Nations Secretariat, the automatic recovery function of Umoja, especially with regard to initiated expense reports, which should block the system only for a reasonable period of time.**

5. Procurement management

Overall procurement plan

168. In accordance with section 8.1 of the United Nations Procurement Manual, procurement offices shall set up acquisition plans for the forthcoming financial period on an annual basis. Effective procurement planning is essential in order to optimize the contribution of the procurement function towards achieving the overall goals of the organization. It supports transparency and accountability within the procurement process, enabling procurement to be carried out in a strategic, systematic and procedurally correct way. The ultimate goal of procurement planning is a coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at reasonable cost. Timely procurement planning enables staff to work smoothly to achieve an organization's goals with the right quality and quantity of inputs in place.

169. For the overall procurement plan of UNODC, the Procurement Unit must collate the consolidated procurement plans of subordinated entities. Consolidated procurement plans should usually be prepared at least annually, and be made available by the end of the year for the forthcoming financial period.

170. For 2017, UNODC did not set up an overall procurement plan. On 20 October 2017, the Procurement Unit sent a request for consolidated procurement plans to all divisions at UNODC headquarters and to its field offices. By the end of 2017, the Procurement Unit had collected six procurement plans from the field offices and one procurement plan from UNODC headquarters. At the end of April 2018, the Procurement Unit collected procurement plans from 11 of 17 field offices, and from 6 out of a number of UNODC headquarters' divisions/branches/services, depending on the extent to which the procurement plans were consolidated.

171. As a result, UNODC had not set up the overall procurement plan by the end of April 2018 owing to the insufficient response rate. Consequently, the Procurement Unit could not analyse the overall procurement requirements for early and accurate planning for the ongoing financial period, putting at risk an open, efficient and effective procurement process.

172. The Board noted that the established structure to collect the consolidated procurement plans did not function properly. It was not clear at which levels UNODC should consolidate the procurement plans, and, as a result, no one knew how many plans had to be delivered. Furthermore, UNODC had not established a procedure on how to respond if headquarters and field offices did not comply with the annual request for consolidated procurement plans.

173. **The Board recommends that UNODC ensure immediate action to enable the establishment of an overall procurement plan for 2018.**

174. **The Board also recommends that UNODC review and refine the established structure to collect the consolidated procurement plans of the subordinate entities in a timely manner.**

Requirements for the overall procurement plan

175. The UNODC request for consolidated procurement plans included template tables that requested the following information, by column: (a) goods, services or

works; (b) description of goods, services or works; (c) quantity; (d) value; (e) months when delivery was required; and (f) for field offices, the entity with which that office wished to conduct procurement: UNODC, UNDP or another entity chosen by the field office within its delegation of procurement authority.

176. The Board noted that the procurement plans collected contained different degrees of detail regarding the specifications of goods, services or works. Furthermore, the above categories of requested data constitute a minimum requirement only.

177. The Board considers it important that procurement plans contain more detailed specifications of goods, services or works. This would enable the Procurement Unit to, for example, identify suitable suppliers/contractors in advance or give advice and support to the field offices. Furthermore, the Board is of the view that a suitable overall procurement plan needs more relevant data. Therefore, UNODC should consider adding columns to the template table that specify the project number and the location where goods are required. The inclusion of Umoja product categories and product identities would also be beneficial.

178. **The Board recommends that UNODC improve its request for consolidated procurement plans by demanding more detailed information and enhancing data for a useful overall procurement plan.**

Ex post facto procurement

179. From November 2016 to October 2017, the Procurement Unit recorded 177 reported cases of goods and services delivered without a purchase order. In July 2017, the Procurement Unit summarized the reasons for 143 ex post facto purchase orders recorded from November 2016 to June 2017. The lack of coordination was the main reason given in 63 cases (44 per cent), and included: (a) oversight issues; (b) staff leaving the entity; (c) incorrect purchase orders; and (d) cases processed without sufficient lead time. Funding/budget issues ranked second at 59 cases (41 per cent), and included: (a) accumulating invoices in order to save costs; (b) delayed budget approvals/revisions/allocations; and (c) budget errors.

180. The Board noted that UNODC had not taken further action in response to the evaluation.

181. The Board is of the view that collecting and summarizing ex post facto cases are preliminary steps to an analysis of the root causes which resulted in ex post facto procurement.

182. Furthermore, the Board holds that UNODC could settle the cases that occur most frequently by enhancing internal coordination and oversight. Therefore, working with all divisions involved, the Procurement Unit should discuss the root causes and develop solutions to eliminate ex post facto procurement.

183. **The Board recommends that UNODC analyse the root causes of the reasons for ex post facto procurement cases and establish specific measures to prevent the recurrence of such cases.**

6. Sustainable Development Goals

Integration of the Sustainable Development Goals

184. In 2017, UNODC made good progress regarding the integration of the Sustainable Development Goals into its substantive work. For example, the Office: (a) coordinated the input of data and analyses on Goal 16, which were included in two reports presented by the Secretary-General on the 2030 Agenda for Sustainable Development; (b) organized a meeting to develop evidence-based indicators for

measuring the objectives of the Goals through its Center of Excellence in Statistical Information on Government, Crime, Victimization and Justice based in Mexico City; and (c) drafted a handbook for the integration of the 2030 Agenda into its results-based management process.

185. At the organizational level, UNODC set up an informal working group at its headquarters and designated a special adviser in the Division for Operations to develop strategies and policies and implement recommendations on operationalizing the Goals in the field. Furthermore, UNODC decided that the primary responsibility in field offices with regard to integrating the Goals into field work rested with the field representative. That decision should facilitate clear reporting lines from the field offices to UNODC headquarters.

186. The Board noted that there was no clear structure to encourage and enable the sharing of experiences regarding the Goals among individual field offices and with the informal working group at UNODC headquarters.

187. The Board is of the view that designating operational focal points in the field for the 2030 Agenda would support and accelerate the integration of the Goals into the work of UNODC. The focal points should be made known to staff so as to enable the direct sharing of information and best practices among the field offices and with UNODC headquarters.

188. **The Board recommends that UNODC establish a network of field operational focal points on the Sustainable Development Goals and, together with the members of the informal working group at UNODC headquarters, advertise the network internally.**

189. UNODC stated that UNODC field representatives were responsible for integrating the Goals into field work. UNODC considers the field representatives to be the field operational focal points. At the field representatives meeting held in 2017, UNODC organized a meeting of the field representatives and the headquarters focal points for the Goals to review the implementation of the Goals. A similar meeting has been organized for the field representatives meeting in 2018. In addition, regular and year-round exchanges of information between field offices and headquarters on progress, opportunities and challenges in programme implementation take place.

190. The Board recognizes UNODC efforts to establish a network on the Goals between field offices and headquarters. Nevertheless, since the field representatives are responsible for all activities at the field level, designated operational focal points would support a stringent implementation of the Goals and the sharing of experience among the field offices. Therefore, the Board emphasizes the necessity of establishing and connecting field operational focal points, each of which would be designated by the field representatives.

Training on the 2030 Agenda for Sustainable Development

191. In 2017, UNODC rolled out a series of training activities for UNODC staff in selected offices on how to best integrate the 2030 Agenda for Sustainable Development into UNODC programmatic work using a results-based management approach, and developed useful training materials, such as the PowerPoint presentation entitled "UNODC and the 2030 Agenda for Sustainable Development".

192. The Board noted that some important topics regarding the 2030 Agenda were not sufficiently addressed, for example, advocating for the Goals and fundraising for projects supporting the Goals.

193. The Board is of the view that training on the 2030 Agenda should deliver guidance and support on the following: (a) developing a basic understanding of the

Goals, targets and global indicators, including the Goals' connection to results-based management; (b) mainstreaming the Goals into programmes and projects, and monitoring and reporting on the Goals; (c) encouraging Member States to use the Office's knowledge of the Goals and develop activities related to their implementation; and (d) attracting donors and building partnerships to support Member States in implementing the 2030 Agenda. Disseminating this knowledge should enhance the Office's visibility with regard to the transformative shift to sustainable development initiated by the Secretary-General.

194. **The Board recommends that UNODC continue providing training activities on the 2030 Agenda for Sustainable Development by applying a results-based management approach.**

195. **The Board further recommends that UNODC develop a training package to deliver comprehensive guidance and advice on how the Sustainable Development Goals can be best integrated into UNODC work, and make the training package available for UNODC staff as an online training course.**

196. UNODC welcomes the recommendation to continue its training programme on integrating the Goals into UNODC global, regional, and country programmes. UNODC is currently developing an online training tool on results-based management in the context of the 2030 Agenda. The training package will be made available to all UNODC staff, through either Inspira or the Office's e-learning platform.

Knowledge management

197. To disseminate information on the Sustainable Development Goals internally, UNODC provided links to relevant tools, publications and partners in a webpage on its Intranet site under the Division for Policy Analysis and Public Affairs. Whereas the tools and publications contained a broad overview of the UNODC substantive work on the Goals, the page did not provide any information about UNODC-specific methods on integrating the Goals into its work.

198. The Board holds that a regularly updated knowledge platform to gather and present, for example, training materials, guidelines and templates, success stories about the Goals and the focal point network on the Goals, would support UNODC staff when searching for guidance and information.

199. **The Board recommends that UNODC develop a knowledge platform to enable and support the internal information on the Sustainable Development Goals across UNODC.**

200. UNODC will update the webpage on the UNODC website. A first revision will be undertaken by the end of June 2018 and quarterly updates will be made.

Alignment of the Sustainable Development Goals, targets and global indicators

201. The Inter-Agency and Expert Group on Sustainable Development Goal Indicators assigned UNODC as: (a) the custodian agency for 15 global indicators under Goal 16, and for 6 global indicators under Goals 3, 5, 11 and 15, alone or in cooperation with other agencies; and (b) a partner agency for global indicator 10.7.2 under Goal 10 and global indicator 16.2.3 under Goal 16. Therefore, UNODC was tasked with global monitoring, providing methodological guidance and conducting technical assistance for those Goals.

202. Pursuant to its strategic framework, UNODC embedded Goals 3, 5, 15 and 16 in its subprogrammes. At the field office level, the Regional Office for Central America and the Caribbean developed a framework entitled "Programmatic actions in Central America in the context of the UNODC strategic framework 2018–2019" as

its strategic framework. Pursuant to the framework, the work of the Regional Office contributes to Goals 3, 5 and 16. Furthermore, the Regional Office's contribution to the Global Container Control Programme could also have delivered data on Goal 15 if that Goal had been included in its programmatic actions.

203. The Board is of the view that incorporating into its strategic frameworks all Goals to which UNODC can usefully contribute would enhance the transparency of UNODC work and widen the Office's sphere of activity.

204. **The Board recommends that UNODC thoroughly analyse all its projects and programmes, and consider enhancing future strategic frameworks with all the Sustainable Development Goals and targets to which UNODC can contribute.**

205. UNODC stated that it would ensure through its strategic planning, monitoring and reporting function that all ongoing and future UNODC results frameworks are in line with the Goals. While accepting the recommendation in principle, UNODC noted that, given the prospective redesign of the strategic framework and the move to an annual unified budget planning document, the Board's recommendation may not necessarily allow for such clear alignment given the medium- to long-term nature of the targets to be achieved. At the project level, the primary responsibility lay with the responsible division, and the Strategic Planning and Interagency Affairs Unit would assist upon request.

E. Disclosures by management

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

206. UNODC stated that it had formally written off accounts receivable balances of $4.57 million in 2017 (2016: $9.49 million), which have been charged against the special purpose funds. In addition, $7.83 million (2016: $5.14 million) of non-expendable property assets by net book value were written off in 2017, the majority of which related to assets transferred to beneficiaries on completion of projects funded by donors.

2. Ex gratia payments

207. UNODC stated that ex gratia payments were not made in 2017 (2016: nil).

3. Cases of fraud and presumptive fraud

208. 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 irregularities (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

209. The Board has not identified any instances of fraud in its audit, and no cases have come to our attention as a result of our testing.

210. In 2017, UNODC notified the Board of one case of entitlement fraud. The amount involved is unknown. Moreover, a case was reported on presumptive procurement fraud with possible irregularities in the amount of €28,255. Furthermore, a case was reported on the alleged unsatisfactory conduct relating to the overpayment of a vendor ($34,800). The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNODC directly.

F. Acknowledgement

211. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and members of his staff.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

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

24 July 2018

Annex

Status of implementation of recommendations up to the year ended 31 December 2016

						Status after verification			
No.	*Audit year/biennium*	*Report reference*	*Recommendations of the Board*	*UNODC response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
1.	2016	A/72/5/Add.10, chap. II, para. 16	The Board recommended that UNODC use a systems-integrated approach to incorporate inter-organizational eliminations within the Business Planning and Consolidation module, including any additional actions necessary to reach this goal, for example, an alignment of the funds structure.	Estimated completion date: December 2018. The recommendation relates to a fund that is currently used for both exchange and non-exchange activities. Upon review, it is clear that a new fund is required to enable the identification of activities that are eliminated for statement purposes and minimize the need for Business Planning and Consolidation journals. Owing to the fact that activities are already in progress in 2017, the implementation of a new fund cannot take place until 2018, when a new fund will be established in Umoja.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
2.	2016	A/72/5/Add.10, chap. II, para. 17	The Board recommended that UNODC eliminate or reduce the number of manual postings in the Business Planning and Consolidation module.	The Business Planning and Consolidation journals have now been reduced from 27 to 15. The remaining 15 journals represent the cross funds eliminations and segment reporting. These are the minimum journals required to consolidate UNODC results and prepare the financial statements.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
3.	2016	A/72/5/Add.10, chap. II, para. 18	The Board recommended that UNODC review existing journal entries in the Business Planning and Consolidation module and align Umoja to ensure that its data reflect the line items in the financial statements wherever possible.	The financial statements for 2017 required one Business Planning and Consolidation journal entry as a result of a technical issue with conversion documents. No other Business Planning and Consolidation alignment journal entries were required.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	*Status after verification* Implemented	Under implementation	Overtaken by events	Not implemented
4.	2016	A/72/5/Add.10, chap. II, para. 23	The Board recommended that UNODC adequately monitor its financial performance and position during the year, including through the regular review of its cash flows.	Since June 2017, regular review and follow-up has been performed in various areas including: • Regular review and follow-up (monthly) for closing of outstanding commitments • Regular (monthly) recording of field office cost recovery charges • Consistent follow-up for electronic inter-office vouchers processing (resulting in reduction of inter-office voucher balances)	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
5.	2016	A/72/5/Add.10, chap. II, para. 25	The Board recommended that UNODC set up a clear structure for its sources of income in order to better meet its accounting and reporting requirements.	See comments on recommendation No. 1, above.	The Board has reviewed progress made and considers the recommendation to be under implementation.		X		
6.	2016	A/72/5/Add.10, chap. II, para. 30	The Board recommended that UNODC improve its control over petty cash balances, collect cash count statements for each petty cash account and ensure that statements and general ledger accounts match.	Since 2017, petty cash accounts have been regularly reviewed. Petty cash replenishments are paid only upon timely submission and completed postings in Umoja.	The Board has reviewed progress made and considers the recommendation to be under implementation.		X		
7.	2016	A/72/5/Add.10, chap. II, para. 34	The Board recommended that UNODC continually review and clear all items in open item managed accounts throughout the year.	Since May 2017, open item managed accounts have been reviewed and cleared on a regular basis.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
8.	2016	A/72/5/Add.10, chap. II, para. 38	The Board recommended that UNODC record the receipt of goods and services in a timely manner.	See comments on recommendation No. 4, above.	The Board has reviewed updated progress made and considers the recommendation to be implemented.	X			
9.	2016	A/72/5/Add.10, chap. II, para. 39	The Board recommended that UNODC improve recognition of accruals stemming from open purchase orders and implement effective controls to detect and prevent excess accruals by field offices.	Since June 2017, regular review and follow-up has been performed in various areas, including the regular review and closing of outstanding commitments and regular follow-up of the outstanding United Nations Development Programme (UNDP) electronic inter-office voucher charges.	The Board has reviewed updated progress made and considers the recommendation to be implemented.	X			
10.	2016	A/72/5/Add.10, chap. II, para. 42	The Board recommended that UNODC strengthen its controls over concluded pledge agreements to ensure that the financial statements reflect all contribution agreements.	Estimated completion date: December 2018. Extension 2 of Umoja will include a fundraising and donor management module and is expected to be implemented in September 2018. The module is expected to provide necessary controls over concluded agreements. The recommendation will be fulfilled upon successful implementation of Umoja Extension 2.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
11.	2016	A/72/5/Add.10, chap. II, para. 44	The Board recommended that UNODC classify contribution pledges by long-term and short-term contributions, and include a structured differentiation of the ageing structure by future years.	Since 2017, contributions have been recorded according to the instalment plan in accordance with agreements, and the respective due dates have been updated in Umoja accordingly.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
12.	2016	A/72/5/Add.10, chap. II, para. 48	The Board recommended that UNODC remove all combustible and unnecessary materials from such sensitive areas with special need of protection, such as server and data centres and (rescue) access ways to such areas, to reduce the fire load to a minimum.	UNODC has removed all combustible and unnecessary materials from the inside of its data centres and access ways. Additional removal of unnecessary materials from the rack spaces was completed at the end of November 2017.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
13.	2016	A/72/5/Add.10, chap. II, para. 51	The Board recommended that UNODC initiate a process with the other organizations in the Vienna International Centre with the purpose of assessing how access to the information and communications technology (ICT) rooms can be better controlled and how unauthorized access can be prevented.	Meetings among ICT leaders in the Vienna International Centre started with a Vienna-based organization information technology round table on 31 August 2017. A Yammer group has been created to facilitate ongoing discussion among the members of that group.	The Board has reviewed updated progress made and considers the recommendation to be implemented.	X			
14.	2016	A/72/5/Add.10, chap. II, para. 56	The Board recommended that UNODC headquarters develop pragmatic ICT standard operating procedures and templates that field offices can use for the main ICT areas to ensure that compliance can be monitored.	A first draft of the standard operating procedures and templates has been completed and review is currently under way in preparation for publication in the second quarter of 2018.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
15.	2016	A/72/5/Add.10, chap. II, para. 60	The Board recommended that UNODC consider appointing focal points on disability and accessibility issues in field offices.	Staff members have been appointed as focal points.	The Board has reviewed updated progress made and considers the recommendation to be implemented.	X			
16.	2016	A/72/5/Add.10, chap. II, para. 62	The Board recommended that UNODC set up standards for accessibility of field office premises.	The Division for Management has requested that UNDP share its policy and standards regarding office accessibility in the field. The United Nations Office at Vienna/UNODC will assess whether separate policies and standards will be developed by other United Nations headquarters.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
17.	2016	A/72/5/Add.10, chap. II, para. 63	The Board recommended that UNODC consider cooperating with UNDP to implement standards for accessibility in UNDP-administered premises.	See comments on recommendation No. 16, above.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
18.	2016	A/72/5/Add.10, chap. II, para. 68	The Board recommended that UNODC, in cooperation with the United Nations Office at Vienna, establish regular monitoring of procurement activities at UNODC headquarters and field offices and assign clear responsibilities for the monitoring process.	The Procurement Unit continues to provide oversight of the field in its day-to-day operations and, since 2017, has engaged in building capacity in the field to conduct procurement.	The Board acknowledges the progress that has been made, but considers implementation to be in progress, since no monitoring methods have been established and applied.		X		

						Status after verification			
No.	*Audit year/biennium*	*Report reference*	*Recommendations of the Board*	*UNODC response*	*Board's assessment*	*Implemented*	*Under implementation*	*Overtaken by events*	*Not implemented*
19.	2016	A/72/5/Add.10, chap. II, para. 72	The Board recommended that UNODC, in cooperation with the United Nations Office at Vienna, organize additional training in Umoja's business intelligence and reporting tools in order to improve the reporting capacity of the Procurement Unit.	UNODC, in cooperation with the United Nations Office at Vienna, has designated staff from the Procurement Unit to be enrolled in the next training session on Umoja business intelligence. Training on Umoja business intelligence was provided to nominated staff members in the Procurement Unit in January 2018.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
20.	2016	A/72/5/Add.10, chap. II, para. 76	The Board recommended that UNODC consider the document "UNODC and the Sustainable Development Goals" to be a "living" document and update it as necessary.	UNODC has conducted several workshops on ensuring the alignment of its programmes with the Sustainable Development Goals. In addition, the Strategic Planning and Interagency Affairs Unit has begun preparations for an online learning module on the Goals. Accordingly, the document entitled "UNODC and the Sustainable Development Goals" will be updated with newer examples. The first such update is planned for early 2018.	The Board acknowledges the progress that has been made, but considers implementation to be in progress, since the mentioned document still needs to be updated.		X		
21.	2016	A/72/5/Add.10, chap. II, para. 77	The Board recommends that UNODC keep up and work on a regular basis with the Inter-Agency and Expert Group on Sustainable Development Goal Indicators in order to align its perception of the Sustainable Development Goals with that of Inter-Agency and Expert Group.	Together with other international agencies, UNODC is actively engaged with the Inter-Agency and Expert Group on Sustainable Development Goal Indicators on a number of issues. An expert group meeting on illicit financial flows indicators was conducted in December 2017 and a pilot phase will be implemented in 2018. With regard to the firearm indicator, a pilot study has been concluded and the new data collection reflecting the new methodology will be launched in May 2018.	The Board has reviewed progress made and considers the recommendation to be implemented, since the work with the Inter-Agency and Expert Group on Sustainable Development Goal Indicators will remain an ongoing process.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
22.	2016	A/72/5/Add.10, chap. II, para. 80	The Board recommended that UNODC establish responsibilities at its field offices to share information on and experience with the Sustainable Development Goals between UNODC headquarters and its field offices.	UNODC has decided that the primary responsibility in field offices for the Goals rests with the field representatives.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
23.	2016	A/72/5/Add.10, chap. II, para. 83	The Board recommended that UNODC adapt its strategic planning in order to establish a long-term strategy for effective and coherent support with regard to implementing the Sustainable Development Goals.	As the reform proposals of the Secretary-General have been endorsed on a trial basis by the General Assembly, the Department of Management of the Secretariat will be conducting a workshop with UNODC in the fourth quarter of 2018. Subsequently, the Office will call for a results-oriented and theory of change-based medium-term strategy.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
24.	2016	A/72/5/Add.10, chap. II, para. 84	The Board recommended that UNODC align all programmes and activities to the Sustainable Development Goals and, where applicable, to concrete targets, so that its work on the Goals becomes more visible and its actions receive more recognition.	A UNODC steering committee on the Goals is being empanelled and will meet quarterly to ensure consultations among departments and between headquarters and field office and provide coordination and oversight for the implementation of the Goals.	The Board acknowledges the progress that has been made, but considers implementation to be in progress, as the steering committee is not yet fully operational.		X		

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
25.	2015	A/71/5/Add.10, chap. II, para. 18	The Board recommended that UNODC ensure that key financial reconciliations are undertaken on a systematic basis and that control accounts are maintained to facilitate review of key balances on a regular basis.	See comments on recommendation No. 7, above.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
26.	2015	A/71/5/Add.10, chap. II, para. 25	The Board recommended that UNODC seek to minimize the number and complexity of journal entries, and ensure that all journals are accurately described and supported within the system documentation to aid efficiency and review.	The standard of accompanying journals with adequate description and supporting attachments is now being consistently applied.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
27.	2015	A/71/5/Add.10, chap. II, para. 33	The Board recommended that UNODC make better use of existing risk material collated to inform management decisions, and those risks and their mitigations are regularly reviewed by senior management and reassessed to inform the corporate risk register.	Senior management is regularly provided with a biannual report on the action taken with regard to enterprise risk management, including suggested decisions to address key risks. The review of the institutional risk management framework will be done following the same process at the United Nations Secretariat level, which is planned to be initiated in 2018. The full cost recovery barometer was successfully pilot tested in six UNODC field offices. The roll-out is in process and is planned for completion by mid-2018.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
28.	2015	A/71/5/Add.10, chap. II, para. 64	The Board recommended that UNODC develop its standard performance indicators to ensure they permit programmes to be properly measured at an operational and strategic level.	The process of revising outcome indicators is linked to the time frames for the respective thematic programmes. It is an ongoing process embedded in efforts to establish a culture for results-based management.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
29.	2015	A/71/5/Add.10, chap. II, para. 67	The Board recommended that UNODC project teams clearly articulate the delivery record of the project before seeking additional approvals for the project, so as to strengthen the confidence of the approvals committee that any revisions are reasonable and supported by clear evidence.	Programme achievements and results are articulated in project revisions submitted to the Programme Review Committee. Annual consolidated progress reports for global programmes summarizing all achievements are submitted each year to the Committee.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
30.	2015	A/71/5/Add.10, chap. II, para. 72	The Board recommended that UNODC further explore the administrative and substantive reasons for the rejection of project plans and use this information to inform improvements to the guidance for project teams. Furthermore, UNODC could monitor performance against target times for each stage of the clearance process to provide better information to identify any inefficient elements.	To improve the clearance process in the Division for Management, the Financial Resources Management Service has put in place a system whereby project documents/revisions are reviewed within five working days of submission and comments are provided within that timeline. If no response is received, the Financial Resources Management Service follows up with the submitting office.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
31.	2015	A/71/5/Add.10, chap. II, para. 76	The Board recommended that UNODC enhance the accountabilities for the management of funding risks within projects, requiring teams to specify how their funding gap will be filled, to identify the degree of project and cost risk and what mitigations can be taken.	Funding risks and related mitigation actions are included in project and programme documents where appropriate.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
32.	2015	A/71/5/Add.10, chap. II, para. 81	The Board recommended that UNODC consider a strategy to deal with any financial reporting backlog and identify and address any gaps in reporting functionalities that are creating delays in the reporting timeline.	All 2016 donor reports have been completed. The 2017 donor reports are being prepared and are expected to be delivered on time.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
33.	2015	A/71/5/Add.10, chap. II, para. 82	The Board recommended that UNODC centrally monitor the reporting requirements of donors and develop a methodology for donor financial reporting that creates a consistent reporting framework that is aligned to the information that can be produced efficiently from its systems. Furthermore, UNODC should do more to influence donors in agreeing on a financial reporting framework aligned to internal reporting cycles and to follow as closely as possible a common reporting template.	Since fiscal year 2016/17 UNODC has cleared funding agreements with the standard reporting clauses to the extent possible.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	*Status after verification* Implemented	Under implementation	Overtaken by events	Not implemented
34.	2015	A/71/5/Add.10, chap. II, para. 86	The Board recommended that UNODC consider the scope for simplifying the reporting structure, for example, by only reporting changes from the previous submissions, through better use of graphics to show progress against targets, and the inclusion of key expenditure data to identify departures from the agreed forecasts and to highlight reasons for variances in spending and activity.	The first phase of the donor reporting dashboard using a project-based view has been released to Member States. The next phase of donor reporting is being developed, and contains a donor grant view in addition to the project-based view. The reporting prototype is currently being reviewed by UNODC stakeholders.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
35.	2014	A/70/5/Add.10, chap. II, para. 9	The Board recommended 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.	UNODC continues to deliver Umoja training and refresher courses with an emphasis on the delivery principle. Also, annual IPSAS refresher training courses are offered to staff and systematic closing procedures are issued.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board’s assessment	Status after verification			
						Implemented	*Under implementation*	*Overtaken by events*	*Not implemented*
36.	2014	A/70/5/Add.10, chap. II, para. 18	The Board recommended 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.	Estimated completion date: December 2018. An Organization-wide Fraud and Corruption Risk Register was approved in February 2018. The “Preventing Fraud and Corruption at the United Nations” online training course will be made mandatory. The UNODC Human Resources Management Service has already been liaising the Office of Human Resources Management of the Secretariat to stress the mandatory nature of the course.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
37.	2014	A/70/5/Add.10, chap. II, para. 40	The Board recommended that UNODC: (a) use 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.	In addition to the work on the full cost recovery barometer, in June 2016, the Financial Resources Management Service reissued the guide on the implementation of full cost recovery. The guide includes definitions for “field office budget”, “project budget”, “direct costs” and “indirect costs” and also provides guidance for field office and project budgeting. Field office costs were analysed in depth at the time of the review of the 2016–2017 consolidated budget (third quarter 2016) and again during the preparation of the 2018–2019 consolidated budget (third quarter 2017).	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	*Status after verification*			
						Implemented	Under implementation	Overtaken by events	Not implemented
38.	2014	A/70/5/Add.10, chap. II, para. 44	The Board recommended that, to embed an evaluation culture, individual project managers 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.	The web-based evaluation application "Unite evaluation", designed by the Independent Evaluation Unit to succeed the currently phased-out evaluation application based on the Programme and Financial Information Management System (ProFi), is still pending implementation and linkage with Umoja Extension 2.	The Board is of the view that sizeable progress is being made. The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
39.	2014	A/70/5/Add.10, chap. II, para. 57	The Board recommended that management further develop their 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, field staff and grade profiles.	The analysis of UNODC project staffing, including the analysis of organizational design for UNODC field offices and reviews of programme and project management mechanisms and structures, has enabled UNODC to balance the use of resources between headquarters, field staff and grade profiles.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	*Audit year/biennium*	*Report reference*	*Recommendations of the Board*	*UNODC response*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Overtaken by events*	*Not implemented*
40.	2014	A/70/5/Add.10, chap. II, para. 65	The Board recommended 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 use this to plan recruitment and the staff and capability requirements to meet the future anticipated needs of the business; and (c) consider the re-establishment of "roving teams" within headquarters that can support field offices on a short-term basis.	At UNODC headquarters and as part of the standard workflow, all staffing requests for regular and project positions are reviewed and confirmed by the Classification and Organizational Design Team in the Human Resources Management Service, fully incorporating and analysing Umoja organizational management data in close cooperation with the Organizational Management Team in the Financial Resource Management Service.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			
41.	2014	A/70/5/Add.10, chap. II, para. 72	The Board recommended that UNODC learn lessons from the Office of the United Nations High Commissioner for Refugees (UNHCR) and others that use a mobility framework and ensure that implementation of the framework is informed by their observations.	Given that UNODC is part of the Secretariat, the implementation of any mobility scheme for the Office is aligned with the Secretariat's implementation of the relevant policies. The Office of Human Resources Management of the Secretariat consulted with and sought lessons learned from many other organizations, including UNHCR.	The Board has reviewed progress made and considers the recommendation to be implemented.	X			

No.	Audit year/biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
42.	2012–2013	A/69/5/Add.10, chap. II, para. 75	The Board recommended that UNODC enhance its framework for the engagement of external parties.	The framework for engagement of external parties has been enhanced, taking into account the review of the Office of Internal Oversight Services, and is undergoing internal clearance.	The Board has reviewed the progress made so far and intends to further monitor the upcoming developments.		X		
	Total					**26**	**16**	**0**	**0**
	Percentage					**62**	**38**	**0**	**0**

Chapter III
Certification of the financial statements

Letter dated 31 March 2018 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 2017 have been prepared in accordance with financial rule 106.1 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 2017

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 2017 for UNODC.

2. 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.

3. 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 note 3 to the financial statements, Segment reporting.

B. Operational context

4. 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.

5. In order to enhance the effectiveness and accountability of the Office, as well as to strengthen results-based management, UNODC is organized into six thematic subprogrammes: Countering illicit drug trafficking and transnational organized crime; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; and Research, trend analysis and forensics. The Office also has three cross-cutting subprogrammes that provide services to Member States: Policy support; Technical cooperation and field support; and, Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board.

6. The programme of work is delivered by the three substantive divisions, namely the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. A fourth division, the Division for Management, is accountable for the delivery of administrative services and oversight. Through the Division for Operations, UNODC operates in all regions of the world through an extensive field network comprising regional offices (8), country offices (7), programme offices (50) and liaison and partnership offices (2).

7. The Office has responded to the growing demand for its services by establishing an integrated mode of programme planning, implementation and reporting. Essential to this approach is the development of country and regional programmes, which allow the Office to respond to the priorities of Member States in a sustainable manner. These programmes, which are implemented directly by expert staff and consultants, use UNODC procurement processes and leverage the normative and technical skills of the UNODC global programmes in specific geographic areas. This approach deepens

the engagement with a wide cross-section of stakeholders from Member States, including academic, technical, political and civil society actors.

8. UNODC continues to be supported by a broad donor base; donor partners in 2017 comprised Member States, international financial institutions and international organizations, multi-partner trust funds, United Nations agencies and non-governmental entities (private sector entities and individuals). In 2017, contributions were recorded from 137 entities (102 in 2007). This points to a trend of UNODC contributions becoming ever more specialized and intended for specific technical assistance activities.

9. UNODC also carries out its activities through cooperation or implementing partnership arrangements with other departments and offices of the Secretariat and entities of the United Nations system, in particular the Office of the United Nations High Commissioner for Human Rights, the Counter-Terrorism Implementation Task Force and the Counter-Terrorism Executive Directorate, the United Nations Children’s Fund, the United Nations Development Programme (UNDP), the United Nations Human Settlements Programme, the United Nations Entity for Gender Equality and the Empowerment of Women, the Joint United Nations Programme on HIV/AIDS, the International Labour Organization, the International Fund for Agricultural Development, the United Nations Industrial Development Organization, the World Health Organization and the World Bank, as well as the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. UNODC continues to promote coherence of United Nations initiatives on the rule of law by participating in the Rule of Law Coordination and Resource Group and by providing expertise and support to UNDP and the Department of Peacekeeping Operations of the Secretariat in their roles as global focal points for the police, justice and corrections areas of the rule of law in post-conflict and other crisis situations.

C. Activity overview

10. The follow-up to the special session of the General Assembly on the world drug problem held in 2016 continued during the year under review. UNODC supported the Commission on Narcotic Drugs in the follow-up action to the special session, using a comprehensive approach covering all seven thematic areas contained in the outcome document of the special session, and taking an inclusive approach involving all interested stakeholders.

11. UNODC strengthened its efforts to align its strategic and programme documents with the 2030 Agenda for Sustainable Development by including links to targets of the 2030 Agenda in its new and revised programmes. UNODC is the custodian for global-level reporting on 15 indicators of the Sustainable Development Goals, in some instances jointly with other entities. UNODC assisted States in efforts to improve sustainable development outcomes through the implementation of whole-of-government approaches for combating economic crime and the financing of terrorism, while improving inclusion and transparency.

12. In November 2017, the Government of Colombia and UNODC signed an historic agreement to promote and support peace consolidation in Colombia through alternative development and the Government’s public policy and territorial development strategy for illicit crop reduction. Through the four-year project, commencing in 2018, UNODC will provide the Government with technical assistance valued at $316 million for the implementation of the national policy and strategy on territorial and rural development, integrated monitoring of illicit crops and support for the voluntary substitution of such crops, which includes support for legal income generation through productive projects and access to land.

13. In May 2017, UNODC established a global programme on gender equality and the empowerment of women in UNODC and the United Nations Office at Vienna. The main objective is to put in place an institutional framework to help UNODC to promote and achieve gender equality in a coordinated and comprehensive way, including by addressing gender parity among staff, as well as gender mainstreaming in all organizational practices, policies and programmes.

Highlights by region

14. 2017 was the first year of full implementation of the three new regional programmes for the Arab States, East Africa and West Africa. In the Middle East and North Africa, UNODC further expanded its activities, with a focus on countering trafficking and organized crime, including the increasing linkages to terrorist groups. The new programme, launched in East Africa, presents a firm basis for sustained multi-year initiatives which address trafficking in persons, smuggling of migrants, criminal justice, police reform, illicit financial flows and support for persons who inject drugs along the emerging "southern route" for heroin trafficking. In West Africa, the comprehensive response of UNODC to the United Nations integrated strategy for the Sahel is expanding in line with the continued interest and commitment of Member States to support the region.

15. In South Asia, East Asia and the Pacific, sustained partner interest has been achieved through structured regional cooperation in South-East Asia on legal reform and on countering the drug threat, organized crime and terrorism under the framework of the Association of Southeast Asian Nations (ASEAN). A new country programme for Indonesia (2017–2020), launched in early 2017, also supports an alignment with the regional integration agenda of ASEAN. Furthermore, a new integrated regional programme for South Asia (2018–2021) is being finalized in close partnership with key counterparts in the region.

16. In West and Central Asia, new implementation partnerships in support of strengthened delivery were concluded in 2017. UNODC has developed an interregional drug control approach, with Afghanistan at its core, in line with a road map entitled "One UNODC concerted approach interconnecting Europe with West and Central Asia". The Security Council, in its resolution 2344 (2017), once again expressed its appreciation for the work of the Paris Pact initiative, having previously recognized the initiative as being one of the most important frameworks in the fight against opiates originating in Afghanistan and an important part of a comprehensive approach to peace, stability and development in Afghanistan, the region and beyond.

17. In Eastern and South-Eastern Europe, the new partnership with the European Union foresees additional security governance and evaluation work under the regional programme for South-Eastern Europe.

18. In Latin America and the Caribbean, the programme portfolio increased mainly as a result of a new multi-year project designed to support the efforts of Colombia to address illicit drug production in the context of the implementation of the 2016 peace agreement. In the Plurinational State of Bolivia, the UNODC country programme for 2016–2020 addresses five pillars of intervention: coca and comprehensive development; health and drug control; prevention and the fight against crime and organized crime; prevention and the fight against corruption; and criminal justice reform. Furthermore, the UNODC Regional Office for Central America and the Caribbean in Panama continues its support for the implementation of the adversarial system and prison reform in Panama and is expanding its cooperation with Panama through new projects addressing trafficking in persons, firearms control, organized crime and statistics.

Global programmes

19. In line with the needs of Member States, UNODC global programmes continued to expand both in several thematic areas and in field-based components. Global programmes that contributed to the expansion included programmes on strengthening the legal regime against terrorism; the implementation of the Doha Declaration on Integrating Crime Prevention and Criminal Justice into the Wider United Nations Agenda; the UNODC/World Customs Organization container control programme; the Global Maritime Crime Programme; the Global Programme for Combating Wildlife and Forest Crime; the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism; the Global Programme against Corruption; the Global Action to Prevent and Address Trafficking in Persons and the Smuggling of Migrants initiative; the global programmes on HIV/AIDS and on drug use, prevention and treatment; the programme on strengthening criminal investigation and criminal justice cooperation along the cocaine route in Latin America, the Caribbean and West Africa; and the global prison challenges programme.

20. Overall, the drive towards integrated programme delivery has continued through improved internal policies and guidelines on programme coordination.

D. Budget performance highlights

21. While the financial statements have been prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS), the programme budget of UNODC continues to be formulated, managed and presented on a modified cash basis using the United Nations system accounting standards. A summary of the comparison of budget and actual amounts is shown in statement V.

22. All figures quoted in the present section as income and expenditures refer to modified cash basis figures, comparable with budgets (United Nations system accounting standards).

23. 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.

24. 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 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. The final budget for 2016–2017 was presented to the Commissions at the end of 2017.

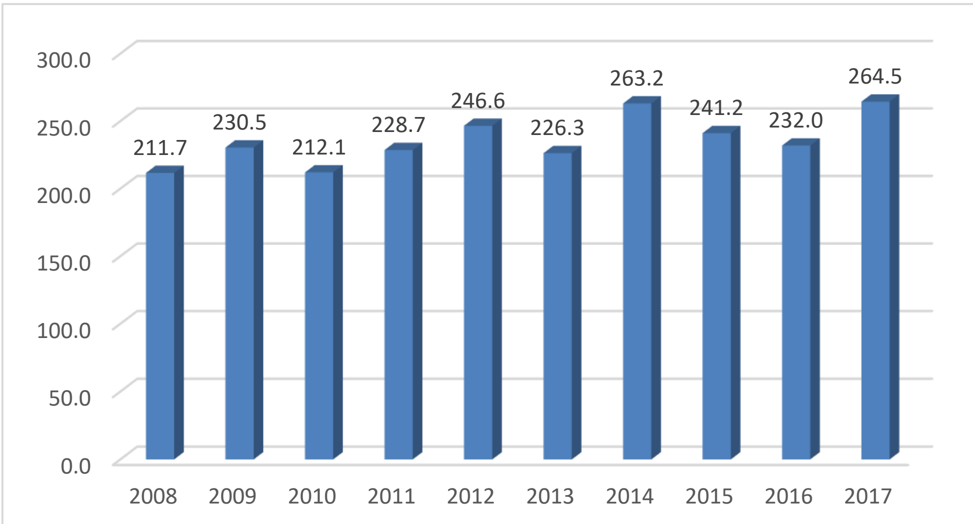
25. The resource requirements of UNODC are grouped under each of the nine subprogrammes (Countering illicit drug trafficking and transnational organized crime; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; Research, trend analysis and forensics; Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the

International Narcotics Control Board). The budget also includes the components of executive direction and management and programme support.

26. Figure IV.I shows the 10-year trend in annual technical assistance expenditure and figures IV.II and IV.III illustrate the distribution of the 2017 expenditures by subprogramme and by region, respectively, on the basis of the United Nations system accounting standards.

Figure IV.I
United Nations system accounting standards technical assistance expenditure trends (excluding regular budget), 2008–2017

(Millions of United States dollars)



27. Notwithstanding year-on-year fluctuations, UNODC has seen an upward trend in the delivery of technical assistance (extrabudgetary implementation) over the decade. The 2017 expenditure of $264.5 million is 24.9 per cent higher than the 2008 level of $211.7 million. Compared with $232.0 million in 2016, 2017 expenditure has increased by $32.5 million (14.0 per cent).

Figure IV.II
United Nations system accounting standards technical assistance expenditure by subprogramme (including regular budget), 2017
(Millions of United States dollars)

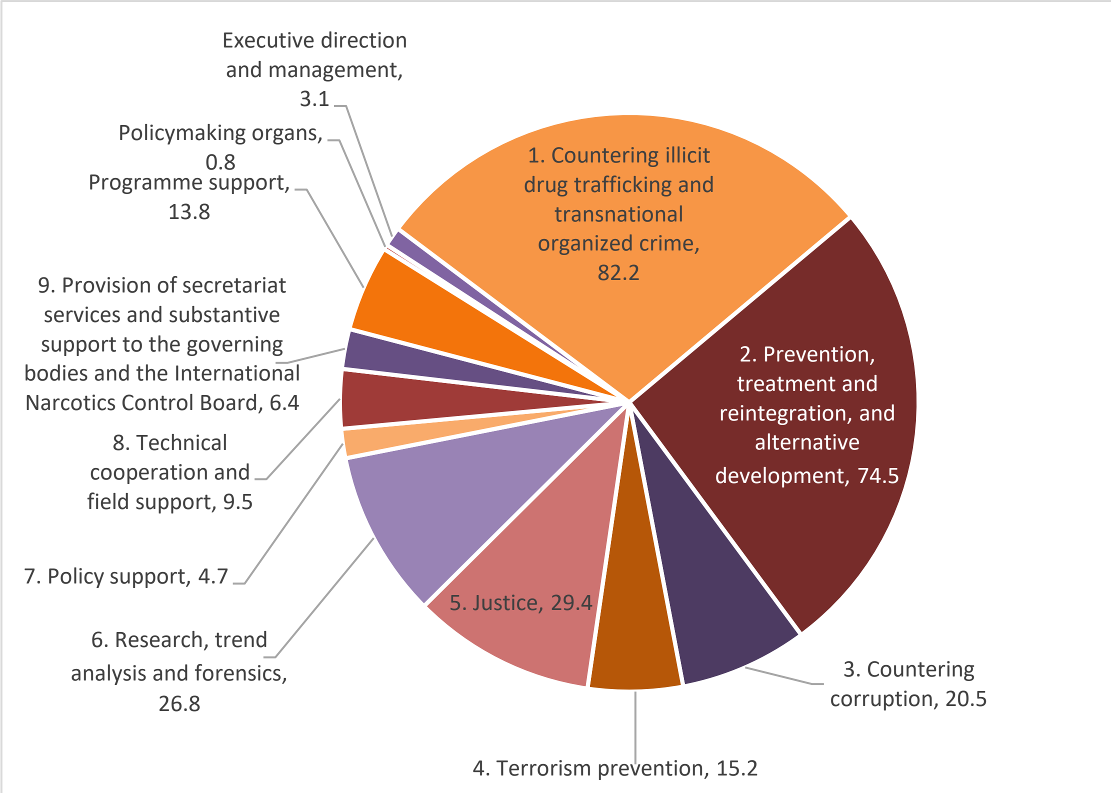
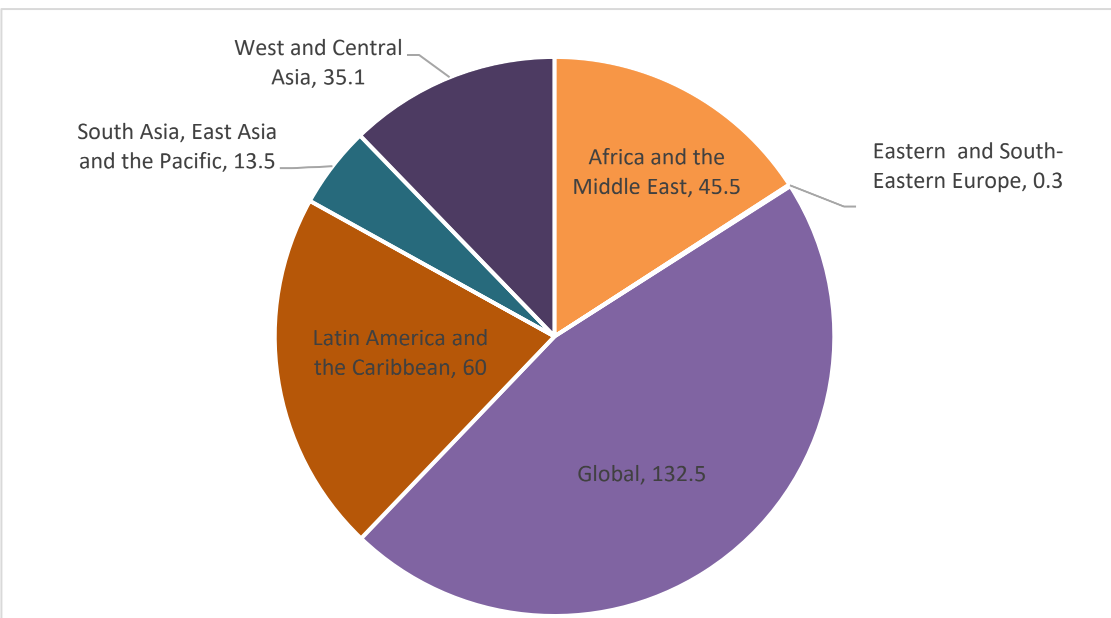


Figure IV.III
United Nations system accounting standards expenditure by region (including regular budget), 2017
(Millions of United States dollars)



28. The table below shows 2016 and 2017 expenditures, broken down by funding source 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) and the regular budget.

United Nations system accounting standards expenditure by funding source (including regular budget), 2016–2017

(Millions of United States dollars; regular budget includes sections 16 and 23)

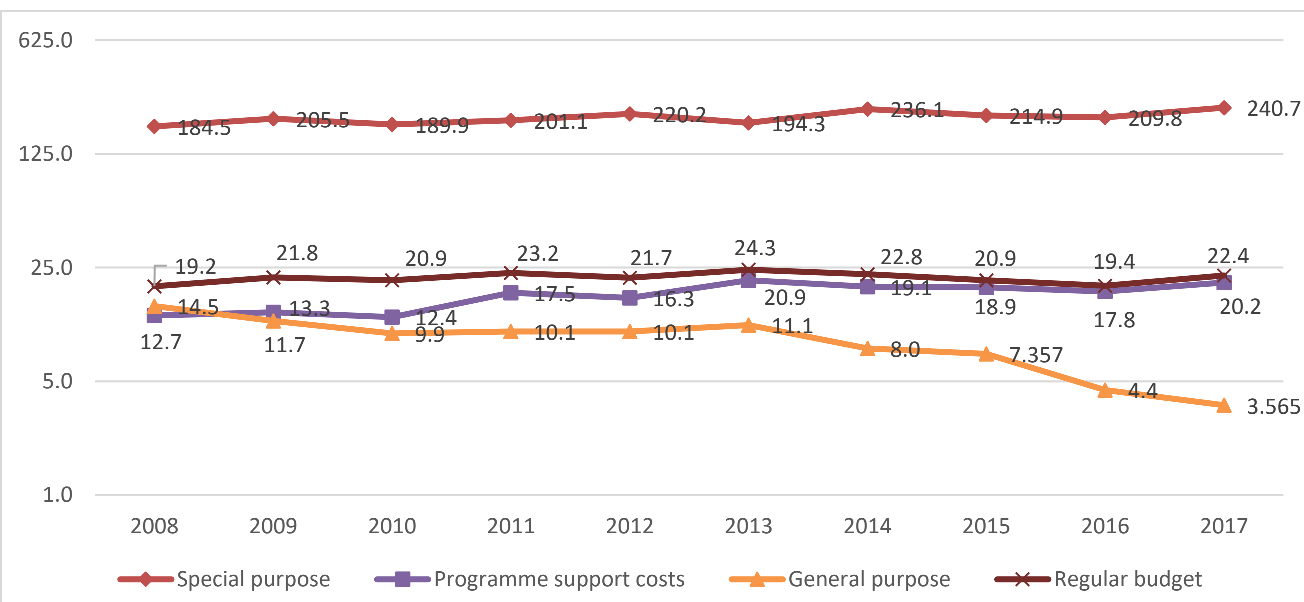
	2016		*2017*	
	Amount	*Percentage*	*Amount*	*Percentage*
Extrabudgetary resources				
Special purpose funds	209.8	83	240.7	84
Programme support cost funds	17.8	7	20.2	7
General purpose funds	4.4	2	3.6	1
Subtotal	**232.0**	**92**	**264.5**	**92**
Regular budget	19.4	8	22.4	8
Total	**251.4**	**100**	**286.9**	**100**

Note: Consistent with the consolidated budget for 2016–2017, in the present financial statements regular budget expenditures include sections 16 and 23.

29. The 10-year evolution of expenditures for special purpose funds, programme support cost funds, general purpose funds and the regular budget is presented in figure IV.IV below.

Figure IV.IV
United Nations system accounting standards evolution of expenditures (including regular budget), 2008–2017

(Millions of United States dollars)



30. Figure IV.IV highlights the continuous trend towards technical assistance delivery through special purpose funding (earmarked funds) rather than general purpose funding (unearmarked funds). In 2017, unearmarked funding was equivalent to a mere 1.5 per cent of earmarked funding. Compared with 2015, delivery through unearmarked funding has more than halved ($3.6 million in 2017 versus $7.4 million in 2015). The continuous decline, in absolute and percentage terms, of general purpose income negatively affects the medium-term ability of UNODC to: (a) implement its strategy; (b) improve upon its management processes; (c) exercise effective corporate oversight; and (d) launch new initiatives and programmes. While UNODC has responded to this trend by implementing stricter financial discipline through full cost recovery (see sect. F below), it continues to call upon donors to make more soft-earmarked contributions.

31. The initial budget approved/endorsed by the Commissions in December 2015 for 2017 amounted to $284.1 million in extrabudgetary resources (see E/CN.7/2015/17-E/CN.15/2015/20, annex I). In December 2016, the Commissions approved/endorsed a revised 2017 budget of $299.6 million (see E/CN.7/2016/17-E/CN.15/2016/14, annex II), reflecting increased projections for implementation of voluntary funded programmes. The final budget for 2017 amounted to $328.2 million (see E/CN.7/2017/12-E/CN.15/2017/14, annex I). Compared with the 2017 extrabudgetary expenditures under the United Nations system accounting standards of $264.5 million (2016: $232.0 million), this equates to a delivery of 93.1 per cent (2016: 72.0 per cent) on the initial budget and 80.6 per cent on the final budget (2016: 86.5 per cent on the revised budget).

E. Financial analysis

32. The present section reflects on the results presented in the IPSAS-based financial statements and accompanying notes, unless otherwise stated.

33. As at 31 December 2017, the net assets amounted to $598.4 million (statement I), which represented an increase of $81.4 million (or 15.7 per cent) compared with $517.0 million as at 31 December 2016. This increase was a result of a net surplus in 2017 of $83.4 million (statement II), offset by a loss arising from the actuarial valuation of employee benefits of $2.0 million (statement III).

34. Cash and cash equivalents and investments amounted to $624.1 million (66.1 per cent of total assets as at 31 December 2017), an increase of $115.1 million over the 2016 amount of $509.0 million (see notes 5 and 6).

35. At the end of 31 December 2017, voluntary contributions receivable represented uncollected earmarked pledges totalling $278.4 million (2016: $249.0 million), net of an allowance for doubtful receivables of $5.5 million (2016: $2.7 million) (see note 7).

36. Implementing programmatic activities in partnership 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 UNODC 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 2017, a balance of $6.4 million (2016: $15.5 million) of advances remained outstanding. Of this amount, $2.6 million (2016: $7.2 million) related to advances made 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 (see note 8).

37. As at 31 December 2017, UNODC held property, plant and equipment of $11.2 million (2016: $13.9 million). During 2017, as part of its programmatic activities, UNODC made significant transfers of assets to end beneficiaries, including transfers of completed construction projects ($3.5 million). At the end of 2017, ongoing construction projects amounted to $5.9 million (see notes 10 and 26).

38. As at 31 December 2017, UNODC reported advance receipts of $28.3 million (2016: $23.7 million). This amount represented funds received from exchange transactions for services that had not been delivered by year-end (see note 13).

39. The liability of UNODC for employee benefits amounted to $120.7 million at 31 December 2017 (2016: $110.5 million), of which $114.5 million (2016: $105.1 million) represented liabilities under defined benefit plans (see note 14).

40. The total revenue of $392.1 million during 2017 (2016: $347.0 million) consisted primarily of $341.2 million (2016: $292.5 million) of non-exchange transactions (87.0 per cent of total revenue) (see note 19); and $30.6 million (2016: $30.1 million) of allocations from the United Nations regular budget (see note 18). Within other revenue of $7.8 million (2016: $9.2 million), existed $6.3 million (2016: $7.8 million) of income derived from exchange transactions such as services rendered on software support and training to Member States and other international organizations (see note 20).

41. The total expenditures for the period amounted to $308.7 million (2016: $241.9 million) comprising mainly staff-related costs of $107.4 million (2016: $101.3 million) (34.8 per cent of total expenses), and non-employee compensation and allowances of $48.7 million (2016: $40.4 million) (15.8 per cent of total expenses). Furthermore, $47.5 million (2016: $18.6 million) of expenditures represented work delivered by implementing partners and grants to non-governmental organizations under authorized small-grants schemes during 2017.

F. Challenges and improvements in 2017 and beyond

Roll-out of full cost recovery

42. Despite growth in its special purpose income (earmarked contributions), which reached $320.6 million in 2017, the level of general purpose income (unearmarked contributions) remained at the low level of $4.0 million (2016: $3.7 million). Undoubtedly, the general purpose fund’s performance, currently at a mere 1.1 per cent of total income, puts a strain on the flexibility of UNODC to deliver its programmes.

43. Figure IV.V presents 2017 income and expenditure by source of funding (general purpose funds, programme support cost funds and special purpose funds).

Figure IV.V
United Nations system accounting standards income and expenditure, by funding source
(Millions of United States dollars)

44. In 2014, with the aim of addressing the persistent deterioration of general purpose income, UNODC introduced funding arrangements 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 price its technical cooperation assistance.

45. In the 2016–2017 period, UNODC continued to ensure a systematic and consistent application of full cost recovery to all programmes and projects funded from voluntary contributions. UNODC adapted its recovery processes to Umoja (the United Nations enterprise resource planning system) and issued revised full cost recovery guidelines to field offices and programme managers.

46. In addition, UNODC developed a monitoring and early warning dashboard on full cost recovery (the full cost recovery barometer) as a risk management tool to provide senior management with monthly and quarterly updates on full cost recovery implementation, enable understanding of the Office's cost base and exercise close monitoring of observed recovery rates and their impact on the field office network and programme activities. The barometer was tested in the second half of 2017, with the full roll-out expected in 2018. In the meantime, UNODC has reported to Member States on full cost recovery rates by field office, based on metrics produced within the business intelligence reporting functionality.

47. With this new mechanism and with the enhanced visibility and timeliness of information expected to be gradually gained from Umoja, UNODC management aims to conduct more factual reviews of the financial situation and find potential midterm solutions for maintaining the integrity of the field office network.

Enterprise risk management initiative

48. The joint enterprise risk management framework launched in August 2014 by the United Nations Office at Vienna and UNODC gradually became operational in 2015 and addresses risks covering strategic, policy and process considerations. The framework has been fully rolled out to the field office network; risk registers and risk-response treatment plans are now in place at the corporate level for divisions and for all field offices.

49. A second Secretariat-wide enterprise risk assessment process, led by the Department of Management, is envisaged. It will guide the decisions concerning the Office's assessment and review process to update the risk register and include emerging risks. This assessment is planned for 2018 at UNODC.

50. Furthermore, UNODC has been among the key Secretariat entities contributing to the piloting of the fraud risk management roll-out within the Secretariat. In this context, UNODC assisted in the assessment of a Secretariat-wide fraud risk register, which will form the basis of assessing risks specifically related to the Office.

Umoja roll-out

51. The implementation of Umoja, the enterprise resource management solution for the United Nations, in Vienna and at field offices in November 2015 has been stabilized and in 2017 the efforts gradually moved to end-to-end process optimization, expansion of the user base, training tailored to the Office's operations, process compliance and enhancement of business intelligence reporting.

52. Deployment efforts are also being directed to the next Secretariat-wide release (Umoja Extension 2), which includes functionalities in budget formulation, strategic planning, project and programme management, implementing partnership and grantor management, resource mobilization and performance management. The roll-out of the Umoja Extension 2 components is expected to commence by September 2018, with continued roll-out and stabilization to take place in 2019 and beyond. Functional experts are already heavily involved in all facets of this key project, ensuring that the Umoja design solution meets UNODC requirements. The successful delivery of this component is essential for UNODC operations as it introduces end-to-end planning and management of its programmes.

Results-based management

53. UNODC has successfully institutionalized a culture of results-based management and a standard programme planning and reporting procedure is being adhered to for all UNODC initiatives. Ensuring the incorporation of an evidence base has been a key theme for the Office over the past 12 months and the interdivisional structures for programme planning and review have been strengthened, with the establishment of a more robust review cycle and programmatic reporting. The focus has been on identifying lessons learned, both positive and negative, and suggesting corrective measures for the latter to senior managers through the Programme Review Committee, which comprises the directors of all three substantive divisions and the chiefs of key support functions.

54. In addition, the Office stepped up its efforts to provide support to programme staff to integrate the 2030 Agenda for Sustainable Development into ongoing and new programmes at the global, regional and country levels through a series of capacity-building measures. In 2017, UNODC also published the third edition of a results-based annual programme-level report that is helping to identify emerging priorities and gaps.

Chapter V

Financial Statements for the year ended 31 December 2017

United Nations Office on Drugs and Crime

I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016 (restated)*[a]
Assets			
Current assets			
Cash and cash equivalents	Note 5	53 995	143 896
Investments	Note 6	433 904	246 445
Voluntary contributions receivable[a]	Note 7	179 167	162 561
Other receivables[a]	Note 7	12 359	17 363
Advance transfers	Note 8	6 437	15 547
Advances to UNDP and other assets	Note 9	11 250	12 856
Total current assets		**697 112**	**598 668**
Non-current assets			
Investments	Note 6	136 195	118 669
Voluntary contributions receivable	Note 7	99 258	86 391
Property plant and equipment	Note 10	11 204	13 928
Intangible assets	Note 11	631	387
Total non-current assets		**247 288**	**219 375**
Total assets		**944 400**	**818 043**
Current liabilities			
Accounts payable and accrued liabilities[a]	Note 12	42 357	46 337
Advance receipts[a]	Note 13	28 320	23 667
Employee benefits liabilities	Note 14	3 497	3 522
Provisions	Note 15	–	478
Conditional liabilities	Note 16	92 637	73 664
Total current liabilities		**166 811**	**147 668**
Non-current liabilities			
Employee benefits liabilities	Note 14	117 160	107 001
Conditional liabilities	Note 16	62 045	46 375
Total non-current liabilities		**179 205**	**153 376**
Total liabilities		**346 016**	**301 044**
Total assets and liabilities		**598 384**	**516 999**
Accumulated surpluses/(deficits), unrestricted	Note 17	11 701	6 229
Accumulated surpluses/(deficits), restricted[a]	Note 17	586 683	510 770
Total net assets		**598 384**	**516 999**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

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 2017

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016 (restated)*[a]
Revenue			
United Nations regular budget allocation	Note 18	30 638	30 142
Voluntary contributions[a]	Note 19	341 218	292 485
Other transfers and allocations	Note 19	5 719	11 607
Other revenue[a]	Note 20	7 778	9 246
Investment revenue		6 732	3 535
Total revenues		**392 085**	**347 015**
Expenses			
Employee salaries, allowances and benefits	Note 22	107 403	101 307
Non-employee compensation and allowances	Note 23	48 679	40 359
Grants and other transfers	Note 24	47 534	18 637
Supplies and consumables	Note 25	5 500	3 456
Depreciation	Note 10	1 042	1 109
Amortization	Note 11	180	121
Travel		29 505	25 524
Other operating expenses	Note 26	66 905	49 440
Other expenses	Note 27	1 955	1 953
Total expenses		**308 703**	**241 906**
Surplus/(deficit) for the year		**83 382**	**105 109**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

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 2017

(Thousands of United States dollars)

	Reference	*Accumulated surpluses/(deficits), unrestricted*	*Accumulated surpluses/(deficits), restricted (restated)*[a]	*Total*
Net assets as at 1 January 2016		**5 274**	**447 731**	**453 005**
Adjustment to net asset opening[a]	Note 17	–	(38 163)	(38 163)
Net assets as at 1 January 2016 (restated)		**5 274**	**409 568**	**414 842**
Change in net assets				
Transfers to/from unrestricted/restricted funds		483	(483)	–
Actuarial gain/(loss)		(1 470)	(1 481)	(2 951)
Surplus/(deficit) for the year[a]		1 942	103 166	105 108
Net assets as at 31 December 2016 (restated)		**6 229**	**510 770**	**516 999**
Net assets as at 1 January 2017	Statement I	**6 229**	**510 770**	**516 999**
Change in net assets				
Transfers to/from unrestricted/restricted funds	Note 17	139	(139)	–
Actuarial gain/(loss)	Note 14	(1 353)	(644)	(1 997)
Surplus/(deficit) for the year	Statement II	6 686	76 696	83 382
Net assets as at 31 December 2017	**Statement I**	**11 701**	**586 683**	**598 384**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

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 2017

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016 (restated)*[a]
Cash flow from operating activities			
Surplus/(deficit) for the year[a]	**Statement II**	**83 382**	**105 109**
Non-cash movements			
Depreciation and amortization	Notes 10, 11	1 222	1 230
Actuarial gain/loss on employee benefits liabilities	Note 14	(1 997)	(2 951)
Transfers and donated property, plant and equipment and intangibles	Notes 10, 11	(276)	205
Net gain/loss on disposal of property plant and equipment	Note 10	7 828	5 139
Changes in assets			
(Increase)/decrease in voluntary contributions receivable[a]	Note 7	(29 473)	(9 085)
(Increase)/decrease in other receivables[a]	Note 7	5 004	16 211
(Increase)/decrease in advance transfers	Note 8	9 110	(7 092)
(Increase)/decrease in other assets	Note 9	1 606	(4 072)
Changes in liabilities			
Increase/(decrease) in accounts payable, Member States[a]	Note 12	(5 891)	(19 936)
Increase/(decrease) in accounts payable, other	Note 12	1 911	(4 428)
Increase/(decrease) in advance receipts[a]	Note 13	4 653	12 467
Increase/(decrease) in employee benefits payable	Note 14	10 134	8 619
Increase/(decrease) in provisions	Note 15	(478)	478
Increase/(decrease) in other liabilities	Note 16	34 643	(44 043)
Investment revenue presented as investing activities	Note 21	(6 732)	(3 535)
Net cash flows from/(used in) operating activities	**Note 4**	**114 646**	**54 316**
Cash flows from investing activities			
Pro rata share of net increases in the cash pool	Note 6	(204 985)	16 428
Investment revenue presented as investing activities	Note 21	6 732	3 535
Acquisitions of property plant and equipment	Note 10	(5 894)	(9 840)
Proceeds from disposal of intangibles	Note 11	(149)	
Net cash flows from/(used in) investing activities	**Note 4**	**(204 296)**	**10 123**
Cash flows from financing activities			
Other inflows/(outflows) of cash		(251)	(22)
Net cash flows from/(used in) financing activities	**Note 4**	**(251)**	**(22)**
Net increase/(decrease) in cash and cash equivalents	Note 4	(89 901)	64 417
Cash and cash equivalents — beginning of year	Note 5	143 896	79 479
Cash and cash equivalents — end of year	**Statement I**	**53 995**	**143 896**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

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 2017

(Thousands of United States dollars)

	Publicly available budget[a]			
	Original 2017 annual[b]	*Final 2017 annual*[c]	*Actual 2017 (budget basis)*	*Difference*[d] *(percentage)*
Revenue				
United Nations regular budget allocation	19 120	23 022	22 383	(3)
Voluntary contributions and other revenue	295 000	291 022	351 295	21
Total revenue	**314 120**	**314 044**	**373 678**	**19**
Expenses				
A. Policymaking organs	846	745	849	14
B. Executive direction and management	3 207	3 447	3 080	(11)
C. Programme of work				
1. Countering illicit drug trafficking and transnational organized crime	94 175	95 080	82 207	(14)
2. Prevention, treatment and reintegration, and alternative development	67 905	107 080	74 528	(30)
3. Countering corruption	17 897	25 815	20 507	(21)
4. Terrorism prevention	13 540	14 406	15 160	5
5. Justice	36 057	35 068	29 353	(16)
6. Research, trend analysis and forensics	30 709	30 636	26 772	(13)
7. Policy support	7 261	5 316	4 709	(11)
8. Technical cooperation and field support	9 211	11 502	9 444	(18)
9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board	7 621	6 670	6 430	(4)
D. Programme support	14 759	15 450	13 828	(10)
Total expenses	**303 188**	**351 215**	**286 867**	**(18)**
Net surplus/(deficit)	**10 932**	**(37 171)**	**86 811**	

[a] Statement V is reported on an annual basis for reporting purposes. See note 4 for detailed information concerning the 2016–2017 biennial budget.

[b] Original approved budget for 2017 of $303.187 million covers extrabudgetary resources of $284.068 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (E/CN.7/2015/17-E/CN.15/2015/20). It also includes the 2017 initial appropriation for regular budget section 16 ($18.465 million) and section 23 ($0.654 million). The amount for extrabudgetary resources includes the United Nations Interregional Crime and Justice Research Institute.

[c] Final budget for 2017 of $351.215 million covers extrabudgetary resources of $328.193 million presented to the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (E/CN.7/2017/12-E/CN.15/2017/14). It also includes the 2017 final appropriation for regular budget section 16 ($22.212 million) and section 23 ($0.810 million). The amount for extrabudgetary resources includes the United Nations Interregional Crime and Justice Research Institute.

[d] Actual expenditure (budget basis) less final budget, divided by final budget. Further details and material differences are addressed in note 4, 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 and its objectives and activities

1. The United Nations Office on Drugs and Crime (UNODC) was established in 1997[1] through a merger between the United Nations Drug Control Programme[2] and the Centre for International Crime Prevention.[3] 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. For the first time, the 2030 Agenda for Sustainable Development explicitly affirms that development requires peaceful and inclusive societies, justice for all and effective, accountable and inclusive institutions at all levels. There exists a strongly related and mutually reinforcing relationship between the rule of law and development and as such, neither can be realized in the absence of the other. 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 2016–2017 has been organized into six thematic subprogrammes (countering illicit drug trafficking and transnational organized crime; prevention, treatment and reintegration, and alternative development; countering corruption; terrorism prevention; justice; and research, trend analysis and forensics) and three subprogrammes under which the Office provides cross-cutting services to Member States (policy support; technical cooperation and field support; and provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board). 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.

4. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing for leveraging of complementarities and synergies among divisions and the

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[1] See A/51/950, paras. 143–145.

[2] 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. 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.

[3] 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, which was established in accordance with the Secretary-General's reform programme (see A/51/950, sect. V).

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.

5. 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.

6. Headquartered in Vienna, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (7), programme offices (50) and liaison and partnership offices (2).

7. UNODC is primarily funded by voluntary contributions to the Fund of the United Nations Drug 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.

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

Note 2
Accounting policies

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).

10. These 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 2016–2017 and the historical trend of collection of assessed and voluntary contributions over the past years.

11. These financial statements cover the calendar year ended 31 December 2017. The reporting period coincides with the calendar year.

Authorization for issue

12. These financial statements are certified by the Chief of the Financial Resources Management Service of UNODC and approved by the UNODC Executive Director.

Functional and presentation currency

13. The functional currency of UNODC is the United States dollar, which is also the presentation currency. The statement and notes are presented in thousands of United States dollars unless otherwise indicated. The amounts in the statements and note tables are rounded to the nearest thousand dollars and in text narrative notes. As a result of such rounding, totals may not add up.

14. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. This rate approximates the spot rates prevailing 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 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.

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 the presentation, disclosure, aggregation, offsetting and timing of application of changes in accounting policies.

16. Accounting estimates and underlying assumptions include but are not limited to actuarial measurements, asset useful lives, impairment, inflation and discount rates. These are reviewed on an ongoing basis; revisions to estimates are recognized in the year in which the changes in estimates take place.

Cash flow convention

17. The statement of cash flow is prepared using the indirect method.

Revenue

Regular budget allocation

18. In its consolidated biennial budget, UNODC includes the regular budget resources that directly finance its programmatic delivery. The relevant sections of the regular budget of the United Nations are sections 16 and 23, which are also included in statement V, on the comparison between budgeted and actual amounts. With the exception of statement V, the IPSAS financial statements take a strict UNODC entity view and include only the regular budget resources directly attributable to the programme delivery and support of UNODC. Consequently, the IPSAS financial statements account for the portion of section 29G of the regular budget of the United Nations, which covers the support to UNODC.

19. Upon approval, the total regular budget of the United Nations 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 does not therefore recognize them in its financial statements and instead recognizes in its financial statements the yearly allocation utilized as revenue in the statement of financial performance.

Voluntary contributions

20. Voluntary contributions and other transfers with probable inflow of resources supported by firm enforceable pledges and that are not subject to restrictions 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.

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

In-kind contributions

22. 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 reliably measurable. Contributions in kind are initially measured at their fair value at the date of receipt, 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

23. 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, and amounts collected but not yet utilized are included within advance receipts.

Investment revenue

24. The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. The investment revenue includes the Office's share of net cash pool revenue and other interest revenue. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and book value. Transaction costs that are directly attributable to investment activities are netted against revenue. Net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. Cash pool revenue also includes unrealized market gains and losses on securities. These are distributed proportionately to all participants on the basis of year-end balances.

25. 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 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

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

27. 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.

Leases

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

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

30. 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.

Donated rights to use

31. 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 UNODC 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.

Assets

Classification

32. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. All financial assets are initially measured at fair value. UNODC initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which UNODC becomes party to the contractual provisions of the instrument.

33. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Financial assets at fair value through surplus or deficit are those that have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the year in which they arise.

34. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recorded at nominal value.

35. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset.

Impairment losses are recognized in the statement of financial performance in the year in which they arise.

36. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with all substantial risks and rewards. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Investment in cash pools

37. The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in a cash pool implies sharing the risk and returns on investments with the other participants. Given that the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investment portfolio to the extent of the amount of cash invested.

38. Investments of UNODC in the cash pools are included as part of cash and cash equivalents, current investments with maturities of between three and 12 months and non-current investments with maturities of more than 12 months in the statement of financial position.

Cash and cash equivalents

39. Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Voluntary contributions receivable

40. Contributions receivable represent uncollected revenue from voluntary contributions committed to UNODC by Governments and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables. Voluntary contributions receivable are subject to an allowance for doubtful receivables on the same basis as other receivables.

Other receivables

41. Other receivables include primarily amounts receivable for goods or services provided to other United Nations entities, amounts receivable for leased-out assets and receivables from staff. Material balances of other receivables and voluntary contributions receivable are subject to specific review; allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Advances to the United Nations Development Programme and other assets

42. Advances include advances to UNDP for administrative and treasury services, education grant advances and prepayments that are recorded as an asset until the goods are delivered or the services are rendered by the other party, at which point the expense is recognized.

Heritage assets

43. Heritage assets are not recognized in the financial statements; significant heritage asset transactions are disclosed in the notes thereto.

Property, plant and equipment

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

45. 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.

46. 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 estimated useful lives and capitalization thresholds for the various classes of property, plant and equipment are as follows:

Asset class and subclass	*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.

47. UNODC enters into construction works, such as building 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 UNODC site engineering team. As these assets are not used by UNODC but rather are delivered to end beneficiaries, no depreciation charge is recognized in the financial statements.

48. 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.

49. 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

50. 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 (e.g. employee costs, costs for consultants and applicable overheads) and other costs incurred to acquire and bring the specific software to use. For donated intangible assets, the fair value at the date of acquisition is utilized as a proxy for historical cost.

51. Intangible assets with definite useful lives are fully amortized using the straight-line method over their estimated useful lives. The useful lives and thresholds of major classes of intangible assets have been estimated as follows:

Class	Capitalization threshold (United States dollars)	Estimated useful life (years)
Externally acquired 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

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

Advance transfers (to implementing partners) and grants

53. UNODC often implements programmatic activities through implementing partners, such as United Nations entities, 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 expenses on the basis of estimates of work completion after close consultation with the UNODC office responsible for managing the partner activities. 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.

54. 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 signing of the grant award.

Liabilities

Classification

55. Financial liabilities include accounts payable, transfers payable, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations entities. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Office re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Accounts payable and accrued liabilities

56. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for at the reporting date. Payables are recognized and subsequently measured at their nominal value since they are generally due within 12 months.

Advance receipts

57. Advance receipts consist of payments received in advance relating to exchange transactions.

Employee benefits liabilities

58. 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.

59. Employee benefits consist of short-term, long-term, post-employment and termination benefits.

60. 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) The United Nations Joint Staff Pension Fund: in line with the requirements of IPSAS 25, Employee benefits, 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.

Short-term employee benefits

61. Short-term employee benefits (other than termination benefits) are those payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave, maternity/paternity leave), and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave travel). All such benefits that are accrued but not yet paid at the reporting date are recognized as current liabilities within the statement of financial position.

Other long-term employee benefits

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

Post-employment benefits

63. 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.

Termination benefits

64. Termination benefits are recognized as an expense only when UNODC is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Defined-benefit plans

65. The following benefits are accounted for as defined-benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated annual leave that is commuted to cash upon separation from the Office (other long-term benefits). Defined-benefit plans are those where the Office's obligation is to provide agreed benefits and therefore UNODC bears the actuarial risks. The liability for defined-benefit plans is measured at the present value of the defined-benefit obligation. Changes in the liability for defined-benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. UNODC has chosen to recognize changes in the liability for defined-benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, UNODC held no plan assets as defined by IPSAS 25, Employee benefits.

Pension plan: United Nations Joint Staff Pension Fund

66. 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. The Pension Fund participants jointly determined that there is no consistent and reliable basis for allocating the assets and liabilities and performance (costs) among them. Therefore, as permitted by IPSAS 25, and consistent with the 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.

Non-employee compensation

67. Non-employee compensation and allowances consist of expenses incurred with respect to consultants, 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, a pension, health insurance, leave and severance pay.

Provisions and contingent liabilities

68. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

69. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Office are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

70. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become

more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

Commitments

71. Commitments are future expenses to be incurred by UNODC with respect to open contracts which the Office has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (the 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 are not delivered as at the end of the reporting period, non-cancellable minimum lease payments and other non-cancellable commitments.

Recent and future requirements of the International Public Sector Accounting Standards

72. The IPSAS Board has issued the following standards: IPSAS 34 to 38 in 2015, effective 1 January 2017, IPSAS 39 in 2016, effective 1 January 2018 and IPSAS 40 in 2017, effective 1 January 2018. The impact of these standards on the Office's financial statements and the comparative period therein has been evaluated to be as follows:

Standard	*Anticipated impact in the year of adoption*
IPSAS 34	The reporting requirements under IPSAS 34, Separate financial statements, are similar to the requirements of IPSAS 6, Consolidated and separate financial statements, which has been repealed. The introduction of IPSAS 34 with effect from 1 January 2017 therefore has no effect on the financial statements of UNODC.
IPSAS 39	IPSAS 39, Employee benefits, which replaces IPSAS 25, was effective from 1 January 2018; this will have no impact on UNODC since the option to defer recognition of changes in the net defined liability using the "corridor method", which is being eliminated, has not been applied since the adoption of IPSAS in 2014. In addition, UNODC does not have any plan assets and there is therefore no impact from the application of the net interest approach prescribed by the standard. Further analysis will be carried out in the future should the Office procure plan assets.

Note 3
Segment reporting

73. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objective and to make decisions about the future allocation of resources.

74. In segment reporting, the Office's revenue, expenses, assets and liabilities are presented by reference to two major pillars of its mandate: the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Programme, which includes the United Nations Interregional Crime and Justice Research Institute. Activities that are not earmarked for specific programmes are reported based on the performance ratio of the drug and crime programmes for the purpose of segment reporting.

Segment reporting

Statement of financial position

(Thousands of United States dollars)

	31 December 2017			*31 December 2016 (restated)[a]*		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Assets						
Current assets						
Cash and cash equivalents	14 852	39 143	53 995	77 369	66 527	143 896
Investments	225 594	208 310	433 904	124 110	122 335	246 445
Voluntary contributions receivable[a]	75 812	103 355	179 167	76 315	86 246	162 561
Advance transfers and other receivables[a]	3 866	14 930	18 796	8 752	24 158	32 910
Advances to UNDP and other assets	5 343	5 907	11 250	9 537	3 319	12 856
Total current assets	**325 467**	**371 645**	**697 112**	**296 083**	**302 585**	**598 668**
Assets						
Non-current assets						
Investments (non-current)	70 810	65 385	136 195	59 762	58 907	118 669
Voluntary contributions receivable (non-current)	15 371	83 887	99 258	17 101	69 290	86 391
Property, plant and equipment and intangibles	4 598	7 237	11 835	5 180	9 135	14 315
Total non-current assets	**90 779**	**156 509**	**247 288**	**82 043**	**137 332**	**219 375**
Total assets	**416 246**	**528 154**	**944 400**	**378 126**	**439 917**	**818 043**
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities[a]	15 097	27 260	42 357	13 819	32 518	46 337
Advance receipts[a]	714	27 606	28 320	1 036	22 631	23 667
Employee benefits liabilities	1 613	1 884	3 497	1 913	1 609	3 522
Conditional liabilities	25 632	67 005	92 637	18 779	55 363	74 142
Total current liabilities	**43 056**	**123 755**	**166 811**	**35 547**	**112 121**	**147 668**

	31 December 2017			*31 December 2016 (restated)*[a]		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Non-current liabilities						
Employee benefits liabilities	56 109	61 051	117 160	64 842	42 159	107 001
Conditional liabilities	9 328	52 717	62 045	14 382	31 993	46 375
Total non-current liabilities	**65 437**	**113 768**	**179 205**	**79 224**	**74 152**	**153 376**
Total liabilities	**108 493**	**237 523**	**346 016**	**114 771**	**186 273**	**301 044**
Total assets and liabilities	**307 753**	**290 631**	**598 384**	**263 355**	**253 644**	**516 999**
Net assets						
Accumulated surpluses/(deficits), unrestricted	16 926	(5 225)	11 701	14 887	(8 658)	6 229
Accumulated surpluses/(deficits), restricted[a]	290 827	295 856	586 683	248 468	262 302	510 770
Total net assets	**307 753**	**290 631**	**598 384**	**263 355**	**253 644**	**516 999**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

Segment reporting

Statement of financial performance

(Thousands of United States dollars)

	31 December 2017			*31 December 2016 (restated)*[a]		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Segment revenue						
United Nations regular budget allocation	13 186	17 452	30 638	16 516	13 626	30 142
Voluntary contributions[a]	182 146	159 072	341 218	147 655	144 830	292 485
Other transfers and allocations	87	5 632	5 719	4 793	6 814	11 607
Other revenue[a]	2 316	5 462	7 778	1 361	7 885	9 246
Investment revenue	3 388	3 344	6 732	1 663	1 872	3 535
Total revenues	**201 123**	**190 962**	**392 085**	**171 988**	**175 027**	**347 015**
Expenses						
Employee salaries allowances and benefits	45 410	61 993	107 403	46 567	54 740	101 307
Non-employee compensation and allowances	23 794	24 885	48 679	20 172	20 187	40 359
Grants and other transfers	37 871	9 663	47 534	13 363	5 274	18 637
Depreciation, amortization and impairment	656	566	1 222	725	505	1 230
Travel	11 878	17 627	29 505	10 242	15 282	25 524
Other operating expenses	31 162	35 743	66 905	22 148	27 292	49 440
Other miscellaneous expenses	4 534	2 921	7 455	2 953	2 456	5 409
Total expenses	**155 305**	**153 398**	**308 703**	**116 170**	**125 736**	**241 906**
Surplus/(deficit) for the year	**45 818**	**37 564**	**83 382**	**55 818**	**49 291**	**105 109**

[a] The 2016 comparatives have been restated to account for adjustments related to the treatment of exchange transactions and the valuation of foreign currency conditional revenue. See notes 7, 12, 13 17, 19 and 20 for further details.

Note 4
Comparison to budget

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

76. The original budget for the biennium 2016–2017 of $644.410 million covered extrabudgetary resources of $606.190 million approved by the Commission on Narcotics Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2015/17-E/CN.15/2015/20) and regular budget resources of $38.220 million approved by the General Assembly (resolutions 70/249 A–C) for section 16 and 23. Of the $644.410 million, the original budget for 2017 of $303.187 million is included in these statements. The amount includes the United Nations Interregional Crime and Justice Research Institute.

77. The final budget for the biennium 2016–2017 of $605.980 million covers extrabudgetary resources of $563.467 million presented to the Commission on Narcotics Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2017/12-E/CN.15/2017/14) and regular budget resources of $42.513 million approved by the General Assembly (resolution 72/253 A–B) for sections 16 and 23. Of the $605.980 million, the final budget for 2017 of $351.215 million is included in these statements. The amount includes the United Nations Interregional Crime and Justice Research Institute.

78. The explanations on material differences for 2017 are provided below:

Budget caption	*Material differences*
Policymaking organs	The overexpenditure of $0.104 million relates mainly to the follow-up process to the special session of the General Assembly on the world drug problem in 2016, which was fully implemented in 2017.
Executive direction and management	The underexpenditure of $0.4 million relates mainly to savings attributable to temporary vacancies
Subprogramme 1, Countering illicit drug trafficking and transnational organized crime	The underexpenditure of $12.873 million relates mainly to delayed implementation of the following projects: support to the Economic Community of West African States Regional Action Plan in West Africa; strengthening criminal investigation and criminal justice cooperation along the cocaine route in Latin America, the Caribbean and West Africa; consolidation of criminal procedure reform in Panama; global action to prevent and address trafficking in persons and the smuggling of migrants; response to drugs and related organized crime in Nigeria; regional programme on countering transnational organized crime and illicit drug trafficking in Eastern Africa; and security cooperation in Panama.
	The reasons for delayed implementation include protracted ongoing negotiations with donors; delayed recruitment and deployment of staff; delays in finalization of transfer of funds to an implementing partner; delays in implementation of construction projects; delays in finalization of engagement with national counterparts; delays while engaging government counterparts; complications due to the political and security situation in areas of operation; and delays in ascertaining confirmation of additional funding from donors.

Budget caption	*Material differences*
Subprogramme 2, Prevention, treatment and reintegration, and alternative development	The deviation of $32.551 million relates mainly to the need for negotiations associated with the projects on alternative development within the framework on the implementation of the peace agreement in Colombia.
Subprogramme 3, Countering corruption	The deviation of $5.308 million relates mainly to delayed implementation of the following projects: implementation of the Doha Declaration; and regional programme on countering corruption in Eastern Africa. The reasons for the delays relate to complications in procurement actions and conclusion of partnership agreements; and national elections in key countries of implementation.
Subprogramme 5, Justice	The deviation of $5.715 million relates mainly to delayed implementation of the following projects: construction works to improve the criminal justice infrastructure of States countering maritime crime; Global Maritime Crime Programme; and national integrated programme for Ethiopia. The reasons for delayed implementation include late receipt of donor funding; complications related to construction and procurement; and political instability encountered in the areas covered by the underlying projects.
Subprogramme 6, Research, trend analysis and forensics	The deviation of $3.864 million relates mainly to lower than budgeted implementation of the following projects: integrated monitoring system of illicit crops in Colombia; improving crime scene investigation in Tunisia; monitoring of opium production in Afghanistan; Global SMART Programme; assistance programme for the fight against drug trafficking and reduction of surplus coca cultivation in the Plurinational State of Bolivia; and United Nations Interregional Crime and Justice Research Institute. The reasons for lower than budgeted implementation include delays in ascertaining donor contributions; delays in the procurement process; delays in obtaining donor approval for supplementary funds; postponement of the information technology component of the Global SMART Programme to 2018; and delays in activities as a result of national policies.
Subprogramme 7, Policy support	The deviation of $0.607 million relates partially to lower than budgeted implementation of the following projects: change management; engagement with civil society; and trust fund for victims of trafficking in persons. In addition, some funds were redeployed from subprogramme 7 to subprogramme 6. The reasons for lower than budgeted implementation include savings on travel due to direct funding by partners; savings on costs for personnel; and lower implementation reported by civil society partners.
Subprogramme 8, Technical cooperation and field support	The deviation of $2.059 million relates mainly to additional provisions made for donor refunds; and savings attributable to delayed recruitment.
Programme support	The deviation $1.622 million relates mainly to savings attributable to temporary vacancies as well as lower-than-budgeted implementation of information technology support to intelligence and law enforcement systems.

79. The table below shows the reconciliation between the actual amounts on a comparable basis under statement V and the Office's cash flows under statement IV:

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2017

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total 31 December 2017*
Actual amounts on a comparable basis (statement V)	**(286 867)**	**–**	**–**	**(286 867)**
Basis differences	406 422	–	–	406 422
Entity differences	(7 722)	–	–	(7 722)
Presentation differences	2 813	(204 296)	(251)	(201 734)
Actual amounts in the statement of cash flows (statement IV)	**114 646**	**(204 296)**	**(251)**	**(89 901)**

80. 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, the non-cash elements such as unliquidated budgetary commitments of $40.478 million and payment against prior year budgetary commitments ($35.175 million) are included as basis differences. In addition, other IPSAS-specific differences such as the treatment of employee benefits ($1.641 million) and indirect cash flows relating to changes in receivables and accrued liabilities are included.

81. Entity differences arise when the budget includes programmes that are not part of the UNODC financial statements reporting and vice versa, such as the regular budget of the United Nations, which is reported under the United Nations financial statements (volume I). The UNODC financial statements encompass a portion of the regular budget allocated to the administrative budget of the United Nations Office at Vienna in support of UNODC programme delivery (see note 18).

82. 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 ($198.253 million). Other presentation differences include the fact 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, including intangibles ($6.043 million).

83. Timing differences occur if the budget period differs from that of the financial statements. As the budget results under statement V reflect only the 2017 proportion of the biennium, there are no timing differences.

Note 5
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash at bank and on hand	35	121
Cash pool cash and term deposits	53 960	143 775
Total cash and cash equivalents (statement I)	**53 995**	**143 896**

84. Cash at bank and on hand represents imprest and petty cash accounts.

85. Cash pool and term deposits represent overnight deposits held within the main and euro investment pools.

86. The decrease in cash pool and term deposits in 2017 is attributable to the shifting of more liquid assets to the investments in the main pool (see note 6).

Note 6
Investments

(Thousands of United States dollars)

	Total 31 December 2017	*Total 31 December 2016*
Current		
Main pool	433 904	246 445
Euro pool	–	–
Subtotal, current	**433 904**	**246 445**
Non-current		
Main pool	136 195	118 669
Subtotal, non-current	**136 195**	**118 669**
Total	**570 099**	**365 114**

87. Investments comprise amounts held in the United Nations cash pools and include current investments and non-current investments. Liquid assets maturing within three months are included within cash pool cash and term deposits (see note 5). Further details and analysis of related exposure are provided in note 21.

Note 7
Outstanding voluntary contributions receivable and other receivables

Outstanding voluntary contributions receivable

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016 (restated)*
Current voluntary contributions receivable			
Governments		26 571	38 022
Other governmental organizations		154 405	116 440
United Nations organizations		1 097	5 599
Private donors		2 546	5 234
Total current voluntary contributions receivable before allowance		**184 619**	**165 295**
Non-current voluntary contributions receivable			
Governments		13 059	26 303
Other governmental organizations		80 609	59 645
Private donors		5 590	443
Total non-current voluntary contributions receivable before allowance		**99 258**	**86 391**

	Reference	31 December 2017	31 December 2016 (restated)
Allowance for doubtful receivables, current		(5 452)	(2 734)
Total allowance for doubtful receivables		**(5 452)**	**(2 734)**
Net voluntary contributions receivable, current	Statement I	179 167	162 561
Net voluntary contributions receivable, non-current	Statement I	99 258	86 391
Total voluntary contributions receivable		**278 425**	**248 952**

Other receivables

(Thousands of United States dollars)

	31 December 2017	31 December 2016 (restated)
Current other receivables		
Governments	10 374	15 576
Receivables from other United Nations entities	158	139
Other exchange revenue receivables	1 827	1 648
Total other receivables, current	**12 359**	**17 363**
Total other receivables	**12 359**	**17 363**

Movements in allowances for doubtful receivables

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Opening allowance for doubtful receivables	2 734	10 370
Amounts written off[a]	(4 567)	(9 490)
Doubtful receivables adjustment for current year	7 285	1 854
Closing allowance for doubtful receivables	**5 452**	**2 734**

[a] Note 26 provides further details on the amounts written off.

Ageing of voluntary contributions receivable and other receivables

(Thousands of United States dollars)

	2017		2016	
	Gross receivable	Allowance	Gross receivable	Allowance
Neither past due nor impaired	283 902	(1 895)	196 732	–
Less than one year	11 001	(3 049)	68 534	(509)
One to two years	983	(246)	2 490	(932)
Two to three years	320	(232)	390	(390)
More than three years	30	(30)	903	(903)
Total	**296 236**	**(5 452)**	**269 049**	**(2 734)**

88. The balance of outstanding voluntary contributions receivable comprises pledges earmarked for specific activities.

89. All pledges that are outstanding are reviewed and an allowance is created for those that may be deemed irrecoverable.

90. The 2016 amount for current voluntary contributions receivable from Governments has been restated downwards by $15.507 million with an equal and corresponding increase in the amount for current other receivables from Governments, reflecting the restatement of amounts owed at the balance sheet date related to exchange transactions (see note 17).

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

Note 8
Advance transfers

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
United Nations Office for Project Services	1 586	3 938
UNDP	–	515
Advances to other United Nations entities	886	1 234
Implementing partners (Colombia)	2 614	7 192
Others	1 351	2 668
Total advance transfers (statement I)	**6 437**	**15 547**

92. Advance transfers represent the funds issued to 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 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.

Note 9
Advances to the United Nations Development Programme and other assets

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Advances to UNDP and other United Nations entities	7 514	9 711
Advances to vendors	330	334
Advances to staff	1 461	1 242
Advances to other personnel	1 138	1 301
Deferred charges	198	114
Other assets	609	154
Total advances to UNDP and other assets (statement I)	**11 250**	**12 856**

93. The category of other assets includes education grant advances and prepayments that are expensed when goods are delivered or services are rendered by the other party.

94. Advances to UNDP and other United Nations entities are made within their capacity as service providers.

Note 10
Property, plant and equipment

95. The movements and balances for property, plant and equipment of UNODC as at 31 December 2017 are provided below:

96. As at the end of 31 December 2017, UNODC held a total of $11.204 million in property, plant and equipment. The decrease of $2.724 million from the prior period is mainly attributable to the delivery of project assets and the completion of construction for beneficiaries.

97. As part of its programme delivery, UNODC enters into construction works such as building prisons, police stations and courthouses for the benefit of Member States. Once completed, these assets are handed over to the local government and the ownership of the property is then fully transferred. During 2017, construction projects in an amount of $3.520 million were transferred to the beneficiaries. Ongoing construction projects amounting to $5.617 million at the end of 2016 are anticipated to be completed in 2017 and beyond, after which the property will be handed over to the beneficiaries.

98. Additions of $5.935 million consist of cash acquisitions of $5.894 million and a miscellaneous adjustment of $0.041 million.

99. Transfers of $0.210 million comprise a miscellaneous adjustment of $0.038 million and an adjustment of $0.248 million (2016: $0.114 million), to net off expenditure of $0.248 million included under depreciation. The assets triggering this expense are not under the control of UNODC, as they are assets managed by the United Nations Office at Vienna, an entity providing administrative services to UNODC.

Note 11
Intangibles

(Thousands of United States dollars)

	Software internally developed	*Assets under development*	*Total*
Cost as at 31 December 2016	607	–	607
Additions	294	149	443
Disposals	–	–	–
Cost as at 31 December 2017	**901**	**149**	**1 050**
Accumulated amortization as at 31 December 2016	220	–	220
Amortization	180	–	180
Impairment and write-offs in year	–	–	–
Other	19	–	19
Accumulated amortization as at 31 December 2017	**419**	**–**	**419**
Net carrying amount			
31 December 2016	387	–	387
31 December 2017 (statement I)	**482**	**149**	**631**

100. As part of its programme delivery, UNODC has developed several software products, namely goAML, goCase and goPRS. These software products are provided

for use by Member states and other international organizations under service-level agreements.

101. Following the implementation of Umoja, a new enterprise resource planning system, in 2015 UNODC engaged in developing reporting dashboards, which allow an overview of project implementation and donor contributions. Of the $0.443 million in acquisitions, $0.293 million relates to recognition of the programmatic reporting dashboard, the development of which was completed in September 2016. An amount of $0.149 million in assets under development includes the ongoing developing of the donor contributions dashboard, which went live in March 2018.

Note 12
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
Vendor payables	6 312	4 714
Transfers payable	3 272	3 653
Payables to other United Nations entities	1 671	107
Accruals for goods and services	13 026	17 503
Other	7 991	4 384
Subtotal	**32 272**	**30 361**
Accounts payable, Member States	10 085	15 976
Total accounts payable and accrued liabilities (statement I)	**42 357**	**46 337**

102. Transfers payable represent the unspent balance owed to donors for non-exchange transactions.

103. The 2016 amount for accounts payable to Member States has been restated upwards by $15.507 million, reflecting cash received for exchange transactions for activities that had not been implemented as at the balance sheet date (see note 17).

Note 13
Advance receipts

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
United Nations Interregional Crime and Justice Research Institute training fees	44	95
National Drug Control System	714	1 036
Various software products for Member States	6 263	4 691
Judicial system construction and capacity-building	21 299	17 845
Total advance receipts (statement I)	**28 320**	**23 667**

104. Advance receipts consist of deferred income relating to amounts received for exchange transactions not yet implemented.

105. The 2016 advance receipts under the project for judicial system construction and capacity-building have been restated upwards by $17.845 million, reflecting amounts owed for exchange transactions as at the balance sheet date (see note 17).

Note 14
Employee benefits liabilities

Summary of employee benefits liabilities as at 31 December 2017

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2017*
After-service health insurance	625	90 725	91 350
Annual leave	604	7 466	8 070
Repatriation benefits	1 108	13 922	15 030
Subtotal, defined-benefits liabilities	**2 337**	**112 113**	**114 450**
Accrued salaries and allowances	1 160	5 047	6 207
Total employee benefits liabilities (statement I)	**3 497**	**117 160**	**120 657**

Summary of employee benefits liabilities as at 31 December 2016

(Thousands of United States dollars)

	Current	*Non-current*	*Total 31 December 2016*
After-service health insurance	703	82 195	82 898
Annual leave	445	6 961	7 406
Repatriation benefits	936	13 852	14 788
Subtotal, defined benefits liabilities	**2 084**	**103 008**	**105 092**
Accrued salaries and allowances	1 438	3 993	5 431
Total employee benefits liabilities (statement I)	**3 522**	**107 001**	**110 523**

106. On 23 December 2015, the General Assembly adopted resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes affect the calculation of long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented that affects the computation of that short-term benefit. The impact of these changes is explained as follows:

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement is 65 for staff that joined the United Nations on or after 1 January 2014 and 60 or 62 for those that joined before 1 January 2014. The General Assembly decided to extend the mandatory age of separation of 65 years to staff recruited before 1 January 2014 by organizations of the United Nations common system, at the latest by 1 January 2018, taking into account the acquired rights of staff. This change has been implemented as of 1 January 2018 and affects future calculations of employee benefits liabilities.

Change	*Details*
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service categories) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that eliminated single and dependency rates as from 1 January 2017 and this was implemented in September 2017. It is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation from service, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members have been eligible to receive a repatriation grant upon separation from service provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly revised eligibility for the repatriation grant to five years of service for prospective employees. This change in eligibility criteria, which was effective from January 2017, was implemented in September 2017 and is expected to affect future calculations of employee benefits liabilities.
Education grant	With effect from the school year in progress on 1 January 2018, the computation of education grant given to eligible staff members utilizes a global sliding scale that is set in one single currency (United States dollars) with the same maximum amount of the grant for all countries. The revised education grant scheme also changes boarding assistance and education grant travel provided by the Organization. The effects will be seen at the end of the 2017–2018 school year and at the time of settlement of claims.

107. The policy changes above have been taken into consideration in the actuarial valuation conducted in 2017.

108. The liabilities arising from end-of-service/post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. An actuarial valuation is usually undertaken every two years, with a roll forward in the second year. The most recent full actuarial valuation was conducted as at 31 December 2017.

109. Post-employment benefits for the end-of-service allowance for staff in the General Service category are calculated internally at UNODC and reported within accrued salaries and allowances, with an amount of $5.047 million being reported for 2017 (2016: $4.188 million).

Actuarial valuation: assumptions

110. The Organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for employee benefits. The principal actuarial assumptions used to determine the employee benefits obligations as at 31 December 2017 and 31 December 2016 are as follows:

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2016	2.14	3.62	3.64
Discount rates, 31 December 2017	2.32	3.54	3.56
Inflation, 31 December 2016	4.0–4.5	2.25	–
Inflation. 31 December 2017	3.65–3.85	2.20	–

111. The inflation rate for after-service health insurance for 2016 has been revised from 4.0–6.0 to 4.0–4.5.

112. Discount rates are calculated on the basis of a weighted blend of three discount rate assumptions, based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro area corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high grade corporate bond rates). Discount rates varied slightly for the 2017 valuation owing to a slight variation in the inflation rates from 31 December 2016.

113. UNODC began the funding of after-service health insurance liabilities on its voluntary funded activity by imposing a levy of 9 per cent on the net base salary with effect from December 2012. The current levy for after-service health insurance on voluntary funded activity is 9 per cent of the gross salary.

114. The 2017 actuarial valuation reports a net $1.996 million actuarial loss, comprising a $2.509 million loss on after-service health insurance, a $0.485 million gain on repatriation grants and a $0.028 million gain on annual leave. The actuarial losses on after-service health insurance are due to a large loss caused by demographic assumptions, which exceeded the gains due to experience adjustments and financial assumptions from the increase in the discount rate. The actuarial gain on the repatriation grant and annual leave liabilities is due to changes in the financial assumptions.

Movements in employee benefits liabilities accounted for as defined-benefit plans

Reconciliation of opening to closing total, defined-benefits liability

(Thousands of United States dollars)

	2017	*2016*
Net defined-benefit liability as at 1 January 2017	**105 092**	**96 025**
Current service cost	6 964	6 302
Interest cost	2 547	2 443
Benefits paid	(2 149)	(2 629)
Total net costs recognized in the statement of financial performance	**7 362**	**6 116**
Actuarial (gain)/losses recognized in the statement of changes in net assets	1 997	2 951
Net defined-benefit liability as at 31 December 2017	**114 451**	**105 092**

Discount rate sensitivity analysis

115. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bond markets varied over the reporting

period, and volatility has an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below:

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

31 December 2017	*After-service health insurance*	*Repatriation grants*	*Annual leave*
Increase of discount rate by 1 per cent	(20 101)	(1 378)	(763)
As a percentage of end of year liability	(22)	(9)	(9)
Decrease of discount rate by 1 per cent	28 084	1 606	894
As a percentage of end of year liability	31	11	11

Medical costs sensitivity analysis

116. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability resulting from changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined-benefits obligations, as shown below:

(Thousands of United States dollars)

2017	*Effects on the defined-benefits obligations*	*Effects on current service cost and interest cost*
Increase of discount rate by 1 per cent	27 832	2 779
As a percentage of end of year liability/service and interest cost	30.5	41.7
Decrease of discount rate by 1 per cent	(20 341)	(1 948)
As a percentage of end of year liability/service and interest cost	(22.3)	(29.2)

United Nations Joint Staff Pension Fund

117. The Regulations of the United Nations Joint Staff Pension Fund require that an actuarial valuation be made at least once every three years by the consulting actuary. In practice, the Pension Board has been carrying out an actuarial valuation every two years. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

118. The financial obligation of UNODC to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

119. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biannual cycle, a roll-forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial

statements. An actuarial valuation as at 31 December 2017 is currently being performed.

120. The roll-forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

121. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly has not invoked the provision of article 26.

122. During 2017, the contributions of UNODC to the Pension Fund amounted to $14.034 million (2016: $13.079 million).

123. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments and these can be viewed by visiting its website at www.unjspf.org.

Note 15
Provisions

124. Provisions are recorded for pending claims when it is determined that an unfavourable outcome is probable and the amount of the loss can be reasonably estimated.

125. As at 31 December 2017, there were no provisions made as no assessed liabilities met the criteria (2016: $0.478 million for ongoing legal claims).

Note 16
Conditional liabilities

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Liability (cash received)	39 652	32 400
Current liability (cash not received)	52 985	41 264
Total conditional liabilities (current) (statement I)	**92 637**	**73 664**
Non-current liability (cash not received)	62 045	46 375
Total conditional liabilities (non-current) (statement I)	**62 045**	**46 375**

126. Liabilities for conditional arrangements consist of cash received from the European Union and not yet utilized ($39.652 million). The liability for the cash not yet received has a contra amount reported within voluntary contributions receivable (other governmental organizations, see note 7).

Note 17
Net assets

(Thousands of United States dollars)

	Accumulated surpluses/(deficits), unrestricted	*Accumulated surpluses/(deficits), restricted (restated)*	*Total*
Net assets as at 1 January 2016	**5 274**	**447 731**	**453 005**
Adjustment to net asset opening	–	(38 163)	(38 163)
Net assets as at 1 January 2016 (restated)	**5 274**	**409 568**	**414 842**
Change in net assets			
Transfers to/from unrestricted/restricted/reserve funds	483	(483)	–
Actuarial gain/(loss)	(1 470)	(1 481)	(2 951)
Surplus/(deficit) for the year	1 942	103 166	105 108
Net assets as at 31 December 2016 (restated)	**6 229**	**510 770**	**516 999**
Net assets as at 1 January 2017	**6 229**	**510 770**	**516 999**
Change in net assets			
Transfers to/from unrestricted/restricted/reserve funds	139	(139)	–
Actuarial gain/(loss)	(1 353)	(644)	(1 997)
Surplus/(deficit) for the year	6 686	76 696	83 382
Net assets as at 31 December 2017	**11 701**	**586 683**	**598 384**

127. The restricted balances consist of donor contributions earmarked for specific activities.

128. In 2017, UNODC revised its determination of the treatment of project activities for the project for judicial system construction and capacity-building with regard to exchange versus non-exchange revenue accounting. These activities have now been assessed as meeting the exchange revenue criteria, while until 2016 they were treated as non-exchange revenue. The effect of this change in treatment resulted in a downwards restatement of the 2016 net asset opening balance by $38.163 million and an upward restatement of the 2016 surplus/(deficit) for the year by $4.811 million (see note 20).

129. The net unrestricted balance consists of unearmarked project fund balances of $47.542 million (2016: $39.633 million) and a negative balance of $35.841 million (2016: negative $33.404 million) representing the unfunded end-of-service liability originating from the regular budget.

Note 18
United Nations regular budget allocation

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Revenue		
United Nations regular budget allocation	30 638	30 142
Expenditure		
Direct programme activities	21 437	21 068
Support (administrative) activities	9 201	9 074
Total expenditure (statement II)	**30 638**	**30 142**
Excess of income over expenditure	–	–

130. UNODC efforts financed by the regular budget of the United Nations 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.

131. Support activities represent administrative services, including finance, human resources and procurement, provided by the United Nations Office at Vienna to UNODC under section 29G of the regular budget of the United Nations. Activities under this caption represent 33.4 per cent of the total administrative budget of the United Nations Office at Vienna. The remainder of the administrative operations of the United Nations Office at Vienna (66.6 per cent) supports other Secretariat entities located in Vienna. For 2017, the expenses consist of $19.850 million (2016: $20.317 million) under section 16, $0.928 million (2016: $0.419 million) under section 23, $5.898 million (2016: $6.477 million) under section 29G, $0.659 million (2016: $0.332 million) under section 35 and $3.303 million (2016: $2.597 million) under section 36.

Note 19
Revenue from non-exchange transactions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
Voluntary contributions		
Voluntary contributions in cash	340 390	295 285
Voluntary contributions in kind	1 890	1 761
Total voluntary contributions	**342 280**	**297 046**
Refunds	(1 062)	(4 561)
Net voluntary contributions	**341 218**	**292 485**
Other transfers and allocations		
Interorganizational arrangements	5 719	11 607
Total other transfers and allocations (statement II)	**5 719**	**11 607**

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

133. The 2016 voluntary contributions in cash have been restated upwards by $3.229 million to value foreign currency revenue on conditional arrangements from the point when the cash is received. A contra and equal amount has been restated downwards as an exchange loss within revenue producing activities and other miscellaneous revenue (see note 20).

134. Other transfers and allocations consist of interorganizational arrangements, which are amounts received from other United Nations entities.

Services in kind

135. 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. In-kind services received in 2017, in the nature of satellite imaging and expert advice provided to the Office, amounted to $1.879 million (2016: $0.545 million).

Note 20
Other revenue

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
Revenue from services rendered	6 250	7 845
Rental income	–	206
Revenue-producing activities and other miscellaneous revenue	1 528	1 195
Total other revenue (statement II)	**7 778**	**9 246**

136. Other revenue represents exchange revenue.

137. Revenue from services rendered mainly consists of provision of software support and maintenance, the judicial system construction and capacity-building activities, training of individuals and other support services to the UNODC governing bodies.

138. The 2016 revenue from services rendered has been revised upwards by $4.811 million reflecting the treatment of exchange revenue from the judicial system construction and capacity-building activities and a contra downwards restatement in the 2016 net assets opening balance brought forward (see note 17).

139. Revenue-producing activities and other miscellaneous revenue include $1.440 million in exchange gains (2016: $1.195 million).

140. The 2016 voluntary contributions in cash have been restated upwards by $3.229 million to value foreign currency revenue on conditional arrangements from the point when the cash is received (see note 19). A contra and equal amount has been restated downwards within the present note under revenue producing activities and other miscellaneous revenue.

Note 21
Financial instruments and financial risk management

(Thousands of United States dollars)

Financial instruments	*31 December 2017*	*31 December 2016 (restated)*
Financial assets		
Fair value through surplus or deficit		
Short-term investments: main pool	433 904	246 445
Short-term investments: euro pool		
Total short-term investments	433 904	246 445
Long-term investments: main pool	136 195	118 669
Total long-term investments	**136 195**	**118 669**
Total fair value through surplus or deficit investments	**570 099**	**365 114**
Loans and receivables		
Cash and cash equivalents: main pool	48 725	139 191
Cash and cash equivalents: euro pool	5 235	4 584
Cash and cash equivalents: other	35	121
Cash and cash equivalents	**53 995**	**143 896**
Voluntary contributions	278 425	248 952
Other receivables	12 359	17 363
Other assets (excluding advances)	94	93
Total loans and receivables	**290 878**	**266 408**
Total carrying amount of financial assets	**914 972**	**775 418**
Of which relates to financial assets held in main pool	618 823	504 304
Of which relates to financial assets held in euro pool	5 235	4 584
Financial liabilities at amortized cost		
Accounts payable and accrued payables (excluding deferred payables)	42 357	46 337
Other liabilities	11	13
Total carrying amount of financial liabilities	**42 368**	**46 350**
Summary of net income from financial assets		
Investment revenue	6 732	3 535
Total net income from financial assets	**6 732**	**3 535**

Financial risk management: overview

141. UNODC has exposure to the following financial risks:

(a) Credit risk;

(b) Liquidity risk;

(c) Market risk.

142. The present note provides information on the exposure of UNODC to those risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk management framework

143. The risk management practices of the United Nations are in accordance with its Financial Regulations and Rules and Investment Management Guidelines. The United Nations defines the capital that it manages as the aggregate of its net assets, which comprises 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 United Nations manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Credit risk

144. Credit risk is the risk of financial loss resulting from a counterparty to a financial instrument failing to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions, as well as credit exposure to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

145. The investment management function is centralized at United Nations Headquarters. 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 Investment Management Guidelines.

146. A large portion of the contributions receivable of UNODC 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, UNODC held no collateral as security for receivables.

147. UNODC evaluates the allowance for doubtful receivables at each reporting date. An allowance is established when there is objective evidence that UNODC will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approves write-offs under the Financial Regulations and Rules or are reversed when previously impaired receivables are received. The movement in the allowances account during the year is shown in note 7.

148. UNODC had cash and cash equivalents of $54.0 million as at 31 December 2017, which is the maximum credit exposure on these assets.

Liquidity risk

149. Liquidity risk is the risk that UNODC might not have adequate funds to meet its obligations as they fall due. The approach of UNODC and the United Nations to managing liquidity is to ensure that there will always be sufficient liquidity to meet liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Organization's reputation.

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

151. UNODC and United Nations Headquarters perform cash flow forecasting and monitor rolling forecasts of liquidity requirements to ensure that sufficient cash is available to meet operational needs. Investments are made by Headquarters with due consideration to the cash requirements for operating purposes based on cash flow forecasting. United Nations Headquarters maintains a large portion of UNODC apportioned investments in cash equivalents and short-term investments sufficient to cover the Office's commitments as and when they fall due.

152. The exposure to liquidity risk is based on the notion that UNODC may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to the receivables, cash and investments available to UNODC and internal policies and procedures put in place to ensure that there are appropriate resources to meet its financial obligations. As at the reporting date, UNODC had not pledged any collateral for any liabilities or contingent liabilities and in the year no accounts payable or other liabilities were forgiven by third parties.

Market risk

153. 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 income of UNODC 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 fiscal position.

154. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows due to a change in interest rates. In general, as an interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risk relates to the cash pools.

155. 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. UNODC has transactions, assets and liabilities in currencies other than in its functional currency and is exposed to currency risk arising from fluctuations in exchange rates.

156. The financial assets and liabilities of UNODC are primarily denominated in United States dollars. Non-United States dollar financial assets primarily relate to voluntary contributions, in addition to cash and cash equivalents and receivables held to support local operating activities where transactions are made in local currencies. UNODC 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. In Colombia, national law restricts the transfer of contributions collected in Colombia outside the country.

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

Currency exposure as at 31 December 2017

(Thousands of United States dollars)

	United States dollars	*Euros*	*Colombian pesos*	*Other*	*Total*
Short-term investments	432 059	–	–	–	432 059
Long-term investments	136 195	–	–	–	136 195
Cash and cash equivalents: cash pools	50 569	5 235	–	–	55 804
Cash and cash equivalents: other	2	–	15	18	35
Subtotal cash pool	**618 825**	**5 235**	**15**	**18**	**624 093**
Voluntary contributions	67 405	131 799	41 523	37 698	278 425
Other receivables	10 428	–	730	1 201	12 359
Other assets (excluding advances)	–	–	94	–	94
Total	**696 658**	**137 034**	**42 362**	**38 917**	**914 971**

158. A strengthening or weakening of the euro exchange rate as at 31 December 2017 would have affected the measurement of investments denominated in a foreign currency and increased or decreased 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 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 2017

(Thousands of United States dollars)

	Effect on net assets/surplus or deficit	
	Strengthening	*Weakening*
Euro (10 per cent movement)	13 703	(13 703)
Colombian peso (10 per cent movement)	4 236	(4 236)
Other (10 per cent movement)	3 892	(3 892)

Other market price risk

159. UNODC is not exposed to significant other market price risk as it has limited exposure to price-related risk related to expected purchases of certain commodities used regularly in operations. Therefore, a change in those prices can only alter cash flows by an immaterial amount.

Accounting classifications and fair value

160. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits, receivables and payables, carrying value is a fair approximation of fair value. The carrying value of investments carried at fair value through surplus or deficit is fair value as these are predominately cash pool assets.

Cash pools

161. In addition to directly held cash and cash equivalents, UNODC participates in the United Nations Treasury cash pools. The United Nations Treasury is responsible

for investment and risk management for the cash pools, including conducting investment activities in accordance with the Investment Management Guidelines.

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

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

164. Pooling of 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, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

165. UNODC participates in two United Nations Treasury managed cash pools, specifically:

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

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

166. As at 31 December 2017, the cash pools held total assets of $8,100.209 million (2016: $9,039.788 million), of which $624.058 million was due to the Office (2016: $508.888 million), and its share of revenue from cash pools was $6.732 million (2016: $3.535 million).

Summary of assets and liabilities of the cash pools as at 31 December 2017

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through surplus or deficit			
Short-term investments	5 645 952	–	5 645 952
Long-term investments	1 779 739	–	1 779 739
Total fair value through surplus or deficit investments	**7 425 691**	**–**	**7 425 691**
Loans and receivables			
Cash and cash equivalents	636 711	13 709	650 420
Accrued investment revenue	24 098	–	24 098
Total loans and receivables	**660 809**	**13 709**	**674 518**
Total carrying amount of financial assets	**8 086 500**	**13 709**	**8 100 209**
Cash pool liabilities			
Payable to UNODC	618 823	5 235	624 058
Payable to other cash pool participants	7 467 677	8 474	7 476 151
Total liabilities	**8 086 500**	**13 709**	**8 100 209**
Net assets	**–**	**–**	**–**

Summary of revenue and expenses of the cash pools for the year ended 31 December 2017

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	104 576	(1)	104 575
Unrealized gains/(losses)	874	–	874
Investment revenue from cash pools	**105 450**	**(1)**	**105 449**
Financial exchange gains/(losses)	7 824	1 610	9 434
Bank fees	(853)	–	(853)
Operating expenses from cash pools	**6 971**	**1 610**	**8 581**
Revenue and expenses from cash pools	**112 421**	**1 609**	**114 030**

Summary of assets and liabilities of the cash pools as at 31 December 2016

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through surplus or deficit			
Short-term investments	4 389 616		4 389 616
Long-term investments	2 125 718	–	2 125 718
Total fair value through surplus or deficit investments	**6 515 334**	**–**	**6 515 334**
Loans and receivables			
Cash and cash equivalents	2 493 332	6 161	2 499 493
Accrued investment revenue	24 961	–	24 961
Total loans and receivables	**2 518 293**	**6 161**	**2 524 454**
Total carrying amount of financial assets	**9 033 627**	**6 161**	**9 039 788**
Cash pool liabilities			
Payable to UNODC	504 304	4 584	508 888
Payable to other cash pool participants	8 529 323	1 577	8 530 900
Total liabilities	**9 033 627**	**6 161**	**9 039 788**
Net assets	**–**	**–**	**–**

Summary of revenue and expenses of the cash pools for the year ended 31 December 2016

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	73 903	–	73 903
Unrealized gains/(losses)	(13 474)	–	(13 474)
Investment revenue from cash pools	**60 429**	**–**	**60 429**
Financial exchange gains/(losses)	(5 105)	728	(4 377)
Bank fees	(646)	–	(646)
Operating expenses from cash pools	**(5 751)**	**728**	**(5 023)**
Revenue and expenses from cash pools	**54 678**	**728**	**55 406**

Note 22
Employee salaries, allowances and benefits

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Salary and wages	80 881	79 012
Pension, insurance and other benefits	26 522	22 295
Total employee salaries, allowances and benefits (statement II)	**107 403**	**101 307**

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

Note 23
Non-employee compensation and allowances

(Thousands of United States dollars)

	31 December 2017	*31 December 2016 (restated)*
United Nations Volunteers	969	678
Consultants and contractors	22 326	17 013
Non-employees: other	25 384	22 668
Total non-employee compensation and allowances (statement II)	**48 679**	**40 359**

168. Expenses for 2016 of $22.659 million related to UNDP service-contract holders have been restated from consultants and contractors to other non-employees to better match the contractual arrangements entered into by UNODC within the above captions.

169. Non-employee costs refer to contracted services from individuals on the basis of time or delivery of defined outputs. Such contracts do not carry the employment benefits to which United Nations staff are entitled.

Note 24
Grants and other transfers

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Grants to end beneficiaries: direct	18 247	4 474
Grants to end beneficiaries: indirect	11	–
Transfers to implementing partners	29 276	14 163
Total (statement II)	**47 534**	**18 637**

170. Direct grants to end beneficiaries consist mainly of amounts given to non-governmental organizations under authorized small grant programmes. Within the amount of $18.247 million, $14.459 million represents payments to grantees under the alternative livelihoods programmes in Colombia.

171. Expenses under transfers to implementing partners relate to programmatic delivery executed on behalf of UNODC by other organizations. The amount of $29.276 million represents the work delivered for the year 2017 on the basis of certified financial reports provided by implementing partners. 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, that is cash transfers given to implementing partners for which work was yet to be delivered as at 31 December 2017, are shown as advance transfers in statement I. Within the total of $29.276 million related to programmatic delivery by implementing partners, $15.995 million (2016: $8.536 million) relates to grant awards to farming cooperatives under the alternative livelihoods programmes in Colombia.

Note 25
Supplies and consumables

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Fuel and lubricants	267	222
Rations	37	43
Spare parts	501	496
Consumables	4 695	2 695
Total supplies and consumables (statement II)	**5 500**	**3 456**

Note 26
Other operating expenses

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Contracted services	40 011	28 674
Acquisitions of goods	6 005	7 901
Acquisitions of intangible assets	568	676
Rent: offices and premises	3 502	3 466
Rental of equipment	259	193
Bad debt expense	7 288	1 857
Other/miscellaneous operating expenses	9 272	6 673
Total other operating expenses (statement II)	**66 905**	**49 440**

172. Acquisitions of goods comprise mainly low-value items for use by UNODC.

173. Bad debt expense consists of $4.567 million in write-offs of uncollected pledges (2016: $9.491 million) and an increase in the allowance for doubtful debts of $2.718 million (2016: reduction of $7.634 million). The write-offs consist of $2.003 million from the United States of America, $1.325 million from the United Kingdom of Great Britain and Northern Ireland, $0.501 million from Nigeria, $0.283 million from Canada, $0.131 million from Bangladesh, $0.129 million from UNDP, $0.062 million from Mexico, $0.046 million from Norway, $0.025 million from the Republic of Korea, $0.018 million from the Food and Agriculture Organization of the United Nations, $0.017 from Colombia, $0.014 million from Thailand and $0.013 million from other donors.

174. Other/miscellaneous operating expenses include $7.709 million (2016: $5.140 million) of project assets delivered to beneficiaries during 2017, including completed construction work of $3.520 million (2016: $4.627 million). Project assets are assets purchased for end beneficiaries rather than use by UNODC.

175. The contracted services under other operating expenses consist of various services by individuals or institutions. Within the total of $40.011 million, $15.204 million (2016: $8.619 million) represents various contracted services for the facilitation of meeting, workshop and travel services, and $8.504 million (2016: $4.114 million) for communications and information technology services.

Note 27
Other expenses

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Contributions in-kind	1 890	1 760
Ex gratia and compensation claims	–	145
Other/miscellaneous expenses	65	48
Total other expenses (statement II)	**1 955**	**1 953**

Note 28
Related parties

Key management personnel

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

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Salary and post adjustment	997	1 010
Other monetary entitlements	201	256
Non-monetary benefits	294	293
Total remuneration for the period	**1 492**	**1 559**

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

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

179. The key management personnel do not hold any other interests in UNODC.

Note 29
Leases and commitments

Operating leases

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Due in less than one year	617	392
Due in one to five years	349	344
Total minimum operating lease obligations	**966**	**736**

180. The operating leases consist of non-cancellable rental agreements in various UNODC field offices. The average remaining duration of rental agreements is 21 months.

181. There are operating leases of $1.890 million for donated-right-to-use arrangements for which corresponding revenue is included in statement II and presented within voluntary contributions revenue (see note 19) and other operating expenses (see note 26).

182. As at 31 December 2017, UNODC had no financial leases.

Contractual commitments

183. At the reporting date, the commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered were:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Property, plant and equipment	2 205	1 293
Goods and services	10 368	8 443
Total open contractual commitments	**12 573**	**9 736**

Note 30
Contingent liabilities and contingent assets

184. A contingent liability arises when there is significant uncertainty about a number of aspects regarding the liability. As at 31 December 2017, a possible claim estimated at $0.094 million relating 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 amount. In the light of the privileges and immunities of the United Nations before national courts, management does not expect resolution of the claim to have an adverse impact on UNODC. Assessment of this case is performed on an ongoing basis and any changes will be reported accordingly.

Note 31
Events after the reporting date

185. The reporting date for these financial statements is 31 December 2017 and they were authorized for issuance by the Executive Director of UNODC on 31 March 2018, on which date they were also submitted to the United Nations Board of Auditors. All information relevant to the preparation of the financial statements was considered in the present document. There have been no material events 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.

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