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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2020.

Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2020

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Letters of transmittal

Letter dated 31 March 2021 from the Secretary-General to the Chair of the Board of Auditors

In accordance with financial regulation 6.2, I have the honour to submit herewith the financial statements of the United Nations Compensation Commission for the year ended 31 December 2020, which I hereby approve. The financial statements have been completed and certified by the Controller as correct in all material respects.

(*Signed*) António **Guterres**

Letter dated 22 July 2021 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the report of the Board of Auditors, together with the financial report and the audited financial statements of the United Nations Compensation Commission for the year ended 31 December 2020.

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
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 Compensation Commission, which comprise the statement of financial position (statement I) as at 31 December 2020 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III) and the statement of cash flows (statement IV) 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 the Commission as at 31 December 2020 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 the Commission, in accordance with the ethical requirements 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 the auditor's report thereon

The Secretary-General is responsible for the other information, which comprises the financial report for the year ended 31 December 2020, 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

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as the Secretary-General 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, the Secretary-General is responsible for assessing the ability of the Commission to continue as a going concern, disclosing matters related to the going concern and using the going-concern basis of accounting unless the Secretary-General intends either to liquidate the Commission 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 the Commission.

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:

(a) 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, given that fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control;

(b) 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 to express an opinion on the effectiveness of the internal control of the Commission;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary-General;

(d) Draw conclusions as to the appropriateness of the use by the Secretary-General 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 the Commission 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 the Commission to cease to continue as a going concern;

(e) 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on other legal and regulatory requirements

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

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

(*Signed*) **Hou** Kai
Auditor General of the People's Republic of China
(Lead Auditor)

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

22 July 2021

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Compensation Commission for the year ended 31 December 2020, which have been prepared under the International Public Sector Accounting Standards (IPSAS). The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the International Standards on Auditing.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at 31 December 2020 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion

The Board did not identify any significant errors, omissions or misstatements from the review of the operations and financial records of the Commission. In 2020, the Commission's budget was funded by the operating reserve rather than the United Nations Compensation Fund, given that the reserve was at a sufficient level to cover the budget of the Commission up until closure and any post-closure costs. As a result, the Commission's operating reserve declined by $1.04 million, from $4.44 million in 2019 to $3.40 million in 2020, representing a 23.42 per cent decrease. The reserve continues to remain at a sufficient level to cover any post-closure costs.

The Board notes that, in accordance with decision 276 (2017) of the Governing Council of the Commission, deposits into the Compensation Fund continued in 2020, as did payments of compensation towards the outstanding award in accordance with the payment mechanism set out in Governing Council decision 267 (2009).

Key audit findings

Preparedness for liquidation

As a consequence of the coronavirus disease (COVID-19) pandemic and the dramatic drop in the price of oil, the Commission's mandate completion is now expected to extend beyond 2021 and the final payment will occur in the first half of 2022. In preparing for liquidation, the Governing Council is considering two possible options for the post-Commission reserve that will be required following the conclusion of the Commission's mandate, in order to fund any residual activities. One option is to set aside an amount under the stewardship of the Controller to be used for any expenses associated with the Commission, with any unused funds being returned to Iraq after five years with a final accounting of all expenditure, while the other option is a fixed amount to be expensed at closing. The Board noted that the Commission had yet to confirm its preferred option, nor had it held any discussions with the Government of Iraq about the two possible options.

Participating Governments under the Commission's former Follow-up Programme for Environmental Awards would submit annual reports to the Governing Council so long as the Commission remains and, following its dissolution, to the United Nations Security Council, until all projects are completed. The Board noted, however, that the Commission had yet to establish handover documents to make the successor clear on what to do with those reports in the future and how to respond to the concerns raised by the Government of Iraq.

Main recommendations

In the light of its findings, the Board recommends that the Commission:

(a) **Continue to communicate with the Government of Iraq and take measures to obtain its formal position on post-closure arrangements;**

(b) **Establish clear handover documents for all relevant parties of the post-closure environmental reporting issue, with respect to the procedure for the submission, distribution and archiving of the annual reports.**

Follow-up on previous recommendations

As at 31 December 2020, of the four outstanding recommendations up to the financial year ended 31 December 2019, two (50 per cent) had been implemented, one (25 per cent) was under implementation and one (25 per cent) was not implemented by the Commission. The Board acknowledges the efforts made by the Commission in implementing previous recommendations and encourages the Commission to continue to work on implementing the remaining recommendations.

Key facts	
$294.68 million	Total assets
$291.28 million	Total liabilities
$3.40 million	Net assets
$0.96 million	Total expenses

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission and has reviewed its operations for the financial period ended 31 December 2020, 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 International Standards on Auditing.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Commission as at 31 December 2020 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. Owing to the prevailing coronavirus disease (COVID-19) pandemic and the consequent restrictions on international travel, the Board did not visit the Commission's headquarters in Geneva, and the audit was conducted remotely in China from 5 to 30 April 2021.

4. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Governing Council of the Commission. The Board's report was discussed with the management of the Commission, whose views have been appropriately reflected.

B. Findings and recommendations

1. Follow-up on previous recommendations

5. The Board followed up on the implementation of its previous recommendations and verified the status of outstanding recommendations. There were four outstanding recommendations up to the financial year ended 31 December 2019, with two (50 per cent) having been implemented, one (25 per cent) under implementation and one (25 per cent) not implemented. The details are contained in the annex to the present report.

2. Financial overview

6. The Commission is a subsidiary organ of the Security Council and was established in accordance with Security Council resolution 687 (1991) to process claims and pay compensation for damages arising as a direct result of the invasion

and occupation of Kuwait by Iraq (2 August 1990–2 March 1991). The United Nations Compensation Fund, from which the awarded claims would be paid, was also established pursuant to resolution 687 (1991). In a report submitted to the Security Council in compliance with resolution 687 (1991) (S/22559), the Secretary-General stipulated that the Compensation Fund would be established as a special account of the United Nations.

7. In total, the Commission received approximately 2.69 million claims seeking approximately $352.50 billion in compensation and approved awards of approximately $52.38 billion in respect of approximately 1.54 million of those claims (representing approximately 15 per cent of the amount claimed). As at 31 December 2020, the Commission had paid $50.01 billion, leaving approximately $2.37 billion outstanding.

8. Funds to pay compensation are drawn from the Compensation Fund, in which deposits are received from Iraq at a defined percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products, pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). In accordance with Governing Council decision 276 (2017), deposits, representing 3 per cent of the proceeds of the oil export sales of Iraq, were made into the Compensation Fund in 2020, and payments of compensation towards the outstanding award in accordance with the payment mechanism set out in Governing Council decision 267 (2009) continued. In 2020, the Commission received deposits of $1.14 billion and made quarterly payments totalling $1.13 billion to the remaining claim.

9. Table II.1 depicts the key financial ratios for the Commission. With a ratio of total assets to total liabilities of 1.01, the Commission remained in good financial health. The only non-current assets of the Commission are the investments. Its quantum and proportion in relation to total assets in 2020 ($65.01 million/22.06 per cent) increased substantially over the previous year ($48.33 million/17.39 per cent). As a result, various ratios based on current assets to current liabilities decreased compared with last year. However, given that the Commission participates in the main cash pool and all balances can be made available at any time, regardless of how the funds are invested, it does not pose a threat to the solvency status of the Commission.

Table II.1
Ratio analysis

Description of ratio	*31 December 2020*	*31 December 2019*
Cash ratio[a]		
Cash + investments: current liabilities	0.82	0.87
Quick ratio[b]		
Cash + investments + accounts receivable: current liabilities	0.82	0.87
Current ratio[c]		
Current assets: current liabilities	0.82	0.87
Solvency ratio[d]		
Assets: liabilities	1.01	1.02

Source: United Nations Compensation Commission financial statements.

[a] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds that is there in current assets to cover current liabilities.

[b] 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.

[c] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[d] A high ratio is a good indicator of solvency.

10. The Commission's operating reserve declined by $1.04 million, from $4.44 million in 2019 to $3.40 million in 2020, representing a 23.42 per cent decrease. In 2020, the Commission's budget was drawn from the operating reserve, instead of the Compensation Fund, in accordance with the directives of the Committee on Administrative Matters of the Governing Council, which led to the significant decline in the operating reserve. The reserve continues to remain at a sufficient level to cover any post-closure costs. Table II.2 depicts the status of operating reserve and surplus added thereto from 2018 to 2020.

Table II.2
Status of operating reserve and surplus added thereto
(Thousands of United States dollars)

Year	*Operating reserve at end of the year*	*Surplus added to operating reserve*
2018	8 345	205
2019	4 437	342
2020	3 400	(957)

Source: United Nations Compensation Commission financial statements.

3. Preparedness for liquidation

Formal position from the Government of Iraq requires follow-up

11. As a consequence of the COVID-19 pandemic and the dramatic drop in the price of oil, the Commission's mandate completion is now expected to extend beyond 2021, and the final payment will occur in the first half of 2022. There are many post-closure activities to be done. Some activities will be undertaken and completed within a few months following the conclusion of the Commission's mandate, while others are expected to continue for a number of years.

12. In October 2014, the Committee on Administrative Matters decided that the amount to be ultimately set aside be kept under the stewardship of the Controller with any balance remaining after five years returned to the Government of Iraq, together with a final accounting of all expenditures. During the meeting of the Committee in October 2019, a second option had been proposed, namely, to "expense" a fixed amount for post-closure costs. The second option would result in a one-time up-front charge of a fixed amount for all post-closure costs.

13. Following the Board's recommendations made in recent years, the Commission has been trying to arrive at an estimation of the reserve required to cover any post-closure costs. On the basis of discussions and advice received from United Nations Headquarters, the proposed reserve/expenditure amounts related to the two options had been estimated and would be further refined, as appropriate. Any unused funds would be returned to the Government of Iraq following the closure of the Commission. The balance in the operating reserve ($3.40 million as at 31 December 2020) was sufficient to cover the required post-Commission funding under either option.

14. However, given that the Committee on Administrative Matters had not confirmed its preferred option and figures had not been finalized, the Commission has yet to communicate with the Government of Iraq regarding the two possible options of dealing with the post-Commission reserve.

15. The Board is of the view that continuous communication with the Government of Iraq is important for the Commission, especially at "crunch time", when the mandate of the Commission is coming to its end. A formal response from the

Government on post-closure arrangements might help to accelerate progress in liquidation and ensure that the Commission is closed in a smooth manner.

16. **The Board recommends that the Commission continue to communicate with the Government of Iraq and take measures to obtain its formal position on post-closure arrangements.**

17. The Commission secretariat accepted the recommendation and stated that the Commission would continue to seek the views of the Government of Iraq on those issues, as and when directed by the Governing Council.

Handover documents not in place for post-closure reporting on the Follow-Up Programme for Environmental Awards

18. The Follow-up Programme for Environmental Awards was established by the Governing Council pursuant to its decision 258 (2005) to monitor both the financial and technical implementation of environmental projects being undertaken by participating Governments with the award funds. When the mandate of the Programme was declared fulfilled by the Governing Council under its decisions 270 (2013) and 271 (2013), the participating Governments of Jordan, Kuwait and Saudi Arabia provided written assurances for the maintenance of requisite systems and controls and for the submission of annual reports.

19. As stipulated in the assurances, these participating Governments would submit annual reports to the Governing Council so long as the Commission remained and, following its dissolution, to the Security Council, until such time as all projects are completed.

20. It was suggested in recent annual reports that the current projects would take several years to complete, while a project from Kuwait would not be completed until 2037. This means that the reporting issue would continue for years after the Commission's closure.

21. The Board noted that the Commission had yet to establish handover documents to provide clarity to the successor on what to do with those reports in the future and how to respond to the concerns raised by the Government of Iraq. Considering the ongoing nature of the reporting issue, the Board is of the view that a detailed handover document to the successor is critical to ensure the smooth handover of the reporting issues.

22. **The Board recommends that the Commission establish clear handover documents for all relevant parties of the post-closure environmental reporting issue, with respect to the procedure for the submission, distribution and archiving of the annual reports.**

23. The Commission secretariat agreed that, should the decision be made for the reports to be submitted to the Security Council following the dissolution of the Commission, a document would be established and circulated to all relevant parties that would detail the procedure for the submission, distribution and archiving of the annual reports.

C. Disclosures by management

Write-off of cash, receivables and property

24. The Commission informed the Board that there were no write-offs of losses of cash, receivables or property during the year 2020.

Ex gratia payments

25. The Commission reported no ex gratia payments for the year ended 31 December 2020.

Cases of fraud, presumptive fraud and financial mismanagement

26. 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.

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

28. The Commission reported no cases of confirmed fraud or presumptive fraud for the year ended 31 December 2020.

D. Acknowledgement

29. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head and other staff at the Commission.

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

(*Signed*) **Hou** Kai
Auditor General of the People's Republic of China
(Lead Auditor)

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

22 July 2021

Annex

Status of implementation of recommendations up to the financial year ended 31 December 2019

						Status after verification			
No.	*Audit report year*	*Paragraph reference*	*Board's recommendation*	*Commission's response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	S/2018/567	Chap. II, para. 12	Disclose the fact of its budget not being public in the notes to the financial statements.	The United Nations Compensation Commission reiterates its previous position on this. As has been confirmed by the Board of Auditors, statement V is not required as the budget is not public. There is no requirement under the International Public Sector Accounting Standards (IPSAS) for a note stating that the budget is not public and the Commission maintains that it is not practical and would be confusing to put a note in the financial statements related to a non-existent statement. If statement V is not there and the financial statements are in compliance with IPSAS, then it is known that the budget is not public. The Commission has placed this information in the most appropriate place in the publicly available statement package, that is, in the financial report, which is an overview of the statements. The Commission views this recommendation as implemented.	The Commission has disclosed the fact of its budget not being public in the financial report and not in the notes to the financial statements. Therefore, this recommendation is considered not implemented.			X	

No.	Audit report year	Paragraph reference	Board's recommendation	Commission's response	Board's assessment	Total	*Status after verification* Implemented	Under implementation	Not implemented	Overtaken by events
2	S/2019/630	Chap. II, para. 18	Expedite its preparedness for liquidation. An estimation of the reserve required to be maintained for winding-down and post-closure requirements needs to be carried out, and there should be a transparent basis for such estimation.	The Commission is continuing its liquidation and wind-down activities.	The Board noted that the Commission had before it two possible options for dealing with the post-Commission reserve and had estimated the amounts under each of the options on the basis of the discussions and advice received from Headquarters. Therefore, this recommendation is considered implemented.		X			
3	S/2020/740	Chap. II, para. 14	Have a contingency plan in the context of a drop in oil prices and the possibility of extension beyond 2021 to address its costs until closure.	The Commission secretariat accepted the recommendation and stated that the Commission regularly assessed the sufficiency of the operating reserve and would continue to do so until closure.	The Board noted that, because the final payment is no longer expected to be made in 2021, the Commission has to continue to monitor the risk and assess the sufficiency of the operating reserve until closure. Therefore, this recommendation is considered to be under implementation.			X		
4	S/2020/740	Chap. II, para. 17	Disclose under notes to the financial statements its accounting policy of expensing the acquisition cost of equipment below the threshold of $5,000	The Commission secretariat accepted the recommendation and proposed to include its policy in the notes going forward, beginning with the financial statements for the year ending 31 December 2020.	The Board noted that the policy has been included in the notes to financial statements for the year ended 31 December 2020. Therefore, this recommendation is considered implemented.		X			
	Total number of recommendations					**4**	**2**	**1**	**1**	**–**
	Percentage of the total number of recommendations					**100**	**50**	**25**	**25**	**–**

Chapter III
Certification of the financial statements

Letter dated 24 March 2021 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Compensation Commission for the year ended 31 December 2020 have been prepared in accordance with financial regulation 6.1 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 provide additional information on and clarification of the financial activities undertaken by the Commission during the period covered by these statements for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission, numbered I to IV, are correct in all material respects.

(*Signed*) Chandramouli **Ramanathan**
Assistant Secretary-General
Controller

Chapter IV
Financial report for the year ended 31 December 2020

A. Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the year ended 31 December 2020.

2. The financial situation of the Commission is presented in four financial statements and the accompanying notes that explain the Commission's accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements. The present report is designed to be read in conjunction with these financial statements. It presents an overview of the position and performance of the Commission, highlighting trends and significant movements.

3. The Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991). The Commission is currently composed of the Governing Council and the secretariat. The Governing Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

4. Approximately 2.7 million claims, with an asserted value of $352.5 billion, were filed with the Commission. The Commission concluded claims processing in 2005, and the total compensation awarded was $52.4 billion to more than 1.5 million successful claimants. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. By Security Council resolution 1483 (2003), this percentage was reduced from 25 per cent to 5 per cent. In its resolution 1956 (2010), the Council reaffirmed the 5 per cent level and further decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund.

5. From 2015 through 2017, there were no deposits because the Governing Council had adopted decisions granting three successive one-year postponements of the obligation of Iraq to deposit 5 per cent of oil proceeds and 5 per cent of the value of any non-monetary payments to service providers into the Compensation Fund. Accordingly, the Commission made no payments towards the remaining claim during that period.

6. Under Governing Council decision 276 (2017), deposits into the Compensation Fund resumed, effective 1 January 2018, at 0.5 per cent of proceeds from export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers. The deposits increased to 1.5 per cent of such proceeds from 1 January 2019, then to 3 per cent from 1 January 2020, where it is to remain until such time as the outstanding compensation award has been paid in full.

7. As at 31 December 2020, the Commission had cumulatively paid approximately $50 billion in compensation to successful claimants in all categories, leaving a balance of $2.4 billion outstanding. With the increase in the percentage of proceeds

from oil export sales deposited into the Compensation Fund from 1.5 to 3 per cent, effective 1 January 2020, it had been anticipated that the outstanding compensation award would have been paid in full by the end of 2021. However, owing to the effects of the COVID-19 pandemic on the world economy, including the sharp drop in global oil prices in 2020, the percentage increase did not lead to a corresponding increase in deposits to the Compensation Fund, with deposits in 2020 up by $100 million only, from $1 billion in 2019 to $1.1 billion in 2020. On the basis of current average oil prices and oil export levels, the outstanding award balance is now expected to be paid in full in 2022, which would lead to the fulfilment of the Commission’s mandate.

B. Overview of the financial statements for the year ended 31 December 2020

8. Financial statements I, II, III and IV show the financial results of the Commission’s activities. The notes to the financial statements explain the Commission’s accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements. Given that the budget of the Commission is not publicly available, the Commission is not required under IPSAS to include statement V, statement of comparison of budget and actual amounts.

Revenue

9. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. In 2020, the Commission’s budget was drawn from the operating reserve, instead of the Compensation Fund, in accordance with the directives of the Committee on Administrative Matters of the Governing Council. Accordingly, the Commission did not recognize any revenue in 2020 for the Compensation Fund.

Expenses

10. Under IPSAS, expenses are recorded in the financial statements on an accrual basis when goods and/or services have been received. The 2020 expenses totalled $0.957 million. The main expense category was staff costs of $0.626 million, which constituted 65.4 per cent of the total expenses. Other expenses included contractual services of $0.013 million (1.4 per cent) and other operating expenses of $0.318 million (33.2 per cent), while, as a result of COVID-19-related travel bans and restrictions leading to the cancellation of duty travel, there were no travel costs. Total expenses incurred in 2019 amounted to $1.048 million, and the decrease in expenses of $0.091 million in 2020 was due mainly to the reduction in rental costs as a result of the reduction in office space occupied by the Commission, and the decrease in the salaries, allowances and benefits due to actuarial valuations.

Operating result

11. As a result of the Commission’s budget being drawn from the operating reserve, without recognition of revenue in 2020, the statement of financial performance shows a deficit for the year.

Assets

12. Assets as at 31 December 2020 totalled $294.68 million, compared with a total of $277.87 million as at 31 December 2019.

13. These assets were held as investment and cash and cash equivalents, representing 100 per cent of the total assets, all of which were held in the main cash pool. These relate to deposits from oil revenue received but not yet paid towards the outstanding compensation award, as well as funds to cover liabilities associated with employee benefits and the operating reserve.

Liabilities

14. Liabilities as at 31 December 2020 totalled $291.28 million, compared with the balance at 31 December 2019 of $273.43 million. The increase reflects the increase in deposits by the Government of Iraq into the Compensation Fund in 2020.

15. The largest liability ($280.97 million), representing 96.5 per cent of the total liabilities, relates to the accounts payable equivalent to the balance of deposits received at year end, to be applied to the payment of compensation awards in 2021.

16. The other significant liability is the non-current liability for employee benefits earned by staff members and retirees amounting to $10.04 million, which relates primarily to after-service health insurance, representing 3.4 per cent of total liabilities.

Net assets

17. The decrease of $1.04 million in net assets during the year is due mainly to the deficit for the year of $0.957 million, given that the Commission's budget for the year had been drawn from the operating reserve, and actuarial loss on employee benefits liabilities of $0.08 million. The net asset position of $3.4 million reflects the operating reserve of the Commission, which is to be maintained at a sufficient level to finance the Commission's administrative expenses until the completion of its mandate. For 2021, the Commission's budget will therefore be funded from the Compensation Fund.

Liquidity position

18. The financial matters of the Commission are driven primarily by the oil receipts from Iraq and the payments of compensation awards. Pursuant to Security Council resolution 692 (1991), the administrative expenses of the Commission are to be drawn from the Compensation Fund. Accordingly, the Commission has at its disposal the amount remaining in the accounts payable for compensation awards of $280.97 million. In addition, the Commission has at its disposal the amount remaining in the operating reserve of $3.4 million. The liquidity of the operations of the Commission is therefore assured.

Chapter V

Financial statements for the year ended 31 December 2020

United Nations Compensation Commission

I. Statement of financial position as at 31 December 2020

(Thousands of United States dollars)

	Note	*31 December 2020*	*31 December 2019*
Assets – funds held in trust			
Current assets			
Cash and cash equivalents	4, 5	32 191	74 378
Investments	4, 5	197 480	155 159
Total current assets		**229 671**	**229 537**
Investments	4, 5	65 005	48 330
Total non-current assets		**65 005**	**48 330**
Total assets		**294 676**	**277 867**
Liabilities and funds held in trust			
Current liabilities			
Accounts payable: compensation awards	4, 6	280 968	263 073
Other accounts payable and accrued liabilities	4	–	4
Employee benefits liabilities	7	267	221
Total current liabilities		**281 235**	**263 298**
Non-current liabilities			
Employee benefits liabilities	7	10 041	10 132
Total non-current liabilities		**10 041**	**10 132**
Total liabilities		**291 276**	**273 430**
Net of total assets and total liabilities		**3 400**	**4 437**
Net assets			
Operating reserve	8	3 400	4 437
Net assets		**3 400**	**4 437**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission

II. Statement of financial performance for the year ended 31 December 2020

(Thousands of United States dollars)

	Note	*31 December 2020*	*31 December 2019*
Revenue			
Revenue	9	–	1 350
Other revenue	9	–	40
Total revenue		**–**	**1 390**
Expenses			
Employee salaries, allowances and benefits	10	626	692
Contractual services	10	13	29
Travel	10	–	7
Other operating expenses	10	318	320
Total expenses		**957**	**1 048**
Surplus/(deficit) for the year		**(957)**	**342**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission

III. Statement of changes in net assets for the year ended 31 December 2020

(Thousands of United States dollars)

	Note	*Operating reserve*
Net assets as at 1 January 2019		**8 345**
Changes in net assets during 2019		
Actuarial gains/(losses) on employee benefits liabilities	7	(4 250)
Surplus for the year		342
Total		**(3 908)**
Net assets as at 31 December 2019		**4 437**
Changes in net assets during 2020		
Actuarial gains/(losses) on employee benefits liabilities	7	(80)
Deficit for the year		(957)
Total		**(1 037)**
Net assets as at 31 December 2020		**3 400**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission

IV. Statement of cash flows for the year ended 31 December 2020

(Thousands of United States dollars)

Cash flows from operating activities	*Note*	*31 December 2020*	*31 December 2019*
Surplus/(deficit) for the period		**(957)**	**342**
Non-cash movements			
Actuarial gains/(losses) on employee benefits liabilities	7	(80)	(4 250)
Changes in assets			
(Increase)/decrease in deferred expenditure		–	–
Changes in liabilities			
Increase/(decrease) in accounts payable: compensation awards	6	17 895	156 372
Increase/(decrease) in other accounts payable and accrued liabilities	4	(4)	4
Increase/(decrease) in employee benefits liabilities	7	(45)	4 219
Net cash flows from/(used in) operating activities		**16 809**	**156 687**
Cash flows from investing activities			
Net change in the main cash pool investments		(58 996)	(94 143)
Net cash flows from/(used in) investing activities		**(58 996)**	**(94 143)**
Cash flows from financing activities			
Net cash flows from/ (used in) financing activities		–	–
Net increase/(decrease) in cash and cash equivalents		**(42 187)**	**62 544**
Cash and cash equivalents – beginning of year		74 378	11 834
Cash and cash equivalents – end of year		**32 191**	**74 378**

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
Notes to the 2020 financial statements

Note 1
Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations, which was signed on 26 June 1945 and became effective on 24 October 1945, sets out the primary objectives of the United Nations as follows:

(a) The maintenance of international peace and security;

(b) The promotion of international economic and social progress and development programmes;

(c) The universal observance of human rights;

(d) The administration of international justice and law.

2. These objectives are implemented through the principal organs of the United Nations, as follows:

(a) The General Assembly, which focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the Organization;

(b) The Security Council, which is responsible for various aspects of peacekeeping and peacebuilding, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council, which plays a specific role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice, which has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Vienna and Nairobi. It has peacekeeping and political missions, economic commissions, tribunals, training institutes and information and other centres around the world.

Reporting entity

4. The present financial statements relate to the United Nations Compensation Commission, which was established in 1991 in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process and pay claims for direct loss, damage or injury arising from the invasion and occupation of Kuwait by Iraq (2 August 1990–2 March 1991) and to administer a compensation fund from which to pay successful claims.

5. The Governing Council of the Commission established the Follow-up Programme for Environmental Awards in 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, to monitor the financial and technical aspects of 26 environmental remediation and restoration projects being undertaken by the participating Governments with funds awarded by the Commission. The mandate under the Programme was considered fulfilled in late 2013.

6. The Commission is regarded as an autonomous financial reporting entity that neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and mandate of the Commission, it is not deemed to be subject to common control for the purposes of financial reporting under the International Public Sector Accounting Standards (IPSAS). The Commission has no interests in associates or joint ventures. The present statements therefore relate only to the operations of the Commission.

7. The Commission is located at the United Nations Office at Geneva.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

8. Pursuant to the Financial Regulations and Rules of the United Nations, the financial statements have been prepared on an accrual basis in accordance with IPSAS. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the Commission and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

(c) Statement III: statement of changes in net assets;

(d) Statement IV: statement of cash flows using the indirect method;

(e) Notes to the financial statements comprising a summary of significant accounting policies and other explanatory notes;

(f) Comparative information in respect of all amounts presented in the financial statements indicated in (a) to (d) above and, where relevant, comparative information for narrative and descriptive information presented in the notes to these financial statements.

Going concern and wind-down of the Commission

9. The financial statements have been prepared on a going-concern basis and the accounting policies have been applied consistently in the preparation and presentation of the financial statements. The going-concern assertion is based on the fact that Iraq continues to remain liable for the payment of outstanding compensation awards amounting to $2.4 billion under relevant Security Council resolutions. Pursuant to Governing Council decision 276 (2017), 3 per cent of the proceeds from oil export sales were deposited into the Compensation Fund in 2020 and will remain at this level until the outstanding compensation award has been paid in full. Owing to the effects of the COVID-19 pandemic on the world economy, including the sharp drop in global oil prices in 2020, payment in full of the outstanding award is now expected to extend beyond 2021 and into 2022, with the Commission to remain in place under its current arrangements until such time. Accordingly, the mandate of the Commission is considered to be ongoing.

Authorization for issue

10. The financial statements are certified by the Controller and approved by the Secretary-General. In accordance with financial regulation 6.2 of the Financial Regulations and Rules of the United Nations, the Secretary-General transmitted the financial statements as at 31 December 2020 to the Board by 31 March 2021. The report of the Board, together with the audited financial statements, is transmitted through the secretariat of the Commission to the Governing Council, whose Committee on Administrative Matters approves the budget and oversees the financial activities of the Commission.

Measurement basis

11. The financial statements are prepared using the historical cost convention, except for financial assets recorded at fair value through surplus or deficit.

Functional and presentation currency

12. The functional currency and the presentation currency of the Commission is the United States dollar. The financial statements are expressed in thousands of United States dollars, unless otherwise stated.

13. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency-denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

14. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized as a change in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

15. Materiality is central to the preparation and presentation of the financial statements, and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

16. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies, and in the reported amounts of some assets, liabilities, revenue and expenses.

17. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include the actuarial measurement of employee benefits; the selection of useful lives and the depreciation/amortization methods for property, plant and equipment/intangible assets; the impairment of assets; the classification of financial instruments; the valuation of inventory; inflation and

discount rates used in the calculation of the present value of provisions; and the classification of contingent assets/liabilities.

Future accounting pronouncements

18. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Commission's financial statements continue to be monitored:

(a) Heritage assets: the objective of the project is to develop accounting requirements for heritage assets;

(b) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits. The IPSAS Board is expected to issue the standard by the end of 2021;

(c) Revenue: the scope of the project is to develop new standard-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). The IPSAS Board is expected to issue the standard by the end of 2021;

(d) Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new standard that will replace IPSAS 13: Leases. The development of the new standard is ongoing, with the date of its issuance yet to be determined by the IPSAS Board;

(e) Public sector measurement: the objectives of this project include (i) issuing amended standards with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; (ii) providing more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and (iii) addressing transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs;

(f) Infrastructure assets: the objective of the project is to research and identify issues that preparers have when applying IPSAS 17: Property, plant and equipment to infrastructure assets. Informed by this research, the aim is to provide additional guidance on accounting for infrastructure assets.

Recent and future requirements of the International Public Sector Accounting Standards

19. The IPSAS Board issued the following standards: IPSAS 41: Financial instruments in August 2018 and effective 1 January 2023; and IPSAS 42: Social benefits in January 2019 and effective 1 January 2023. These standards do not affect the Commission's financial statements for 2020, given that the Commission's activities do not come under the scope of these standards.

Standard	*Anticipated impact in the year of adoption*
IPSAS 41	IPSAS 41: Financial instruments substantially improves the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, Financial instruments: recognition and measurement, and improves that standard's requirements by introducing simplified classification and measurement requirements for financial assets, a forward-looking impairment model and a flexible hedge accounting model.

Standard	*Anticipated impact in the year of adoption*
	The effective date of IPSAS 41 was deferred to 1 January 2023 owing to the COVID-19 pandemic and the challenges that it has created. IPSAS 41 has no impact on the Commission's financial statements because its implementation date is beyond the orderly winding down of the Commission.
IPSAS 42	IPSAS 42: Social benefits provides guidance on accounting for social benefits expenditure. It defines social benefits as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk. Specific examples include State retirement benefits, disability benefits, income support and unemployment benefits. The new standard requires an entity to recognize an expense and a liability for the next social benefit payment. The effective date of IPSAS 42 was deferred to 1 January 2023 owing to the COVID-19 pandemic and the challenges that it has created. Currently, there are no such social benefits at the Commission.

Note 3
Significant accounting policies

Financial assets classification

20. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. The Commission classifies its financial assets in one of the categories shown below at initial recognition and re-evaluates the classification at each reporting date.

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents and receivables

21. All financial assets are initially measured at fair value. The Commission 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 the Commission becomes party to the contractual provisions of the instrument.

22. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

23. 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 recorded as a variation to the investment proceeds, given that any gains are neither available nor utilizable by the Commission other than for the purposes of the payment of compensation awards (see note 6).

24. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest rate method. Interest revenue is recognized on a time-proportion basis using the effective interest rate method on the relevant financial asset.

25. 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 the permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

26. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Commission has transferred substantially all risks and rewards of the financial asset. Financial assets and liabilities are offset and the net amount 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

27. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools 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.

28. The Commission's investment in the cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Cash and cash equivalents

29. 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.

Receivables

30. Receivables comprise amounts receivable for goods or services provided to other entities, receivables from other United Nations reporting entities and receivables from staff. Receivables that are considered material are subject to specific review, and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Property, plant and equipment

31. Property, plant and equipment are classified into different groups on the basis of their nature, function, useful life and valuation methodologies, such as vehicles, temporary and mobile buildings, communications and information technology equipment, machinery and equipment, furniture and fixtures, and real estate assets (building, infrastructure and assets under construction). Property, plant and equipment are capitalized when their cost per unit is greater than or equal to the threshold of $5,000. The Commission has not acquired any item exceeding this threshold.

Other assets

32. Other assets include education grant advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities: classification

33. Financial liabilities classified as "other financial liabilities" are initially recognized at fair value and subsequently measured at amortized cost. They include accounts payable, transfer payables, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations reporting entities. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Commission 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.

Financial liabilities: accounts payable and accrued liabilities

34. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. Payables are measured at their nominal value if classified as current liabilities or at the fair value if classified as non-current liabilities.

Financial liabilities: compensation awards

35. A percentage of the proceeds from Iraqi oil sales is deposited into the Compensation Fund pursuant to Security Council resolutions 1483 (2003), 1956 (2010), and Governing Council decision 276 (2017) and is used to pay compensation to successful claimants. The United Nations, through the Compensation Commission, is considered to be an agent responsible solely for the administration of the Fund (see para. 82 below). Accordingly, oil proceeds received are used solely for the purpose of payment of compensation awards and therefore do not meet revenue recognition criteria. Similarly, main pool investment proceeds are applied solely towards successful claims and do not meet revenue recognition criteria. Accordingly, the Commission recognizes an accounts payable balance for the total amount of oil proceeds deposited and investment proceeds, less any revenue drawn from the Compensation Fund for the administrative cost of the Commission.

Operating leases: the Commission as "lessee"

36. The Commission occupies premises through a lease agreement. Leases in which all the risks and rewards of ownership are not substantially transferred to the Commission are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the term of the lease.

Employee benefits

37. 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. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

38. Short-term employee benefits are employee benefits (other than termination benefits, described in para. 47 below) that are 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 and maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees on the basis of services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

39. Post-employment benefits comprise after-service health insurance, end of service repatriation benefits, accumulated annual leave and a pension through the United Nations Joint Staff Pension Fund.

Defined benefit plans

40. 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 Organization (other long-term benefits). Defined benefit plans are those for which the Commission's obligation is to provide agreed benefits, and therefore the Commission 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. The Organization 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, the Commission held no plan assets as defined under IPSAS 39: Employee benefits.

41. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

42. **After-service health insurance**. Worldwide coverage for medical expenses of eligible former staff members and their dependants is provided through after-service health insurance. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met some eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the Commission's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is considering contributions by all plan participants in determining the Commission's residual liability. Contributions from retirees are deducted from the gross liability, together with a portion of the contributions from active staff, to arrive at the Organization's residual liability in accordance with cost-sharing ratios authorized by the General Assembly.

43. **Repatriation benefits**. Upon end of service, staff who meet some eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the Commission and is measured as the present value of the estimated liability for settling these entitlements.

44. **Annual leave**. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Commission. The Commission recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities, whereby staff members have access to current period leave entitlements before they gain access to accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at end of service as the true liability of the Commission. The accumulated annual leave benefit reflecting the outflow of economic resources from the Commission at end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 39: Employee benefits, other long-term benefits must be valued similarly to post-employment benefits; therefore, the Commission values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

45. The Commission is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Pension Fund, membership in the Pension Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

46. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The Commission and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Commission’s proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. The Commission has therefore treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. The Commission’s contributions to the Pension Fund during the financial period are recognized as expenses in the statement of financial performance.

Termination benefits

47. Termination benefits are recognized as an expense when the Commission is demonstrably committed, without a realistic possibility of withdrawal, to a plan to terminate the employment of a staff member before the normal retirement date. 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.

Other long-term employee benefits

48. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Accumulated annual leave is an example of long-term employee benefits.

Provisions

49. 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 Commission 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 provision is measured as the best estimate of the expenditure 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 expected to be required to settle the obligation.

Contingent liabilities

50. 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 Commission, 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.

51. 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. An indicative threshold of $10,000 applies in recognizing provisions and/or disclosing contingent liabilities in the notes to the financial statements.

Contingent assets

52. Contingent assets are possible assets 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 effective control of the Commission. Contingent assets are disclosed in the notes when it is more likely than not that economic benefits will flow to the Commission.

Commitments

53. Commitments are future expenses to be incurred by the Commission with respect to open contracts for which the Commission has minimal, if any, discretion to

avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that are not delivered as at the end of the reporting period, non-cancellable minimum lease payments and other non-cancellable commitments.

Investment revenue

54. Investment revenue includes the Commission'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 sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue, and the net revenue is distributed proportionately to all participants on the basis of their average daily balances. The cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances. Investment revenue is considered to be related to the Compensation Fund liability and recognized as accounts payable.

Expenses

55. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

56. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, such as pension and insurance subsidies and staff assignment, repatriation and other allowances. Operating expenses include costs of conferencing, office rental costs, audits by the Board of Auditors and Office of Internal Oversight Services and other immaterial expenses.

Note 4
Financial instruments

Table 1
Summary of financial instruments
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Financial assets		
Fair value through surplus or deficit		
Short-term investments – main cash pool	197 480	155 159
Subtotal short-term investments	**197 480**	**155 159**
Long-term investments – main cash pool	65 005	48 330
Subtotal long-term investments	**65 005**	**48 330**
Total fair value through surplus or deficit investments	**262 485**	**203 489**

	31 December 2020	*31 December 2019*
Cash and cash equivalents		
Cash and cash equivalents – main cash pool	32 191	74 378
Subtotal cash and cash equivalents	**32 191**	**74 378**
Total carrying amount of financial assets	**294 676**	**277 867**
Of which relates to financial assets held in main cash pool	294 676	277 867
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities – accounts payable	–	4
Subtotal accounts payable and accrued liabilities	**–**	**4**
Accounts payable – compensation awards (note 6)	280 968	263 073
Total carrying amount of financial liabilities	**280 968**	**263 077**

Note 5
Financial risk management and the cash pool

57. The Commission participates in the United Nations Treasury main cash pool. The main cash pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

58. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and the ability to spread yield curve exposures across a range of maturities. The allocation of main cash pool assets (cash and cash equivalents and short-term and long-term investments) and revenue is based on each participating entity's principal balance.

59. As at 31 December 2020, the Commission participated in the main cash pool, which held total assets of $10,652.389 million (2019: $9,339.390 million), of which $294.676 million was due to the Commission (2019: $277.867 million), and its share of revenue from the main cash pool was $4.7 million (2019: $4.9 million). The summary of financial instruments in the main cash pool is shown in table 2.

Table 2
Summary of assets and liabilities of the main cash pool as at 31 December 2020
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Fair value through surplus or deficit		
Short-term investments	7 120 427	5 177 137
Long-term investments	2 349 880	1 624 405
Total fair value through surplus or deficit investments	**9 470 307**	**6 801 542**
Loans and receivables		
Cash and cash equivalents	1 163 684	2 499 980
Accrued investment income	18 398	37 868
Total loans and receivables	**1 182 082**	**2 537 848**
Total carrying amount of financial assets	**10 652 389**	**9 339 390**

	31 December 2020	*31 December 2019*
Cash pool liabilities		
Payable to the Compensation Commission	294 676	277 867
Payable to other cash pool participants	10 357 713	9 061 523
Total liabilities	**10 652 389**	**9 339 390**
Net assets	–	–

Table 3
Summary of net revenue and expenses of the main cash pool for the year ended 31 December 2020
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Investment revenue	113 031	198 552
Unrealized gains/(losses)	54 145	14 355
Investment revenue from main cash pool	**167 176**	**212 907**
Foreign exchange gains/(losses)	5 837	3 313
Bank fees	(578)	(808)
Operating expenses from main cash pool	**5 259**	**2 505**
Net revenue and expenses from main cash pool	**172 435**	**215 412**

Financial risk management

60. The United Nations Treasury is responsible for investment and risk management for the main cash pool, including conducting investment activities in accordance with the United Nations Investment Management Guidelines.

61. 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.

62. An investment committee periodically evaluates investment performance and assesses compliance with the United Nations Investment Management Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

63. The United Nations Investment Management Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main cash pool investments may include, but are not restricted to, bank deposits, commercial papers, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

64. The United Nations Investment Management Guidelines require that investments not be made in issuers whose credit ratings are below specifications and provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

65. The credit ratings used for the main cash pool are those determined by major credit-rating agencies. S&P Global Ratings, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The year-end credit ratings are shown in table 4.

Table 4
Investments of the main cash pool by credit ratings as at 31 December 2020
(Percentage)

Main cash pool	*Ratings as at 31 December 2020*				*Ratings as at 31 December 2019*			
Bonds (long-term ratings)								
	AAA	*AA+/AA/AA-*	*A+*	*NR/ WD*	*AAA*	*AA+/AA/AA-*	*A+*	*NR*
S&P Global Ratings	44.0	53.2	–	2.8	35.8	58.8	–	5.4
Fitch	61.4	15.5	–	23.1	60.2	23.8	–	16.0
	Aaa	*Aa1/Aa2/Aa3*	*A1*		*Aaa*	*Aa1/Aa2/Aa3*	*A1*	
Moody's	61.1	34.9	0.4	3.6	54.8	45.2		
Commercial papers/certificates of deposit (short-term ratings)								
	A-1+/A-1				*A-1+/A-1*			
S&P Global Ratings	100				100.0			
	F1+/F1			*NR*	*F1+/F1*			
Fitch	98			2	100.0			
	P-1				*P-1*			
Moody's	100				100.0			
Term deposits (Fitch viability ratings)								
	aaa	*aa/aa-*	*a+/a/a-*		*aaa*	*aa/aa-*	*a+/a/a-*	
Fitch	–	27.5	72.5		–	84.2	15.8	

Abbreviation: NR/WD, not rated.

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

Financial risk management: liquidity risk

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

Financial risk management: interest rate risk

68. The main cash pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing

financial instruments. As at the reporting date, the main cash pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2019: five years). The average duration of the main cash pool on 31 December 2020 was 0.72 years (2019: 0.74 years), which is considered to be an indicator of low risk.

Cash pool interest rate risk sensitivity analysis

69. This analysis shows how the fair value of the main cash pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown in table 5 (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 5
Main cash pool interest rate risk sensitivity analysis as at 31 December 2020
(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**148.41**	**111.30**	**74.20**	**37.10**	–	**(37.10)**	**(74.18)**	**(111.26)**	**(148.34)**

Main cash pool interest rate risk sensitivity analysis as at 31 December 2019
(Millions of United States dollars)

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value									
Main pool total	**134.47**	**100.84**	**67.22**	**33.61**	–	**(33.60)**	**(67.20)**	**(100.79)**	**(134.38)**

Other market price risk

70. The main cash pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value

71. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

Fair value hierarchy

72. Table 6 presents financial instruments carried at fair value, by fair value hierarchy levels. The levels are defined as follows:

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

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

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

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

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

75. The fair value hierarchy in table 6 presents the main pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 6
Fair value hierarchy for investments as at 31 December: main pool
(Thousands of United States dollars)

	31 December 2020			*31 December 2019*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds – corporate	452 281	–	452 281	148 473	–	148 473
Bonds – non-United States agencies	931 565	–	931 565	755 027	–	755 027
Bonds – non-United States sovereigns	787 362	–	787 362	–	–	–
Bonds – supranationals	502 462	–	502 462	423 230	–	423 230
Bonds – United States treasuries	151 035	–	151 035	497 829	–	497 829
Main pool – commercial papers	–	2 062 987	2 062 987	–	347 398	347 398
Main pool – certificates of deposit	–	2 762 615	2 762 615	–	3 419 585	3 419 585
Main pool – term deposits	–	1 820 000	1 820 000	–	1 210 000	1 210 000
Total main pool	**2 824 705**	**6 645 602**	**9 470 307**	**1 824 559**	**4 976 983**	**6 801 542**

Note 6
Accounts payable: compensation awards

Background

76. Funds to pay successful awards are drawn from the Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has changed over the years and, under the terms of Security Council resolution 1483 (2003), was set at 5 per cent. Security Council resolution 1956 (2010) also provided for 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund. These requirements are binding on the Government of Iraq, unless the Government and the Governing Council of the Commission decide otherwise.

77. In exercising its authority over the arrangements for ensuring that payments are made to the Compensation Fund, the Governing Council continues to monitor the deposit of revenue into the Compensation Fund. From 2015 through 2017, the Governing Council adopted decisions granting three successive one-year postponements of the obligation of the Government of Iraq to make deposits, owing to the extraordinarily difficult security circumstances facing the country during those years.

78. Following Governing Council decision 276 (2017), deposits into the Compensation Fund resumed on 1 January 2018 at 0.5 per cent of proceeds from the export sales of petroleum, petroleum products and natural gas and of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers. The amount increased to 1.5 per cent effective 1 January 2019 and to 3 per cent effective 1 January 2020, where it is to remain until such time as the outstanding compensation award has been paid in full.

Accounting for the oil proceeds

79. Under IPSAS, other than any agreed proportion retained to fund the administration of the Commission, oil revenue received is not reflected as income on the Commission's financial statements but as a liability. The obligation to pay the outstanding award rests with the Government of Iraq, not with the United Nations. The United Nations, through the Commission, is therefore considered to be acting as an "agent", responsible solely for the administration of the Compensation Fund. Oil proceeds received from Iraq and deposited into the Fund are therefore recorded as cash (asset), with a corresponding recognition of accounts payable (liability), in favour of the outstanding claim.

80. During 2020, the Government of Iraq made deposits in the amount of $1,143.030 million to the Compensation Fund, as provided for in Governing Council decision 276 (2017).

81. Table 7 shows the movements of the Compensation Fund in 2020. Investment proceeds accrued are an increase in the liability but are not available for disbursement until the associated cash is received.

Table 7
Accounts payable: compensation awards
(Thousands of United States dollars)

Movement in the accounts payable: Compensation Fund	*2020*	*2019*
Net liability as at 1 January	**263 073**	**106 701**
Unrealized loss on investment reversal	247	366
Subtotal: gross liability as at 1 January	**263 320**	**107 067**
Deposits from the Government of Iraq	1 143 030	1 012 789
Claim payments	(1 130 000)	(860 000)
Administrative budget	–	(1 350)
Gross investment proceeds	3 349	4 814
Subtotal: gross liability as at 31 December	**279 699**	**263 320**
Unrealized gain/(loss) on investment	1 269	(247)
Net liability as at 31 December	**280 968**	**263 073**

Accounting for claim payments

82. Pursuant to Governing Council decision 267 (2009), payments are made on a quarterly basis utilizing all available funds in the Compensation Fund, rounding down to the nearest $10 million. Under IPSAS, claim payments made by the Commission are reflected as a direct reduction in the liability recorded to offset the cash deposits made by Iraq, rather than as an expenditure. In accordance with this decision, the Commission disbursed four payments for compensation awards in 2020, for a total of $1,130 million.

Compensation awards approved but not yet paid as at year-end

83. As at 31 December 2020, compensation awards approved by the Governing Council but not yet paid, pending receipt of deposits from the proceeds of oil export sales further to Governing Council decision 276 (2017), stood at approximately $2,369 million (2019: $3,499 million).

Note 7
Employee benefits liabilities

Table 8
Employee benefits liabilities
(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2020*
After-service health insurance	180	9 760	9 940
Annual leave	5	26	31
Repatriation benefits	68	35	103
Subtotal defined benefit liabilities	**253**	**9 821**	**10 074**
Termination benefits	–	220	220
Other employee benefits	14	–	14
Total employee benefits liabilities	**267**	**10 041**	**10 308**

	Current	*Non-current*	*Total as at 31 December 2019*
After-service health insurance	161	9 808	9 969
Annual leave	2	29	31
Repatriation benefits	51	92	143
Subtotal defined benefit liabilities	**214**	**9 929**	**10 143**
Termination benefits	–	203	203
Other employee benefits	7	–	7
Total employee benefits liabilities	**221**	**10 132**	**10 353**

84. The liabilities arising from end-of-service/post-employment benefits are determined by independent actuaries and are established in accordance with IPSAS 39: Employee benefits. Full actuarial valuation is usually undertaken every two years. In years between full valuations, independent actuaries perform a roll-forward exercise using participation data from the prior year with a partial update of actuarial assumptions. The most recent full valuation was conducted as at

31 December 2019, while actuarially valued balances as of 31 December 2020 represent results of the roll-forward exercise.

85. The total defined benefit employee benefits liability remained stable in 2020, with a slight decrease of $0.069 million owing to the changes in financial assumptions used in the roll-forward valuation. It resulted in an actuarial loss of $0.08 million, owing mainly to the decrease in the discount rate, compensated slightly by the decrease in the health-care trend. The difference of $0.149 million is constituted by service costs and interest on obligation amounting to $0.067 million, which is offset by benefits paid of $0.216 million.

86. Other employee benefits consist of accruals for home leave allowance and the settlement of employee taxes.

Actuarial valuation: assumptions

87. The Commission follows the United Nations Secretariat in selecting assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at year-end are set out in table 9.

Table 9
Actuarial assumptions used to determine employee benefits obligations
(Percentage)

Actuarial assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates: 31 December 2019 valuation	0.15	2.05	2.46
Discount rates: 31 December 2020 valuation	0.03	0.43	2.26
Inflation: 31 December 2019 valuation	3.76–5.44	2.20	–
Inflation: 31 December 2020 valuation	3.76–5.44	2.20	–

88. For the 2020 actuarial valuations, the yield curves used in the calculation of the discount rates in respect of the United States dollar, the euro and the Swiss franc are those developed by Aon Hewitt, consistent with the decision of the United Nations Task Force on Accounting Standards to harmonize actuarial assumptions throughout the United Nations system.

89. The salary increase rate, as well as demographic assumptions used for the 2019 full valuation, were retained for the 2020 roll-forward exercise and are the same as those used for the latest United Nations Joint Staff Pension Fund valuation. As at 31 December 2020, the salary increase assumptions for the Professional staff category were 9.27 per cent for the age of 19, grading down to 3.97 per cent for the age of 70. The salaries of the General Service staff category were assumed to increase by 6.84 per cent for the age of 19, grading down to 3.47 per cent for the age of 70.

90. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rates are based on Aon Hewitt long-term assumptions for different currencies as shown below. The rates were updated for the 2020 roll-forward valuation.

Cost trend assumptions	2020 Initial (percentage)	2020 Final (percentage)	2020 Grade down	2019 Initial (percentage)	2019 Final (percentage)	2019 Grade down
United States non-Medicare	5.31	3.65	14 years	5.44	3.85	13 years
United States Medicare	5.15	3.65	14 years	5.26	3.85	13 years
United States dental	4.59	3.65	14 years	4.66	3.85	13 years
Non-United States – Switzerland	3.64	2.75	8 years	3.76	2.85	8 years
Non-United States – eurozone	3.73	3.25	6 years	3.83	3.65	3 years

91. With regard to the valuation of repatriation benefits as at 31 December 2020, inflation in travel costs was assumed to be 2.20 per cent (same assumption used as last year).

92. Annual leave balances were assumed to increase at the following annual rates during the staff members' projected years of service: 0 to 3 years – 9.1 per cent; 4 to 8 years – 1.0 per cent; 9 years and over – 0.1 per cent. The attribution method continues to be used for annual leave actuarial valuation.

93. For defined-benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

Table 10
Movement in employee benefits liabilities accounted for as defined benefit plans
(Thousands of United States dollars)

	2020	2019
Net defined benefit liability as at 1 January	**10 143**	**5 938**
Current service cost	49	57
Interest cost	18	51
Total net costs recognized in the statement of financial performance	**67**	**108**
Benefits paid	(216)	(153)
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	80	4 250
Net defined benefit liability as at 31 December	**10 074**	**10 143**

94. The total amount of current service and interest costs recognized in the statement of financial performance was $0.067 million.

Discount rate sensitivity analysis

95. 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 year, and volatility affects the discount rate assumption. Should the discount rate assumption vary by 0.5 per cent, its impact on the obligations would be as shown in table 11.

Table 11
Discount rate sensitivity to end-of-year employee benefits liabilities
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
For the year ended 31 December 2020			
Increase of discount rate by 0.5 per cent	(940)	(1)	(1)
As a percentage of end-of-year liability	(9)	(1)	(3)
Decrease of discount rate by 0.5 per cent	1 086	0	1
As a percentage of end-of-year liability	11	0	3
For the year ended 31 December 2019			
Increase of discount rate by 0.5 per cent	(943)	(1)	(1)
As a percentage of end-of-year liability	(9)	(1)	(3)
Decrease of discount rate by 0.5 per cent	1 089	0	1
As a percentage of end-of-year liability	11	0	3

Medical costs sensitivity analysis

96. 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 medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 0.5 per cent, the impact on the measurement of the defined benefit obligations would be as shown in table 12.

Table 12
Effect of movements in assumed medical cost trend rates
(Thousands of United States dollars)

	Increase	*Decrease*
0.5 per cent movement in the assumed medical costs trend rates: 31 December 2020		
Effect on the defined benefit obligation	1 021	(897)
Effect on the aggregate of the current service cost and interest cost	9	(8)
0.5 per cent movement in the assumed medical costs trend rates: 31 December 2019		
Effect on the defined benefit obligation	1 024	(900)
Effect on the aggregate of the current service cost and interest cost	9	(8)

Other defined-benefits plan information

97. Benefits paid for 2020 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefits payments (net of participants' contributions in these schemes) are shown in table 13 and historical information on liabilities for after-service health insurance, repatriation benefits and annual leave is shown in table 14.

Table 13
Estimated defined benefits payments, net of participants' contributions
(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
2020	162	52	2	**216**
2019	125	27	1	**153**

Historical information

Table 14
Liabilities for after-service health insurance, repatriation benefits and annual leave, 2015–2020
(Thousands of United States dollars)

	2015	*2016*	*2017*	*2018*	*2019*	*2020*
Present value of the defined benefit obligations	6 422	6 091	6 027	5 938	10 143	10 074

United Nations Joint Staff Pension Fund

98. In the Regulations of the United Nations Joint Staff Pension Fund, it is stated that the Pension Board shall have an actuarial valuation made of the Pension Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. 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.

99. The Commission's financial obligation 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 Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. 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.

100. The most recent actuarial valuation for the Pension Fund was completed as at 31 December 2019. A roll forward of the participation data as at 31 December 2019 to 31 December 2020 will be used by the Fund for its 2020 financial statements.

101. The actuarial valuation as at 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.2 per cent. The funded ratio was 107.1 per cent, when the current system of pension adjustments was taken into account.

102. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2019, for deficiency payments under article 26 of the Regulations of the Pension Fund, given that the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. 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 preparation of this report, the General Assembly had not invoked the provision of article 26.

103. Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or due to the termination of the Pension Fund, deficiency payments required from each member organization would be based on the proportion of that member organization's contributions to the total contributions paid to the Fund during the preceding three years (2017, 2018 and 2019), which amounted to $7,546.92 million.

104. During 2020, contributions paid by the Commission to the Pension Fund amounted to $0.094 million (2019: $0.091 million). Expected contributions due in 2021 are approximately $0.097 million.

105. Membership in the Pension Fund may be terminated by a decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Pension Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Pension Fund on the date of termination; no part of the assets that are in excess of the liabilities are included in the amount.

106. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board and to the General Assembly on the audit annually. The Pension Fund publishes quarterly reports on its investments, which can be viewed on the Fund's website at www.unjspf.org.

Termination benefits

107. Some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission's accrued liability for these costs at year-end was $0.220 million (2019: $0.202 million).

Note 8
Net assets

108. Net assets and reserves represent the residual interest in the assets of the Commission after deducting all its liabilities. The financial statements reflect the aggregation of two funds: the Compensation Fund and the Follow-up Programme for Environmental Awards.

Operating reserve

109. An operating reserve was established by the Governing Council to finance the Commission's administrative expenses, and this reserve is set aside within the Compensation Fund. As at 31 December 2020, the balance of the operating reserve was $3.382 million (2019: $4.419 million).

110. A separate operating reserve exists for the Follow-up Programme for Environmental Awards that represents a small amount of residual interest earned on the funds in the Programme. This small reserve ($0.018 million) will be retained until completion of the orderly wind-down of the Commission and to cover any post-closure costs associated with the Programme.

Note 9
Revenue

Amount charged for administration of claims

111. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. At its 38th meeting, held in October 2019, the Committee on Administrative Matters of the Governing Council directed that the administrative budget for 2020 be drawn from the operating reserve, rather than the Compensation Fund, given that the reserve is at a sufficient level to cover the orderly wind-down of the Commission and to cover any post-closure costs.

112. Other revenue for the Compensation Fund consists of net gains on foreign exchange arising from the operating activities of the Commission.

113. For the Follow-up Programme for Environmental Awards, revenue consists of interest and investment income on the balance of cash in the Programme fund.

114. As a result of the budget being drawn from the operating reserve, statement II, statement of financial performance, shows a deficit for the year, adjusting the operating reserve in statement I, statement of financial position.

Note 10
Expenses

Table 15
Expenses for the year
(Thousands of United States dollars)

	31 December 2020	*31 December 2019*
Salaries and wages	568	536
Pension and insurance benefits	84	161
Other benefits	(26)	(5)
Total employee salaries, allowances and benefits	**626**	**692**
Consultants and contractors	13	29
Total contractual services	**13**	**29**
Travel	–	7
Total travel	**–**	**7**
Contracted services	257	239
Rent – offices and premises	28	70
Other/miscellaneous operating expenses	33	11
Total other operating expenses	**318**	**320**
Total	**957**	**1 048**

115. Employee salaries, allowances and benefits include international, General Service and temporary staff salaries, post adjustments and staff assessments. Other benefits include the repatriation grant, leave benefits and termination costs.

116. Contractual services expenses include non-employee compensation, allowances and travel.

117. Travel expenses include all staff and non-staff travel that is not considered to be an employee or contractual allowance or benefit. Travel expenses were nil in 2020 as a result of the cancellation of duty travel due to the COVID-19 pandemic.

118. Other operating expenses are comprised primarily of conferencing, information technology and administrative services contracted with the United Nations Office at Geneva; the costs associated with the audit by the Board; and the rental charge for the Commission's office space at the United Nations Office at Geneva, which includes maintenance, utilities and security services.

Note 11
Segment reporting

119. 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 objectives and for making decisions about the future allocation of resources. Segment reporting information is provided on the basis of two segments.

120. The Compensation Fund segment contains the Fund and related activities of the Commission's secretariat, which include the payment of compensation awards, addressing issues concerning the level of the contribution and arrangements of Iraq for ensuring that payments continue to be deposited into the Fund, servicing of the Governing Council, financial and general administrative activities of the secretariat and audit matters. In addition, as the Commission nears the conclusion of its mandate, the secretariat focuses additional efforts on liquidation-related activities to ensure the orderly wind-down of the Commission.

121. With the mandate of the Follow-up Programme for Environmental Awards having been declared fulfilled by the Governing Council in late 2013, the Programme segment focuses on winding-down activities, audit matters and possible post-closure issues as they pertain to the Programme.

122. The segment statements of financial position and financial performance are given in tables 16 and 17.

Table 16
Segment statements of financial position as at 31 December 2020
(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Assets			
Current assets			
Cash and cash equivalents	32 189	2	32 191
Investments	197 468	12	197 480
Total current assets	**229 657**	**14**	**229 671**
Investments	65 001	4	65 005
Total non-current assets	**65 001**	**4**	**65 005**
Total assets	**294 658**	**18**	**294 676**

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Liabilities			
Current liabilities			
Accounts payable: compensation awards/ environmental awards	280 968	–	280 968
Employee benefits	267	–	267
Total current liabilities	**281 235**	**–**	**281 235**
Non-current liabilities			
Employee benefits	10 041	–	10 041
Total non-current liabilities	**10 041**	**–**	**10 041**
Total liabilities	**291 276**	**–**	**291 276**
Net of total assets and total liabilities	**3 382**	**18**	**3 400**
Net assets			
Operating reserve	3 382	18	3 400
Net assets	**3 382**	**18**	**3 400**

Table 17
Segment statements of financial performance for the year ended 31 December 2020
(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*	*Total*
Revenue			
Revenue	–	–	–
Other revenue	–	–	–
Total revenue	**–**	**–**	**–**
Expenses			
Employee salaries, allowances and benefits	626	–	626
Contractual services	13	–	13
Travel	-	–	–
Other operating expenses	318	–	318
Total expenses	**957**	**–**	**957**
Surplus for the year	**(957)**	**–**	**(957)**

Note 12
Related parties

Key management personnel

123. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions. The head of the Commission's

secretariat, the Executive Head, serves as the representative of the Secretary-General and has the authority and responsibility for planning, directing and controlling the Commission's activities.

124. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment and other entitlements such as grants, subsidies, and employer pension and health insurance contributions.

125. The Commission had one staff member in the key management personnel category, with a total remuneration of $0.265 million over the financial year; such payments are in accordance with the Staff Regulations and Rules of the United Nations, the published salary scales of the United Nations and other publicly available documents. As at the reporting date, there were no advances or loans issued to key management personnel other than those commonly available to all staff members. During the year, the Commission paid no remuneration or other benefits, such as consulting or service fees, to close family members of key management personnel.

Related party disclosures

126. Except where otherwise stated in the present statements, all transactions made with third parties, including United Nations organizations, occur within a normal supplier or client/recipient relationship or at arm's-length terms and conditions. Transactions with the United Nations entities comprise those shown in table 18.

Table 18
Transactions with third parties
(Thousands of United States dollars)

	Note	*31 December 2020*	*31 December 2019*
United Nations Office at Geneva			
Information technology and administrative services		123	123
Conference services		56	52
Charges in relation to health insurance		95	94
Rental	13	28	70
Total United Nations Office at Geneva		**302**	**339**
Office of Internal Oversight Services		10	10
Total United Nations Offices at Geneva and Headquarters		**312**	**349**

Note 13
Operating leases and commitments

127. The Commission has entered into an operating lease arrangement with the United Nations Office at Geneva for the use of offices at the Palais des Nations. The total lease payments recognized in expenditure for the year were $0.03 million (2019: $0.07 million). The decrease of $0.04 million is explained by the reduction in office space occupied by the Commission. The arrangement has a six-month early termination clause and the future minimum lease payments for this six-month period are $0.02 million (2019: $0.04 million).

128. As at the reporting date, there were no contractual commitments for goods and services contracted but not delivered (2019: none).

Note 14
Contingent liabilities and contingent assets

129. In the normal course of its operations, the Commission may be subject to claims that can be categorized as commercial claims, administration of justice claims and any other claims. Consistent with IPSAS, contingent liabilities are disclosed for pending claims where the probability of an obligation and the potential outflow of resources cannot be measured with sufficient reliability.

130. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, the Organization discloses contingent assets when an event gives rise to a probable inflow of economic benefits or service potential to the Organization and there is sufficient information to assess the probability of that inflow. The Commission had no contingent assets as at 31 December 2020.

Note 15
Events after the reporting date

131. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date on which the financial statements were authorized for issue that would have had a material impact on these statements.