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United Nations

United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2012

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-eighth Session
Supplement No. 5B

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Report of the Board of Auditors

United Nations • New York, 2013

Note

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Letters of transmittal

28 March 2013

Pursuant to United Nations Children's Fund (UNICEF) financial regulation 13.3, enclosed are the financial report and statements for 2012. These statements have been prepared and signed by the Comptroller.

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

(*Signed*) Anthony **Lake**
Executive Director

Chair of the Board of Auditors
United Nations
New York

30 June 2013

I have the honour to transmit to you the financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2012, which were submitted by the Executive Director of the United Nations Children's Fund. These statements have been examined by the Board of Auditors.

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

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

President of the General Assembly
of the United Nations
New York

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2012, which comprise the statement of financial position (statement I); the statement of financial performance (statement II); the statement of changes in net assets (statement III); the statement of cash flow (statement IV); the statement of comparison of budget to actual amounts (statement V); and the notes to the financial statements.

Management's responsibility for the financial statements

The Comptroller of UNICEF is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2012 and its financial performance and cash flows for the period then ended, in accordance with IPSAS.

Emphasis of matter

We draw attention to note 35 to the financial statements, in which UNICEF has disclosed its relationship with the National Committees, as well as the amount of revenue the Committees have raised through private sector fundraising activities. In 2012, the Fund recognized in its financial statements net cash contributions from the private sector fundraising activities of the National Committees totalling $834.22 million, while a total amount of $341.41 million retained by National Committees (including $337.44 million to cover relevant costs and $3.97 million retained as reserves) is disclosed in the note to the financial statements. In addition, a total amount of $188.6 million held by all National Committees as reserves as at 31 December 2012 is also disclosed in the note to the financial statements. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

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

In accordance with article XIV of the UNICEF Financial Regulations and Rules and the related annex, we have also issued a long-form report on our audit of UNICEF.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
(Lead Auditor)

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania

30 June 2013

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2012. The audit was carried out through field visits to four UNICEF country offices, as well as through a review of the Fund's financial transactions and operations at its headquarters in New York, Geneva and Copenhagen.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2012 and its financial performance and cash flows for the period then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

The Board draws attention to note 35 to the financial statements, in which the organization discloses the relationship between UNICEF and the National Committees, as well as the recognition by the Committees of the amount of revenue raised through private sector fundraising activities. During the period under review, UNICEF recognized in its financial statements net cash contributions from the National Committees totalling $834.22 million from private sector fundraising activities, while a total amount of $341.41 million retained by National Committees (including $337.44 million to cover relevant costs and $3.97 million retained as reserves) is disclosed in the note to the financial statements. In addition, a total amount of $188.6 million held by all National Committees as reserves as at 31 December 2012 is also disclosed in the note to the financial statements. Our opinion is not qualified in respect of this matter.

Overall conclusion

In 2012, UNICEF successfully implemented the IPSAS accounting framework, which demonstrates the Fund's management capacity to implement business transformation programmes. With the adoption of IPSAS, UNICEF has enhanced the transparency and accountability of its financial processes and improved the quality and credibility of its financial reports. Furthermore, the adoption of IPSAS will enable UNICEF to provide better information on costs for results-based management on the basis of full accrual accounting. Furthermore, comparability of the financial statements has also been improved, since IPSAS is being widely adopted by the organizations of the United Nations system.

Meanwhile, UNICEF continued to improve its governance, risk management and programme and operations management at its headquarters and field offices in order to maintain sound internal control, enhance accountability under the framework of results-based management and promote good governance structures globally. The Board has, nevertheless, identified weaknesses and deficiencies in some areas in the report, especially:

- Weaknesses in governance structures and risk management, including lack of sufficient oversight of the National Committees as a unique mechanism in private sector fundraising, and deficiencies in budget formulation, implementation and performance reporting;
- Deficiencies in programme management, including insufficient assurance activities and monitoring of cash transfers, and weaknesses in performance reporting of programme activities;
- Shortcomings in operations management, including deficiencies in the procurement of supplies and services, and weaknesses in assets management.

Financial statements and financial reporting

Total revenue in 2012 amounted to $3.94 billion, which was mainly from voluntary contributions from Governments, intergovernmental organizations and non-governmental organizations. Expenses amounted to $3.62 billion, concentrated in three major categories: cash assistance ($1.1 billion); supply assistance ($0.63 billion); and employee, consultancy and other operations expenses ($1.89 billion). This resulted in a net surplus of $0.32 billion.

As at 31 December 2012, the Fund's total assets amounted to $5.73 billion. Of that amount, $3.45 billion, or 60 per cent, comprised cash and term deposits as well as investments. The Board noted that the large amount of cash holding at year-end was intended mainly for programme activities to be carried out in 2013 and thereafter.

The Board's review of the accounts and financial statements for the year ended 31 December 2012 revealed that part of the total amount of $1.09 billion in contingent assets disclosed in the draft financial statements was related to enforceable grant agreements, which met the criteria of definition of assets under IPSAS and should be recognized as assets as well as deferred revenue in the financial statements. Following the recommendation of the Board, UNICEF adjusted the financial statements, recognizing a total amount of $513.3 million as contribution receivables and deferred revenues. Nevertheless, the Board is of the view that UNICEF should improve its preparation and review process so that it can detect any inconsistencies at an early stage, thus improving the quality of its financial information.

Oversight of National Committees

The National Committees raise around one third of UNICEF's annual revenue. Considering the significance of the contribution of the National Committees to UNICEF, the Board has continued to review the Fund's monitoring and oversight of them and the implementation of their cooperation agreements, and has noted the following deficiencies:

(a) **Of the funds raised from the private sector, 29 per cent were used or retained by the National Committees**. During the period from 2006 to 2012, 36 National Committees retained a total of $2.39 billion (or 29 per cent) of gross donations of $8.35 billion raised to cover their expenses or as reserves against a target retention rate of up to 25 per cent. In terms of the retention amounts, 6 out of the top 10 Committees had retention rates of more than 30 per cent, with the highest retention rate, of 61 per cent, by one National Committee and the largest amount retained, of $384.5 million, by another. High administrative expenses were one of the reasons given for high retention rates by some National Committees. For example, for the financial year ended 30 June 2012, the total annual remuneration for the 12 highest paid employees in one National Committee was $3.51 million (28 per cent of its administration costs), including the highest annual remuneration, of $532,291, for its Chief Executive Officer;

(b) **National Committees have retained $188.6 million in reserves**. As at 31 December 2012, 36 National Committees had retained a total amount of $188.6 million in accumulated reserves, of which three Committees had reserve balances greater than their annual expenditures, while the reserves guidance issued by UNICEF provides that a reasonable reserve level should be equivalent to operating expenditures for three months. For example, as of 31 December 2012, one National Committee had a total amount of $62.45 million in reserves. Meanwhile, some National Committees have significant discretion to retain non-statutory reserves: for instance, one National Committee insisted on retaining €200,000 as a special purpose reserve in 2012 in order to develop a new approach to falling product sales after it reached its statutory reserve level of €5.4 million;

(c) **Raising $61.49 million in donations in the name of UNICEF, but contributing such funds to non-UNICEF programmes**. While noting some progress in addressing the previous concern of the Board regarding fund conversion and utilization by the National Committees, a high level of funds are still being utilized for non-UNICEF activities. In 2012, one National Committee raised $61.49 million in donations of medicine in the name of UNICEF, but contributed the medicines to non-UNICEF programmes. In its 2012 annual report, the Committee claimed that the donations were used for UNICEF programmes. Such a claim could expose the Fund's reputation to great risk. The Fund may be unaware that some National Committees are claiming to raise funds for and on behalf of UNICEF, but in reality allocating such funds to non-UNICEF programmes, which the Fund cannot effectively oversee;

(d) **Some National Committees made long-term and equity investments**. For example, as at 31 December 2011, one National Committee had bond investments totalling $1.07 million invested over a period of 23.5 years, which is inconsistent with the provision of short-term to medium-term investment periods during the cooperation agreement. In another example, as at 30 June 2012, one National Committee had investments of $31.88 million, including $7.32 million in equity securities, which is inconsistent with the low-risk investment policies set by UNICEF. Those deficiencies could be partly the result of insufficient monitoring by UNICEF.

Budget management

The budget is a key tool for effective financial management and control, and thus is the central component of a process that provides oversight of the financial dimensions of an organization's operations. The Board examined the budget formulation process and identified a number of weaknesses, including:

(a) Insufficient justification for budgets. The $665.51 million budget approved for advocacy, programme development and intercountry programmes was not fully justified by results and detailed activities;

(b) Lack of a complete picture of the budgets of some divisions and offices. The budgets of some headquarter divisions and offices were not presented in a consolidated manner, preventing the governing body from obtaining an overall picture of the goals to be achieved as well as the financial resources required by those divisions and offices.

The Board also noted weaknesses with regard to budget implementation and performance reporting, including:

(a) In 2012, a sample of 19 UNICEF country offices used programme budgets to fund a total amount of $91.65 million in operational expenditures (including office rent, utilities, administration, finance and human resources) that did not relate to specific programme components and should have been covered by their institutional budgets. The Board is concerned that this could result in insufficient resources for delivering UNICEF programmes;

(b) Out of a total amount of $219.04 million in thematic fund expenditures, $29.8 million (or 14 per cent) were used in a cross-thematic manner or used to cover the operational costs of country offices.

With respect to budget performance reporting, there was a lack of an overall view of management and administrative expenditures. The draft financial statements reflected a total amount of $462.49 million in institutional budget expenditure, which was just one component of the management and administrative expenditures. At least $95.45 million was excluded: (a) $91.65 million in operational expenditures was charged to the programme budget in the 19 country offices in question; (b) $3.8 million in staff costs for fundraising was charged to programme budget by 17 country offices. The statements did not provide sufficient or clear explanations regarding the scope and nature of the budgets, undermining the evaluation and decision-making of the Executive Board and other relevant stakeholders. In light of the audit recommendation, UNICEF provided additional disclosures to its financial statements.

Programme and project management

During the period under review, 133 UNICEF country offices and regional offices made $1.1 billion in cash transfers to implementing partners, accounting for 30 per cent of total expenses ($3.62 billion). From its examination of the Fund’s programme management, the Board noted the following deficiencies:

(a) Insufficient monitoring of programme implementation. The Board noted that capacity assessment and assurance activities such as macroassessments, microassessments, spot checks and scheduled audits were not well planned and implemented at some country offices. The Board also noted the lack of effective monitoring of the utilization of funds at one country office;

(b) Indicators used for performance reporting were not directly linked to actions and contributions of UNICEF. Furthermore, the annual report of the Executive Director provided insufficient disclosure of challenges in the implementation of key programme strategies.

Follow-up to previous recommendations

The Board had no major overall concern about the status of the 29 recommendations that it made for the biennium 2010-2011. The Board noted that 69 per cent had been fully implemented (66 per cent for the previous biennium), 24 per cent were under implementation (30 per cent for the previous biennium), and 7 per cent had been overtaken by events. The Board comments in the present report on the recommendations under implementation.

Recommendations

The Board has made a number of recommendations on the basis of its audit. The main recommendations are that UNICEF:

(a) **Accelerate the process of developing, updating and signing joint strategic plans with National Committees; specify the retention rates in all such plans with National Committees; and conduct annual reviews of the performance of National Committees in a timely manner;**

(b) **Strengthen the oversight of National Committees through monitoring: (i) the administrative expenditure of the National Committees with a view to maximizing the resources to be used for UNICEF programmes; (ii) the National Committees' reserve policies to ensure sufficient funds are available for UNICEF to fulfil its mandates; (iii) donations that are raised in the name of UNICEF but are not used for UNICEF programmes in order to avoid putting the reputation of the Fund at risk; and (iv) the investment activities of National Committees to ensure compliance with a policy of low-risk investment in order to safeguard any assets held on behalf of UNICEF;**

(c) **Ensure that its divisions/offices comply with its guidance with regard to programme budget proposals so that the required resources are fully justified, including detailed activities to be performed in order to achieve the planned outcomes, as well as historical trends;**

(d) **Review its current budget preparation methodology to ensure that budgets are prepared and presented in an integrated manner so that the Executive Board obtains an overall picture of the institutional and programme resources needed to achieve the expected objectives;**

(e) **Analyse the parameters for determining the appropriate level of operational posts at country offices and monitor and control their use of programme budgets to cover operational expenditures not associated to specific programmes or projects;**

(f) **Strengthen its internal controls to ensure that thematic contributions are used as specified in the funding agreements;**

(g) **Ensure the implementation of capacity assessments and assurance activities in accordance with the Framework for Cash Transfers to Implementing Partners;**

(h) **Strengthen monitoring of implementing partners to ensure sufficient supporting evidence is maintained to justify the use of cash transfers;**

(i) **Continue to improve annual reporting by supplementing the Data Companion with more selective key indicators on programme performance to represent direct actions and contributions of UNICEF through country programmes of cooperation; and improve the Fund's performance reporting by clearly linking the results achieved with the implementation of the programme activities and the utilization of relevant resources;**

(j) **Improve the annual report of the Executive Director by integrating information on in-depth analysis of programme performance disparities and the impact on programme implementation; and analyse the performance disparities within country offices with respect to each strategy and provide support or guidance to those country offices where performance falls far short of the benchmarks.**

A. Mandate, scope and methodology

1. The United Nations Children's Fund (UNICEF) is mandated by the General Assembly to advocate the protection of children's rights, to help meet the basic needs of children and to expand the opportunities of children to enable them to reach their full potential. The organization mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build their capacity to establish appropriate policies and deliver services for children and their families.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2012, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article XIV of the UNICEF Financial Regulations and Rules and the annex, as well as with the International Standards on Auditing.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of UNICEF as at 31 December 2012 and the results of its operations and cash flows for the financial period 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 body and whether revenue and expenses had been properly classified and recorded in accordance with IPSAS. The audit included a general review of financial systems and internal controls, and an examination of the accounting records and other supporting evidences to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of accounts and financial transactions, the Board reviewed UNICEF operations under its financial regulation 14.1, which requires the Board to review and report on the efficiency of the financial procedures, the accounting system, and the internal financial controls and, in general, the administration and management of UNICEF operations.

5. The Board coordinated with the UNICEF Office of Internal Audit and Investigation in the planning of its audits in order to avoid duplication of effort and to determine the extent to which the Board could rely on the latter's work.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's conclusions were discussed with the administration, whose views are appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

7. Of the 29 recommendations made for the biennium 2010-2011, 20 (69 per cent) were fully implemented, seven (24 per cent) were under implementation and two (7 per cent) were overtaken by events. For the previous biennium, by way of comparison, 66 per cent of the recommendations made were fully implemented, while 30 per cent were under implementation and 4 per cent were not implemented.

Details regarding actions taken in relation to the 2010-2011 recommendations are included in the present report and summarized in annex I.

8. The Board has no major overall concerns about the implementation of the recommendations, but would like to draw attention to the following issues:

(a) Lack of competitive bidding for procurements. The UNICEF Supply Manual requires that, with certain exceptions, all purchases must be the result of competitive bidding. In its previous report the Board noted that some offices did not comply with that requirement. Despite some progress, similar audit observations were made in 2012. For example, five laboratories were chosen by the Supply Division to conduct analytical testing for pharmaceutical and nutrition products, at a total cost of $158,835 in 2011 and 2012. However, the Supply Division neither carried out competitive bidding procedures nor signed any contracts with the laboratories. The Supply Division explained that the laboratories, which were all recommended by the World Health Organization (WHO), had cooperated with the division for a long time;

(b) Discrepancies between the actual status of property, plant, equipment and database records. The Board noted some discrepancies between the physical status of non-expendable property and database records at UNICEF headquarters in New York and at six country offices during its previous audit. UNICEF issued new accounting and administrative policies and carried out a thorough physical count and reconciliation of its property, plant and equipment as part of IPSAS implementation, which effectively strengthened its management of property, plant and equipment. However, the Board still noted some discrepancies in 2012. For example, at the country office in the Sudan, out of the sampled 34 items of property, plant and equipment, the actual location of 14 items, with a total value of $141,639, was not consistent with that recorded in the system. Similar observations were also made at UNICEF headquarters in New York and the country office in Brazil.

9. **UNICEF agreed with the Board's recommendation to comply with competitive bidding procedures and establish agreements/contracts with awarded providers.**

10. **The Board also recommends that UNICEF continue to undertake measures to ensure that the database records of property, plant and equipment are consistent with their actual status.**

2. Implementation of the International Public Sector Accounting Standards

11. The Board has conducted reviews of UNICEF's progress towards the implementation of IPSAS over the past two bienniums and in 2012, and it recognizes the efforts made by the Fund in this regard, including: the development and finalization of 36 policy position papers on accounting and of nine formal policies; the updating of the Financial Regulations and Rules in 2011, with effect for 2012; the go-live and roll-out of the VISION enterprise resource planning system from 1 January 2012; the migration of all data into the VISION system; the preparation of IPSAS opening balances; the dry-runs, in June and September 2012, and the production of June and September financial statements; and training activities.

12. In 2012, UNICEF produced its first set of IPSAS-compliant financial statements. The conversion to full accrual accounting as prescribed by IPSAS has

resulted in significant changes in the type and the measurement of assets, liabilities, revenues and expenses recognized and disclosed, such as the disclosure of property, plant and equipment, and end-of-service liabilities on the face of the financial statements, accounting for the expenditure of cash transfers on accrual basis, which has enhanced the transparency of the financial statements.

13. The new financial statements provide users with full information about the Fund's resources and obligations as at 31 December 2012 as well as about movements of resources over the financial year. Statement V allows readers to compare outturn for the period on the same (cash) basis as the budget was prepared. The statements are also supported by a full set of notes, including a summary of significant accounting policies.

14. Note 37 to the financial statements sets out the adjustments that were made to opening balances as at 1 January 2012 as a result of adopting IPSAS. Significant adjustments to opening balances included:

(a) Recognition of $267.5 million in inventories which were not recognized under the United Nations system accounting standards (UNSAS) but which were delivered on an accrual basis and therefore recognized under IPSAS;

(b) Recognition of property and equipment with a value of $155.2 million;

(c) Elimination of $196.3 million in accounts payable which had been obligated or charged against budgets under UNSAS, but for which goods and services had not been received as at 31 December 2011 and are not therefore recognized under IPSAS;

(d) First-time recognition of $496.2 million in advances of cash assistance;

(e) Recognition of $921.4 million in employee benefits ($29.8 million of current (short-term) and $891.6 million of non-current), which was disclosed in the note to the financial statements under UNSAS.

15. With the adoption of IPSAS, UNICEF has enhanced the transparency and accountability of its financial processes and improved the quality and credibility of its financial reports. In addition, the adoption of IPSAS has enabled UNICEF to provide better information on costs for results-based management on the basis of full accrual accounting. Furthermore, comparability of the financial statements has also been improved since IPSAS is being widely adopted by the organizations of the United Nations system widely.

16. The total budget in relation to IPSAS implementation of UNICEF for 2008 to 2012 was $11.96 million, while total expenditure for the period amounted to $10.16 million. For the year 2012, the budget was $2.13 million, and expenditure was $1.73 million.

3. Financial statements and financial reporting

17. Total revenue in 2012 amounted to $3.94 billion, mainly from voluntary contributions from Governments, intergovernmental organizations and non-governmental organizations. Expenses, which amounted to $3.62 billion, were concentrated in three major categories: cash assistance ($1.1 billion); supply assistance ($0.63 billion); and employee, consultancy and other operational expenses ($1.89 billion). This resulted in a net surplus of $0.32 billion.

18. As at 31 December 2012, total assets of UNICEF amounted to $5.73 billion, of which $3.45 billion, or 60 per cent, comprised cash and term deposits as well as investments (see table II.1). The large amount of cash holding at the year-end is intended mainly for programme activities to be carried out in 2013 and thereafter.

Table II.1
Cash and term deposits and investments as at 31 December 2012
(Thousands of United States dollars)

Cash and term deposits	2 939 786
Investments	510 216
Total	**3 450 002**

Source: Financial statements of UNICEF.

Disclosure of revenues and expenses, as well as reserves of the National Committees

19. The National Committees are Fund partners, established for the purposes of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. By the end of 31 December 2012, there were 36 National Committees all over the world, collectively raising around one third of the Fund's annual revenue. According to the cooperation agreements between UNICEF and the National Committees, the Committees are legally independent non-government entities that use the name, logo, signature and any other associated intellectual property of UNICEF to raise funds or in-kind assistance on behalf of and for UNICEF. Based on the cooperation agreements, the Committees may retain up to 25 per cent of their gross proceeds to cover the costs of their activities. The Committees may also retain funds as reserves, depending upon the policies and the decisions of their governing boards. The remaining funds are to be transferred to UNICEF.

20. During the period under review, UNICEF recognized in its financial statements net cash contributions from the private sector fundraising activities of the National Committees totalling $834.22 million, while a total amount of $341.41 million retained by National Committees (including $337.44 million to cover relevant costs and $3.97 million retained as reserves) was disclosed in the note to the financial statements. In addition, a total amount of $188.6 million held by all National Committees as reserves as at 31 December 2012 has also been disclosed in the note to the financial statements. The Board draws attention to those disclosures.

Recognition of revenue from National Committees

21. Based on their audited financial statements, the National Committees prepare revenue and expenditure reports on an annual basis to report their gross revenue (donations in cash or in kind), expenditure and net amounts due to UNICEF. The reports are certified by the Committees' external auditors and submitted to UNICEF, together with the audited financial statements. Based on the certified reports, UNICEF recognizes cash contributions it receives from the National Committees as revenue. In-kind contributions are recognized as revenue only if such assistance is received by UNICEF and used in its programmes. The amount of in-kind

contributions recognized is based on valuations carried out by the Fund's Supply Division.

22. The Board previously noted some deficiencies in the recognition of revenue from National Committees. In 2012, the Board noted the following continuing issues:

(a) **Insufficient information provided to UNICEF on donations not transferred to it.** According to the audited financial statements of one National Committee for the fiscal year ended on 30 June 2012, the Committee had $3.47 million in grants payable to other non-governmental organizations. UNICEF did not provide the Board with evidence to determine whether or not the funds transferred to other non-governmental organizations belonged to UNICEF. The Fund indicated that reliance is placed on the external auditors of the Committee to ensure that all transfers to entities other than UNICEF are done in compliance with national legislation governing charities and in accordance with the conditions, if any, placed by the original donor. The Board considers that, in light of the observed deficiencies in the revenue recognition process of National Committees in both the biennium 2010-2011 and in 2012, including but not limited to the errors in the revenue and expenditure reports certified by the external auditors of the National Committees, UNICEF needs to take steps to assure itself of the accuracy of the donations not transferred by National Committees;

(b) **Errors in the revenue and expenditure reports of National Committees.** During the biennium 2010-2011, the same National Committee mentioned above reported $181.82 million in in-kind contributions to UNICEF in its 2010 and 2011 revenue and expenditure reports as well as similar donations of $64.21 million as in-kind contributions in its 2012 provisional revenue and expenditure report. The Board noted that none of these in-kind contributions were contributed to or used in the Fund's programmes;

(c) **Investment income differences between the revenue and expenditure report and the audited financial statements.** Currently, investment income from the National Committees should be included in the revenue and expenditure report and be recognized by UNICEF. The Board noted that, according to their revenue and expenditure reports, the 2011 investment income from three National Committees amounted to $62,607, while the corresponding figure in 2011 audited financial statements amounted to $906,862, resulting in a difference of $844,255. This difference affected the accuracy of the revenue recognized in the Fund's financial statements.

23. The Board considers that the continued deficiencies in the recognition of revenues and expenditures from National Committees need to be addressed by UNICEF as soon as possible in order to ensure the completeness and accuracy of the disclosed revenue and expenditure figures, and that greater efforts are needed to maintain effective oversight of the use of donations by National Committees.

24. **The Board recommends that UNICEF enhance its monitoring of contributions to ensure the completeness and accuracy of reporting on revenue owed to UNICEF by the National Committees.**

25. UNICEF agreed that monitoring would be enhanced and that investment income should be clearly disclosed in the revenue and expenditure reports. The Fund will follow up with the National Committees in 2013.

26. The Board considers that, in order to ensure accuracy with respect to funds that belong to UNICEF, UNICEF have in place precise agreements between the original donors and the National Committees so that the ownership of the funds raised by the Committees can be clearly determined. In its previous audit, the Board requested UNICEF to provide the agreements regarding the funds raised by the Committees on behalf of and for UNICEF, but was informed that the Committees would not provide those agreements.

27. UNICEF indicated that although they are not a party to the transactions between the National Committees and their donors, based on the Board's recommendation, the Fund has started to obtain copies of donor agreements for donations greater than $100,000. However, only three sample agreements were provided to the Board during the 2012 audit.

Inappropriate treatment of enforceable agreements as contingent assets[1]

28. According to International Public Sector Accounting Standard 23 (Revenue from Non-Exchange Transactions (Taxes and Transfers)), an entity shall recognize an asset when and only when: (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and (b) the fair value of the asset can be measured reliably.

29. According to note 34 to the draft 2012 financial statements, as at 31 December 2012, UNICEF had a total amount of $1.09 billion in contingent assets related to multi-year grant agreements with performance or termination/reduction clauses. The Board reviewed the grant agreements in relation to contingent assets, and noted that, for some of the agreements, the performance clause contained a requirement for UNICEF to provide the donors with a financial/narrative report or an official request for payment (or budget proposal) before funds are released to UNICEF.

30. The Board is of the view that the above-mentioned performance clause is enforceable and that, in fact, UNICEF is able to collect almost all of the contributions based on past experience. Therefore, enforceable grant agreements that meet the criteria of assets under IPSAS should be recognized by UNICEF as assets in the financial statements.

31. In the light of the Board's findings, UNICEF conducted a thorough review of the grant agreements with performance or termination/reduction clauses and adjusted the financial statements by recognizing a total amount of $513.3 million as contributions receivable and deferred revenues.

32. Nevertheless, the Board is of the view that UNICEF should improve its preparation and review process so that it can detect such matters at an early stage, thus improving the quality of its financial information.

Inappropriate/lack of adjustment of opening balances of contributions receivables

33. During the preparation of IPSAS opening balances, UNICEF planned to record unearmarked contributions (regular resources) from National Committees only when cash was received, despite these revenues being recognized on an accruals basis

[1] A contingent asset is a possible asset that is not wholly within the control of the organization. If it has become virtually certain that an asset is no longer contingent and that its value can be measured reliably, the asset is recognized in the period in which the change occurs.

under UNSAS according to year-end revenue and expense reports provided by National Committees. Owing to this change in accounting policy, UNICEF reversed the accounts receivable relating to regular resources from the National Committees.

34. The Board is of the view that recording regular resources from National Committees based on the receipt of cash is not in compliance with IPSAS. Reversing the accounts receivable from National Committees and any associated allowance for doubtful accounts would have understated the 2012 opening balance for contributions receivable. Following the audit, UNICEF changed its accounting policy, recognizing the opening balance of contributions receivable relating to regular resources with an amount of $252.74 million on its account books.

35. The Board also noted that UNICEF planned to record earmarked (other resources) contributions from National Committees only when cash was received, as was done under UNSAS. The Board also considered that this was inconsistent with IPSAS and that UNICEF needed to recognize the difference between other resources contributions recognized in the prior period and the amount due to UNICEF in the preparation of the 2012 opening balances. UNICEF changed its accounting policy to comply with IPSAS to record other resource contributions from National Committees, recognizing an amount of $122 million of other resources contributions receivable in its 2012 opening balances.

4. Oversight of National Committees by the United Nations Children's Fund

36. National Committees, which are partners of the Fund, were established for the purpose of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. By the end of 31 December 2012, there were 36 National Committees globally, collectively raising around one third of UNICEF's annual income.

37. Given the significance of the contributions of National Committees to UNICEF, the Board continued to review their relationship with the Fund, the implementation of cooperation agreements and the Fund's monitoring and oversight of their activities. While noting some improvements, such as the issuance of guidelines on reserves and funds conversion, the Board continued to note deficiencies.

High retention rate by the National Committees

38. The cooperation agreement between UNICEF and the National Committees provides that the Committees may retain up to 25 per cent of their gross proceeds to cover the costs of their activities. The Board noted that in the period from 2006 to 2012, 36 National Committees collected a total amount of $8.35 billion in gross donations. Of that amount, the Committees retained $2.39 billion (29 per cent) to cover their expenses and transferred $5.96 billion (71 per cent) to UNICEF. During the same period, of the top 10 Committees in terms of retention amounts, 6 had retention rates of more than 30 per cent, ranging from 31 to 61 per cent (see annex II).

39. In the Board's view, high retention rates are indicative of weakness in the Fund's oversight of National Committees. According to the cooperation agreement, UNICEF and the National Committees are required to sign joint strategic plans to ensure that the operations and activities of the National Committees are planned in collaboration with UNICEF. It is at that time that the retention rates of the National

Committees are determined. UNICEF coordinates with the Committees to update the joint strategic plans every three years, and conducts reviews on an annual basis to appraise the actual performance of the Committee against the retention rate.

40. The Board reviewed UNICEF oversight of the retention rates of the National Committees, and noted the following:

(a) **Lack of or delay in updating joint strategic plans to determine an appropriate retention rate.** At the time of the audit, 10 National Committees had no joint strategic plans or outdated joint strategic plans with UNICEF. In the case of one National Committee, a joint strategic plan had not been signed since its establishment in 1947. In addition, two National Committees had not updated their joint strategic plans for more than three years (see annex III). UNICEF explained that, in consultation with the National Committees, it has introduced a new joint strategic plan process that will be implemented from June 2013;

(b) **Lack of or failure to achieve specified retention rates in joint strategic plans.** The Board noted that UNICEF had not specified the retention rate in the 2012 joint strategic plan with one National Committee. UNICEF explained that it did not set the retention rate in the plan in this specific case because it considered that the Committee was unlikely to achieve the target retention rate of 25 per cent during the first year of the cooperation agreement. In addition, the actual retention rates of 10 National Committees were higher than the agreed rates in the joint strategic plans, with variances ranging from 1 to 22 per cent. UNICEF explained that the 22 per cent variance was mainly due to the small size of the Committee, which had annual gross revenue of $0.62 million;

(c) **Insufficient annual review of the retention rates of National Committees.** In 2012, UNICEF did not conduct the annual review of the performance of eight National Committees as required by the cooperation agreement, primarily because of the lack of joint strategic plans with those Committees.

41. **The Board recommends that UNICEF: (a) accelerate the process of developing, updating and signing joint strategic plans with National Committees; (b) specify the retention rates in all joint strategic plans with National Committees; and (c) conduct annual reviews of the performance of National Committees in a timely manner.**

42. UNICEF commented that the new joint strategic plan process being implemented from June 2013 will address the concerns of the Board.

High administrative expenses in some National Committees

43. According to the cooperation agreements between UNICEF and National Committees, the primary objective of their fundraising efforts is to maximize their net financial contributions to the Fund’s programmes for children. The Board noted, in its previous audit, that according to the financial statements of some National Committees, administrative expenses appeared to be high.

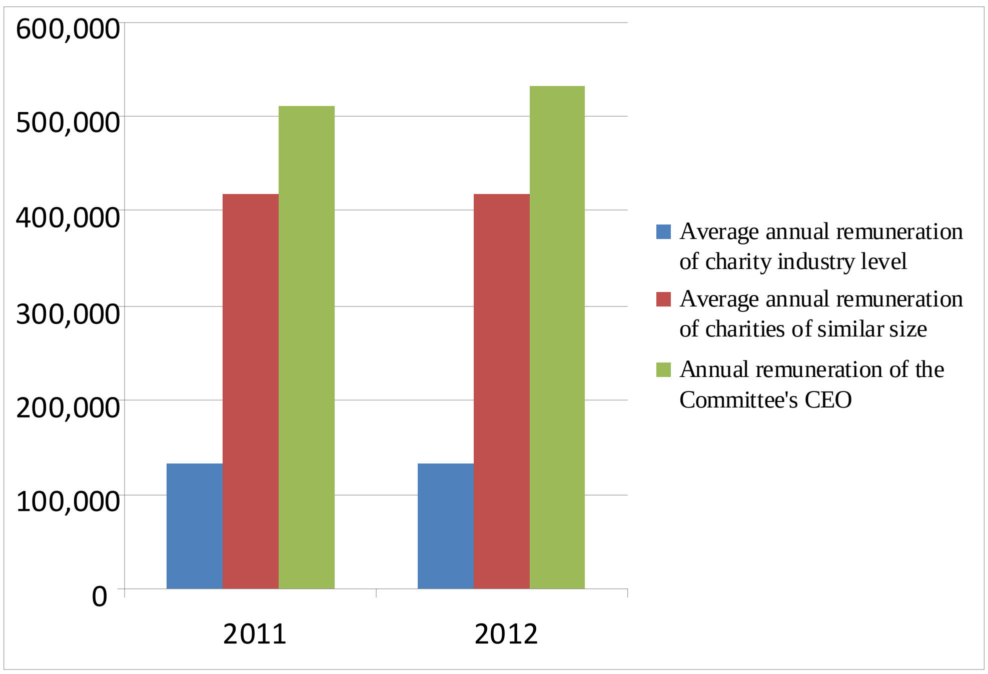
44. In 2012, there were 10 National Committees with contributions of over $20 million and with actual retention rates of over 30 per cent. The high retention rate was partly attributed to the high administration costs of those Committees. For instance, the administration costs of one National Committee accounted for 34 per

cent of its expenditure. Another Committee retained $12.35 million to cover its administration costs.

45. The Board noted that the remuneration of senior management employees at some National Committees is higher than the average remuneration levels in charity organizations in their respective countries. For instance, for the year ended 30 June 2012, the total remuneration for the 12 highest paid employees in one Committee was $3.51 million (or 28 per cent of general and administration costs), with an average salary of $292,084. The Board noted the annual remuneration of its chief executive officer was $532,291, nearly four times the average level among national charity organizations of $132,739 per annum[2] or 27 per cent higher than the average remuneration of $418,324 for chief executive officers of similar-size charities (see figure below).

Comparison of annual remuneration of the chief executive officer of one National Committee with the average industry level for 2011 and 2012

(United States dollars)



Source: Tax form of the National Committee for 2011 and 2012.

46. The Board noted that during the annual review of the performance of the National Committees, UNICEF had not conducted any assessment of the appropriateness of administration costs. The Board considers that UNICEF should actively challenge administration costs in order to maximize the contributions of the Committees.

[2] As stated on the website of Charity Navigator (http://www.charitynavigator.org/__asset__/studies/2012_CEO_Compensation_Study_Final.pdf), the average compensation of chief executive officers of charity organizations in the country in question is $132,739.

47. **The Board recommends that UNICEF conduct assessments and strengthen monitoring of the administrative expenditures of the National Committees with a view to maximizing the resources to be used in UNICEF programmes for children.**

48. UNICEF commented that the above-mentioned National Committee has a compensation committee which commissioned an independent study of compensation for senior executives. That committee had concluded that current total compensation provided to its senior executives was competitive and reasonable.

National Committees' advocacy and education for development activities

49. The cooperation agreements permit National Committees to use up to a maximum of 5 per cent of their gross proceeds for child rights advocacy and education for development, while keeping a balance between domestic and international advocacy. The Board previously noted that UNICEF is unaware of the costs of Committee activities relating to advocacy and education since the Committees are not required to disclose such costs either in their financial statements or in their revenue and expenditure reports to UNICEF. During the period under review, the Board noted once again that relevant advocacy and education for development costs were still not being reported separately in the revenue and expenditure reports of National Committees. For that reason, it was not possible for UNICEF to evaluate whether the maximum of 5 per cent of gross proceeds for advocacy was being met or not. The Board noted some cases where the 5 per cent ceiling was not strictly followed.

50. **The Board recommends that UNICEF coordinate with the National Committees to ensure that advocacy and education for development costs are discretely reported and that advocacy resources are used by the Committees for the benefit of the most disadvantaged children.**

51. UNICEF commented that it planned to implement a new revenue and expenditure report format in 2014, which would include explicit coverage of advocacy activities.

Monitoring of the reserves of National Committees

52. According to the Reserves Guidance for National Committees, "reserves" are part of the funds of National Committees that have been accumulated over time for specific purposes and remain unspent. Reserves may be classified as "statutory" or "non-statutory" reserves. Non-statutory reserves are those funds maintained by a National Committee but for which there is no underlying legal or regulatory requirement.

53. The Board reviewed the Fund's monitoring of the reserve policies of the National Committees and noted the following deficiencies:

(a) **Inconsistency in the reserve levels maintained by the National Committees**. The Reserves Guidance for National Committees provides that the Committees shall keep their reserves at a reasonable level, normally at the level of three-month's operating expenditures. The Board noted that UNICEF had not analysed whether the National Committees maintained reserves at reasonable levels. By the end of 2012, 16 Committees (44 per cent) had reserve balances above their quarterly expenditures, with three having reserve balances in excess of their annual expenditures (see in annex IV). UNICEF explained that the reserves of two out of the three Committees related primarily to amounts set aside for capital projects. The reserves of the other Committee related to net assets that were in the process of being transferred from an old National Committee to a new legal entity;

(b) **Some National Committees have significant discretion to retain non-statutory reserves**. One National Committee insisted on retention of an additional €200,000 as a special purpose reserve in 2012 to develop a new approach to falling product sales, despite having a €5.4 million statutory reserve. Another Committee had a reserve of just under $30 million, around half of which was not subject to any legal restriction or commitment.

54. Insufficient monitoring of the reserve policies of National Committees could lead to excessive reserve levels, reducing funds available for the support of UNICEF activities and programmes.

55. **The Board recommends that UNICEF strengthen its monitoring of the reserve policies of National Committees to challenge high levels of reserves and ensure that sufficient funds are available for UNICEF to fulfil its mandates.**

Monitoring of funds converted by the National Committees

56. The cooperation agreements between UNICEF and the National Committees provide that conversions of regular (unrestricted) resources to other (earmarked) resources should be carried out only in accordance with the policies approved by the governing boards of the Committees, and that the Committees must consult with UNICEF when conversions to other resources of amounts of more than $50,000 are planned.

57. The Board previously noted that the Fund's oversight of funds conversion by National Committees was insufficient. The Board reviewed the efforts of the Fund to address this issue and noted that in early 2012 it had issued new guidance, which provides that conversions of regular resources to other resources should be limited to up to 10 per cent of a National Committee's overall regular resources. However, by the time of audit, UNICEF still had no information regarding the total amount converted by each National Committee in order to determine whether the conversions made were in fact below 10 per cent of its regular resources.

58. In addition, the Board noted some cases where fund conversions by National Committees might weaken the discretion of UNICEF concerning the allocation of funds to its programmes, including lack of evidence as to whether funds had been converted even in cases where agreed by UNICEF. Insufficient monitoring of funds conversion could reduce regular resources and is contrary to the UNICEF policy of maximizing regular resources for children. In addition, fund conversions may violate the original intention of donors and negatively affect future fundraising.

59. **The Board recommends that UNICEF continue to strengthen the monitoring of the conversion by National Committees of regular resources to other resources in order to maximize the amount of unrestricted funds for UNICEF.**

60. UNICEF commented that with the implementation of the new revenue and expenditure report for 2013, it will determine the amounts that can be converted from regular resources to other resources by National Committees. In the meantime,

National Committees will continue to consult and obtain agreement from UNICEF before carrying out such conversions.

Unconditional rights to use donations granted to one National Committee

61. In its previous report, the Board noted that in 2011 UNICEF had signed an amendment to its cooperation agreement with one National Committee to grant the unconditional right to use donations raised in the name of UNICEF. In addition, $377 million in donated medicine had been raised by the Committee in the name of UNICEF to eliminate blinding trachoma as part of a global programme that was not a UNICEF programme. The Board had therefore expressed its concern over the fact that UNICEF may be unaware that National Committees may be claiming to raise funds for and on behalf of UNICEF but in reality allocating funds to non-UNICEF programmes that UNICEF cannot effectively oversee. In the process, the Fund's reputation may be exposed to risk. Although the Board recommended strengthened action by UNICEF to monitor such instances, the same issue reappeared in relation to the same National Committee in 2012, this time regarding $61.49 million in donated medicine.

62. UNICEF explained that its relationship to the above-mentioned National Committee is based on carefully thought through decisions, reflecting a careful analysis of added value and benefits to UNICEF and programmes/initiatives in support of children.

63. **The Board recommends that UNICEF carefully monitor donations that are raised under the name of UNICEF but are not used in UNICEF programmes to avoid risk to its reputation.**

Management of investment funds

64. UNICEF provides investment funds to National Committees and country offices in cases where there are significant opportunities to increase revenue efficiently, especially regular resources. The Board reviewed one of UNICEF's main investment funds, its Fundraising Development Programme, which focuses on supporting fundraising activities and requires a return on investment in a ratio of at least 3 to 1 within 36 months.

65. In 2012, through the Fundraising Development Programme, amounts of $27.4 million and $9.1 million were provided to National Committees and country offices, respectively. The Board reviewed UNICEF's monitoring of the funds disbursed through the programme and noted the following deficiencies:

(a) **Releasing Fundraising Development Programme funds to National Committees without a joint strategic plan**. According to UNICEF's management guidelines, Fundraising Development Programme funds should only be provided to National Committees with valid joint strategic plans, however, in 2012, UNICEF released a total amount of $12.6 million in such funds to nine National Committees without joint strategic plans;

(b) **Allocating Fundraising Development Programme funds without considering reserves maintained by the National Committees**. In 2012, UNICEF provided Fundraising Development Programme funds totalling $1.47 million, $3.33 million, $0.97 million and $4.44 million to four National Committees, each of which had reserve balances of more than $15 million at the end of 2011 and 2012;

(c) **Insufficient performance review of the Fundraising Development Programme funds provided to National Committees**. A variance of 10 per cent or more from the required minimum return on investment of 3 to 1 should trigger a review by UNICEF of National Committees or country offices. The Board reviewed all 38 reports submitted by National Committees and noted that 15 reports had a return on investment lower than that expected by more than 10 per cent, but with no evidence that UNICEF carried out any review to optimize investment revenue;

(d) **Insufficient evidence to substantiate the linkage between the contribution and the Fundraising Development Programme funds**. The Board noted that UNICEF calculated the return on investment of Fundraising Development Programme funds according to reports from National Committees but without obtaining sufficient evidence to substantiate that the return directly resulted from the specific fundraising project.

66. **The Board recommends that UNICEF strengthen its monitoring of Fundraising Development Programme funds and evaluate the performance of the programme to substantiate the judgement that the contribution of programme funds meets the required minimum return on investment.**

Insufficient monitoring of National Committee investments

67. The cooperation agreements between UNICEF stipulate that National Committees are allowed to adopt only low-risk investment policies to safeguard any assets they hold on behalf of the Fund. Low-risk investments include bank accounts, money market funds or certain government bonds. The investment period is generally supposed to be short term (less than one year) to medium term (two to five years). The Board noted that:

(a) **A lack of overall information on the investments of National Committees**. Cooperation agreements have no detailed provisions requiring National Committees to receive investment approval from UNICEF or to report investment details on a regular basis. UNICEF did not know whether National Committees have controlled the investment risks properly and whether they have preserved or increased the value of investment assets;

(b) **Some National Committees made long-term high-risk investments**. The Board noted that one National Committee had an investment of $3.29 million at the end of 2011, including five kinds of bonds. The period for one bond, 23.5 years, was inconsistent with the provision of short- to medium-term investment periods in the cooperation agreement. Another Committee had total investments of $31.88 million, including $7.32 million in equity securities, which is inconsistent with the low-risk investment policies set by UNICEF.

68. **The Board recommends that UNICEF: (a) require National Committees to report periodically on their investment activities to UNICEF; and (b) strengthen monitoring of the investment activities of National Committees to ensure compliance with a policy of low-risk investment to safeguard any assets held on behalf of UNICEF.**

5. Budget management

69. UNICEF budgets include programme budgets, institutional budgets and the budget of the Private Fundraising and Partnerships Division:

(a) Programme budgets are approved by the Executive Board for the implementation of programmes for women and children. For the year ended 31 December 2012, the total expenditure and commitment of programme budgets amounted to $3.29 billion, including $2.17 billion for country programmes, $908.88 million for emergency programmes and $209.26 million for advocacy, programme development and intercountry programmes;

(b) The institutional budget includes all costs that are not directly attributable to a particular programme, but are necessary to maintain a UNICEF presence in a country, including management and administrative costs at headquarters. For 2012, the expenditure and commitment of the institutional budget totalled $462.49 million (excluding the Private Fundraising and Partnerships budget);

(c) The Private Fundraising and Partnerships budget mainly covers expenses related to the private fundraising and sales activities of UNICEF. For 2012, expenditure and commitment of the budget amounted to $111.35 million.

70. The Board examined whether: (a) the justifications for requesting financial resources were sufficient; (b) the budget had been used for the intended purposes; and (c) the results were adequately reported so that the governing bodies could obtain a full picture of the objectives achieved and the resources utilized.

Budget formulation

71. Results-based budgeting requires that a budget include a number of key elements, including expected results (what will be achieved), activities (what will be undertaken), indicators (how to measure achievements against input) and financial resources requested (the amount of resources required). The Board considers that any deficiencies in such information would lead to an incomplete and not fully justified budget.

72. The Board previously noted that advocacy, programme development and intercountry programme budgets were not supported by detailed activities and results. As a result, the actual expenditure for UNICEF headquarters amounted to 162 per cent of the ceiling, and the difference between the actual expenditure and initial approved ceiling was covered by redeployed resources from advocacy and programme development for seven regions and intercountry programmes. During the audit, the Board continued its review of the budget formulation process and noted the following:

(a) **Insufficient consideration of historical trends in budget formulation**. The Board noted that in the bienniums 2008-2009 and 2010-2011, UNICEF spent $82.22 million and $39.46 million, respectively, on intercountry programme activities, representing 51 per cent and 25 per cent of the approved “other resource” ceilings for those programmes. Nevertheless, for the biennium 2012-2013, UNICEF requested an “other resource” ceiling of $200 million for intercountry programmes. Similarly, the Office of Emergency Programmes, the Information Technology Solutions and Services Division, the Division of Human Resources and the Office of the Executive Director spent only a small portion of their “other resource” ceilings during the bienniums 2008-2009 and 2010-2011. Despite that low utilization rate in the last two bienniums, the ceilings of three of the four entities listed above were not adjusted for the biennium 2012-2013. The Board noted that $1.97 million was redeployed from the Office of the Executive Director to the Change Management Office and the Division of Governance, United Nations and Multilateral Affairs, which had no advocacy or programme development budget approved for the biennium 2012-2013;

(b) **Lack of results and detailed activities to justify the estimated resource requirement**. The Board noted that the $200 million "other resource" ceiling for intercountry programmes was not supported by any documented expected results or detailed activities. The ceiling was established to ensure that the organization would always have a ceiling under which to accept funds. The Board examined the budget submission of headquarters offices and generally noted that the proposed "other resource" ceiling was not supported by a full analysis of the expected results and detailed activities. For example, out of $5 million in the budget for the Division of Human Resources, there was a line item of $4.22 million without detailed activities.

73. Clear and well justified assumptions (such as expected results and activities) are vital in the formulation of an effective budget or resources estimate. Such assumptions should take into account both historical trends and foreseeable factors during a budget period. Lack of results and detailed activities with respect to the advocacy, programme development and intercountry programme budget would make it difficult for UNICEF to monitor the implementation of relevant programmes as well as the utilization of resources.

74. **The Board recommends that UNICEF ensure that its divisions and offices comply with its guidance in relation to programme budget proposals by stipulating that the required resources are fully justified by detailed activities to be carried out to achieve the planned outcomes and by historical trends.**

75. UNICEF commented that it had issued guidance on the preparation of the management plans of its divisions and offices for the period from 2014 to 2017, which requires them to include detailed activities and outcomes based on actual requirements and reasonable estimates of resources available when preparing programme budget proposals.

Fragmented budgets for some headquarters divisions and offices

76. Generally speaking, budgets of divisions and offices should be formulated and presented for approval in an integrated manner, so that the governing body can get an overall picture of the results to be achieved as well as the resources required. The Board has previously noted that the budgets of some divisions and offices at UNICEF headquarters have been submitted for the approval of the Executive Board in separate documents (such as the biennial support budget and advocacy, programme development and intercountry programmes).

77. The Board noted the same issue in 2012. For example, the budget for the Division for Private Fundraising and Partnerships for 2012 comprised three parts: an institutional budget of $11.8 million; an offset budget of $130.4 million; and an intercountry programme budget of $0.86 million. The Board reviewed the three budget documents for the Division and noted that the expected results set out in its institutional budget and intercountry programme budget were nearly identical.

78. Similarly, the Board noted that the budgets of a number of offices and divisions also comprised two parts: the institutional budget and the advocacy and programme development budget (see table II.2).

Table II.2
Budget for four UNICEF headquarters divisions/offices
(Thousands of United State dollars)

	Office of Public Alliances and Resources Mobilization	*Information Technology Solutions and Services Division*	*Office of the Executive Director*	*Division of Human Resources*
Advocacy and programme development	1 300	1 000	5 600	5 000
Biennial institutional budget	20 923	49 345	13 213	30 123

Source: Data provided by UNICEF.

79. UNICEF stated that action had been taken to address this issue, including through the issuance of guidance on the preparation of the office management plans for 2014-2017, which will integrate results and resource requirements of each division and office for approval by the Executive Board.

80. **The Board reiterates its previous recommendation that UNICEF review its current budget preparation methodology to ensure that budgets are prepared and presented in an integrated manner so that the Executive Board may obtain an overall picture of the institutional and programme resources needed to achieve the expected objectives.**

Funding operational expenditures with the programme budget

81. UNICEF works to achieve its mandate through a number of activities, including programme and management activities. According to the Fund's Financial Regulations and Rules, programme activities include activities corresponding to specific programme components or projects, which contribute to the delivery of development results contained in country, regional or global programme documents or other programming arrangements. Management activities include activities relating to executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources. Programme activities are funded by programme budgets, while costs associated with management activities are covered by the institutional budget.

82. The Board noted that in its 2012-2013 institutional budget UNICEF has provided $323.8 million for oversight, management and operational support of its field offices. In addition to the resources provided, the Board noted that 19 sampled country offices incurred a total amount of $91.65 million in operational expenditures in 2012 (office rent, utilities, administration, finance and human resources), which were funded through country programme budgets. Those expenditures contributed to the programme component result — support, which meant that they did not relate to specific programmes or projects and should have been covered under the institutional budget. Similar observations were also noted during field visits to the country offices in the Sudan, Zimbabwe and Viet Nam. For instance, at the Sudan country office, as at 20 November 2012, $9.97 million from the programme budget had been utilized by operational sections (finance, human resources, information technology and operations).

83. The Board analysed the operational posts at country offices, and noted that this issue could be partly attributed to the lack of defined parameters for determining the appropriate operational post level at country offices. As at 31 December 2012, UNICEF had a total of 9,575 posts at country offices globally,[3] of which 1,794, or 19 per cent, were operational posts (see table II.3 and table II.4). The proportion of operational posts at the country offices varied significantly from 10 per cent (Chile, Equatorial Guinea and the Republic of Moldova) to 37 per cent (Peru).

Table II.3
Percentage of operational posts to total posts at UNICEF country offices
(by the year ended 31 December 2012)

Total number of posts	*Range of operational posts (percentage)*	*Highest proportion (by country office)*	*Number of operational posts*	*Percentage of operational posts*
More than 100	12-25	Brazil	26	25
		Somalia	81	25
		Iraq	39	23
50 to 100	13-29	Bolivia (Plurinational State of)	20	29
		Occupied Palestinian Territories	20	25
		Philippines	18	23
Less than 50	10-37	Peru	16	37
		El Salvador	7	35
		Oman	3	33

Table II.4
Distribution of operational posts to total posts at country offices
(by the year ended 31 December 2012)

Scope of operational posts (percentage)	*Number of country offices*
0-20	70
20-30	43
30-40	7
Total	**120**

84. The Board also noted that 85 staff members working in fundraising activities at 17 country offices were funded from the country programme budget, with total gross salaries of $3.8 million in 2012. The Board is of the view that the resource mobilization function is actually a management activity that should have been funded out of the institutional budget.

85. The Board is concerned that using the programme budget to cover operational expenditures that do not relate to specific programmes or projects will divert resources away from the implementation of UNICEF programmes and potentially mislead the Governing Body about how resources have been utilized.

[3] Excluding country offices in Jordan, Kenya, Nepal, Panama, Senegal and Thailand, whose operation services may be carried out by an operation section shared with the regional offices.

86. **The Board recommends that UNICEF: (a) analyse the parameters for determining the appropriate level of operational posts at country offices; and (b) monitor and control the use of the programme budget by country offices to cover operational expenditures not associated with specific programmes or projects.**

Funding headquarters management functions with the programme budget

87. In September 2011, the Executive Board approved the 2012-2013 budget for advocacy, programme development and intercountry programmes with a total amount of $665.51 million. Those resources permit UNICEF to more effectively pursue the key results and targets of the five organizational focus areas of the midterm strategic plan for 2006-2013.

88. The Board noted that in the 2012-2013 advocacy, programme development and intercountry programme budget, six headquarters divisions and offices performing management functions (see table II.5) were allocated resources despite the Fund's Financial Regulations and Rules, which require that costs associated with those functions be covered by the institutional budget. Total resources approved for these six divisions/offices include the allocation of regular resources of $2.3 million and a ceiling of $78.6 million in "other resources".

Table II.5
Advocacy and programme development budget approved for six divisions/offices at UNICEF headquarters for 2012-2013
(Thousands of United States dollars)

	Approved allocation of regular resources	*Approved ceiling of other resources*	*Total*
Public Sector Alliances and Resource Mobilization Office	100	1 200	1 300
Private Fundraising and Partnerships Division	600	1 200	1 800
Information Technology Solutions and Services Division	–	1 000	1 000
Office of the Executive Director	600	5 000	5 600
Division of Human Resources	–	5 000	5 000
Supply Division	1 000	65 200	66 200
Total	**2 300**	**78 600**	**80 900**

Source: Data provided by UNICEF.

89. The Board also noted that, in 2012, the Division of Human Resources and the Division of Communication had a total of 314 contracts with consultants and individual contractors at a cost totalling $6.96 million, funded by the programme budget. Of that total cost, $602,438 was charged to the programme budget of country or regional offices. While UNICEF explained that these divisions/offices contributed, to some degree, to the achievement of the targets of the midterm strategic plan, the Board is of the view that the programme budget is intended to provide funds for programmes for women and children and should not cover costs that are not directly attributable to a particular programme or project.

90. **The Board recommends that UNICEF ensure that resource requirements related to management functions are presented for approval and covered under the institutional budget.**

Thematic fund used in a cross-thematic manner or to cover operational costs

91. The thematic fund is a kind of earmarked contribution provided by donors to support the achievement of results in thematic areas, such as education or child protection. Currently, UNICEF has the following six thematic funding schemes related to humanitarian response and to five of the Fund's focus areas under the midterm strategic plan, through which contributions are received and allocated: (a) young child survival and development; (b) basic education and gender equality; (c) HIV/AIDS and children; (d) child protection from violence, exploitation and abuse; and (e) policy advocacy and partnership for children's rights. Thematic contributions for the focus areas are received against programmes approved by the Executive Board, and thematic humanitarian contributions are received against valid humanitarian appeals.

92. The Board reviewed the 2012 utilization report of the global thematic funds relating to the five focus areas of the midterm strategic plan and noted that some contributions were used in a cross-thematic manner or were used to cover operational costs. In 2012, total expenditures relating to the five thematic funds amounted to $219.04 million, of which $6.83 million (or 3 per cent) were used for operational activities (such as administration, finance and human resources), which should be covered by the institutional budget; and $22.97 million (11 per cent) were used in a cross-thematic manner. For instance, in 2012 actual expenditures of the thematic fund, for basic education and gender equality, amounted to $135.55 million, of which $5.16 million or 4 per cent was used for operational activities and $16.64 million or 12 per cent for child protection, HIV/AIDS, policy advocacy and child survival areas.

93. The Board is of the view that the controls over the use of thematic funds are inadequate. Using thematic funds in a cross-thematic manner or using them to cover the cost of operational activities could affect the implementation of the programme activities in relevant focus areas.

94. **The Board recommends that UNICEF strengthen its internal controls to ensure that thematic contributions are used as specified in the funding agreements.**

Inadequate disclosure of management and administrative costs in the financial statements

95. According to the draft financial statements of UNICEF for the year 2012 (see statement V. Statement of comparison of the budget to actual amounts), expenditures under the institutional budget amounted to $462.49 million, accounting for 12 per cent of total expenditure of $3.87 billion. The Board noted, however, that the $462.49 million in the draft financial statements did not provide a full picture of the management and administrative expenditures incurred by UNICEF in 2012 as at least a total amount of $95.45 million was excluded, as follows:

(a) A total amount of $91.65 million in operational expenditures incurred by 19 sampled country offices which were charged to the programme budget;

(b) $3.8 million costs for fundraising staff through the use of the programme budget by 17 country offices.

96. The Board also noted that since the unaudited statement V did not provide sufficient or clear information on the scope and nature of the budgets and main cost categories, it might lead to the misunderstanding that the institutional budget expenditure reflected all of the management and administrative costs of UNICEF, which would affect the evaluation and decision-making of the Executive Board and other relevant stakeholders.

97. In light of the audit, UNICEF provided further disclosures to its financial statements.

Lack of performance reports on the implementation of the institutional budget

98. UNICEF's institutional budget (previously named the biennial support budget) is prepared in a results-based budgeting format, reflecting organizational accountabilities articulated against results, with clear alignment among planned actions, performance indicators and targets and proposed budgets. It follows a harmonized framework agreed upon with the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA), whereby key management results are organized under four cost classification categories. The Board previously noted that UNICEF did not provide its Executive Board with a separate performance report on the biennial support budget, which prevented the Executive Board from obtaining an overall picture of the implementation of activities under the support budget or of the results achieved.

99. For 2012, UNICEF disclosed a comparison of budget to actual in its financial statements, but did not provide its Executive Board with a performance report that linked the implementation of the budget with the achievement of the results set out in the institutional budget.

100. **The Board recommends that UNICEF continue to improve its performance reporting mechanism to the Executive Board by linking the utilization of institutional budget resources with the achievement of the expected results.**

6. Programme and project management

Programme planning

101. Programme planning is the process by which an organization formulates its objectives and establishes its programme of work to meet those objectives. Effective programme planning enables an organization to set appropriate goals and to put in place effective plans to achieve them. Those processes should also enable an organization to measure outcomes, determine whether it is using its resources effectively and hold people to account for the effective use of resources.

102. The annual workplans of UNICEF country offices are documents that are used by government counterparts and other partners to implement activities and request resources from the Fund. The annual management plan is a separate tool for managing the daily operations of country offices. Deficiencies in the formulation of such plans, or delay in their implementation, have an impact on the fulfilment of the expected goals of country offices.

103. The Board, which has previously noted the use of inappropriate targets in annual work and management plans, and the partial implementation of the plans at some field offices, still finds the following deficiencies:

(a) **Lack of/unjustified information in the workplans**. At the country office in the Sudan, planned activities in some annual workplans lacked descriptions of the parties responsible for carrying them out. At the country office in Brazil, the cost estimates for some activities in the workplans was not well justified;

(b) **Delays in preparing work and management plans**. At the country offices in the Sudan and Viet Nam, the annual or multi-year workplans had not been signed in a timely manner in accordance with the requirements of the Programme Policy and Procedure Manual. At the country office in the Sudan, the annual management plan was completed and submitted to the regional office 231 days after the due date;

(c) **Delays in implementing work and management plans**. At the country office in Viet Nam, 12 out of 16 multi-year workplans for 2012 were not approved until 30 October 2012, well past the deadline set out in the UNICEF Programme Policy and Procedure Manual, and, as a result, the implementation rates for four programmes were only 45 per cent, 40 per cent, 33 percent and 24 per cent as at 30 September 2012. At the country office in the Sudan, under the eight management indicators in the 2012 annual management plan, three were not achieved.

104. The country office in Brazil explained that a comprehensive quality assurance process was being implemented to review all workplans prior to approval in order to adhere to SMART (specific, measurable, achievable and attributable, relevant and realistic, time-bound, timely, trackable and targeted) criteria and to ensure accurate costing of activities. The country office in Viet Nam explained that multi-year workplans were monitored through mid-year and end-year reviews to assess progress and achievement. Other country offices had also taken measures to address the above-mentioned issues following the audit.

105. UNICEF also explained that planned outcomes require implementation not only of activities supported by UNICEF, but also of other activities that are funded and normally implemented by Governments at national and local levels.

106. **The Board recommends that UNICEF require its country offices to: (a) comply with the provisions of the UNICEF Programme Policy and Procedure Manual in relation to the preparation of workplans and annual management plans; and (b) in coordination with implementing partners, review work and management plans to expedite implementation of planned activities to ensure that all the targets are met.**

Monitoring and evaluating of programme activities

107. During the work-planning phase, UNICEF has a range of collaborative arrangements with partners to support timely and successful implementation of its projects, including cash transfers, technical assistance and programme support and the provision of equipment and supplies. During the period under review, 133 UNICEF country offices and regional offices made $1.1 billion in cash transfers to the Fund’s implementing partners, accounting for 30 per cent of total expenses in 2012 ($3.62 billion). To minimize the risk of fraud and error, and to maximize the level of successful implementation, it is vital that UNICEF operate an effective system of

oversight through monitoring and evaluating the performance of its implementing partners. The Board reviewed the monitoring and evaluating of programme activities at country offices including monitoring of the utilization of direct cash transfers, and noted the following weaknesses.

Capacity assessment and assurance activities in relation to cash transfers

108. Macroassessments, microassessments, scheduled audits, programme visits and spot checks are used to assure the Fund that cash transfers are properly utilized. In its previous report, the Board noted that at some field offices such activities were insufficient. Inadequate microassessments may impair the judgement of a country office regarding the internal control system used by an implementing partner. The functionality of such systems is the basis for determining the modalities and procedures for cash transfers, as well as the scale of assurance activities, and insufficient spot checks and scheduled audits of such systems could result in a failure to obtain sufficient assurance regarding the proper utilization of cash transfers to implementing partners.

109. Based on field visits to four country offices, as well as a review of the implementation of the global harmonized approach to cash transfers,[4] the Board identified a number of weaknesses:

(a) **Macroassessments are not implemented in some country offices**. According to the report on the status of implementation of the harmonized approach to cash transfers, out of the 127 country offices, 76 had completely implemented the new approach in 2012, but, of these, 31 (41 per cent) had not conducted macroassessments as required under the Framework for Cash Transfers to Implementing Partners during the current programme cycle;

(b) **Microassessments are not fully implemented**. The Board noted that during the period under review, in 10 country offices not one of the implementing partners receiving more than $100,000 combined from all United Nations agencies in one calendar year had been subject to microassessment since the beginning of the current programme cycle. The Board made similar observations during its field visits to the country offices in Brazil, the Sudan, Viet Nam and Zimbabwe. For example, at the country office in Zimbabwe, of the 29 implementing partners receiving more than $100,000 from 1 January to 30 September 2012, 18 had not been subject to microassessments in the current programme cycle. The total amount involved with respect to the 18 implementing partners was $7.6 million;

(c) **Insufficient spot checks**. The Board noted that out of the 76 country offices that had implemented the harmonized approach to cash transfers by the end of 2012, 40 country offices (53 per cent) had not prepared office-wide plans for spot checks, as required. The other 36 offices had planned spot checks, but 17 had not fully conducted such checks. The Board also noted that spot checks had been insufficiently implemented at the country office in Brazil. Out of seven implementing

[4] Pursuant to General Assembly resolution 56/201, UNDP, UNICEF, UNFPA and the World Food Programme adopted a common operational framework for transferring cash to governmental and non-governmental implementing partners. Implementing partners use common forms and procedures for requesting cash and reporting on its utilization. Agencies adopt a risk management approach and select specific procedures for transferring cash on the basis of the joint assessment of the financial management capacity of implementing partners, and coordinate activities to maintain assurance over the utilization of the cash provided.

partners with a “moderate” or “high” risk rating, two had not been included in the annual spot-check plan, as should have been. The direct cash transfers received by the two implementing partners amounted to $79,764 as of 5 November 2012;

(d) **Scheduled audits are insufficient**. Out of the 76 country offices which had implemented the harmonized approach to cash transfers in 2012, 64 (84 per cent) had not prepared a plan for scheduled audits of implementing partners receiving more than $500,000 in total from all agencies. Seven out of the other 12 offices that had planned scheduled audits did not fully conduct them.

110. The Board is concerned that insufficient capacity assessment and assurance activities expose UNICEF to a significant risk of being unable to obtain adequate assurance as to the appropriate use of cash transfers made to partners. This, in turn, exposes UNICEF to increased risk of fraud and error.

111. **The Board reiterates its previous recommendation that UNICEF headquarters and regional offices continue to work with all country offices to ensure the implementation of capacity assessment and assurance activities in accordance with the Framework for Cash Transfers to Implementing Partners.**

Lack of effective monitoring of funds utilization

112. At UNICEF country offices, the certification on the Funding Authorization and Certificate of Expenditures form for the reporting of direct cash transfers requires that actual expenditures for the period stated are disbursed in accordance with the annual workplan and as per the authorized itemized cost estimates. The detailed accounting documents for the expenditures are to be made available for examination, when required, for a period of five years from the date of the provision of funds.

113. During the field visit to the country office in Zimbabwe, the Board noted that out of a total amount of $206,185 in direct cash transfers liquidated by one implementing partner in 2012, some expenditures were cash payments, with payment vouchers manually written by the staff of the implementing partner. The recipients explained that they had used the funds for the delivery of programme supplies to 500 schools, using their own cars, but they were unable to provide the invoices for the replenishment of petrol or a list of the schools to which they had delivered supplies.

114. The Zimbabwe country office indicated that this constituted a misuse of cash transfers that should have led to a microassessment and assurance activities to monitor the internal control and financial management practices of the partner. The Board does not have evidence that this is a systematic weakness, but it considers that UNICEF needs to reinforce the monitoring of its implementing partners.

115. **The Board recommends that: (a) the Fund’s country office in Zimbabwe strengthen its monitoring of implementing partners to ensure that sufficient supporting evidence is maintained justifying the use of cash transfers; and (b) UNICEF investigate this issue and report the results to the Board of Auditors.**

Annual integrated monitoring and evaluation plans

116. The UNICEF Programme Policy and Procedure Manual requires country offices to prepare and implement an annual integrated monitoring and evaluation

plan reviewing progress made in collecting critical information related to programme planning and implementation.

117. In its previous report the Board noted low completion rates with respect to integrated monitoring and evaluation plan activities at seven country offices and recommended that UNICEF require its field offices to improve completion rates. During the period under review, the Board noted that UNICEF had undertaken relevant training and had strengthened the requirements in the Manual in order to ensure that its country offices are able to prepare realistic integrated monitoring and evaluation plans and improve completion rates. Notwithstanding the efforts made by the Administration, the Board still noted that at the country offices in the Sudan, Brazil and Zimbabwe, out of a total of 134 activities set out in their 2012 integrated monitoring and evaluation plans, 69 (or 51 per cent) had not been fully completed within the time frame.

118. The country office in the Sudan explained that the delays were mainly due to shortage of staff and difficulty in getting suitable consultants. The country office in Brazil explained that the major impediments leading to the postponement of some of the 2012 integrated monitoring and evaluation plans was the unavailability of staff due to unforeseen demands associated with the roll-out of VISION (the Fund's enterprise resource planning system) and with the preparation of the submission for the 2013 programme budget review.

119. **The Board recommends that UNICEF continue to work with its country offices to prepare realistic integrated monitoring and evaluation plans and make every effort to improve their completion rates.**

Performance reporting on programme activities

120. Performance reporting is the mechanism by which an organization monitors progress towards the achievements of its objectives, and it is thus essential if the governing body and the public are to gain a comprehensive understanding of the achievements of an organization and the efficiency and effectiveness demonstrated in the delivery of its mandate.

121. The Executive Director of UNICEF submits to the Executive Board an annual report on the results, progress and achievements in each focus area in the UNICEF medium-term strategic plan, as well as on organizational performance overall. Trends in performance against key indicators are presented in the accompanying Data Companion. In its previous report (A/67/5/Add.2), the Board noted that in the 2011 Data Companion, of the 59 figures (one figure may contain one or more indicators) that were relevant to the five focus areas of the medium-term strategic plan for 2006-2013, only 22 were directly linked to the activities of the Fund's country programmes of cooperation.

122. During its audit in 2012, the Board noted that the Data Companion to the 2012 annual report covered 103 out of the 144 indicators of the medium-term strategic plan on programme performance, which were presented in 81 figures. Among these 81 figures, 75 were relevant to the five focus areas of the 2006-2013 medium-term plan, and the other six were closely related to the Fund's emergency preparedness and response in 2012. The Board noted that of the 75 figures, only 24 could be directly linked to the activities of UNICEF's country programme of cooperation (see table II.6).

123. The annual reports of country offices provide major inputs to the Executive Director's annual report. The Board noted that the achievements of results reflected in the sampled reports were not fully substantiated by the implementation of planned programme activities.

Table II.6
Indicators in 2012 Data Companion on five focus areas

Focus area	*Indicators directly linked to programme activities*	*Indicators that reflect outcomes resulting partly from UNICEF contributions*	*Indicators on statistical data from host Government on local situation*
Young child survival and development	6	16	8
Basic education and gender equality	3	5	2
HIV/AIDS and children	0	3	1
Child protection	4	8	5
Policy advocacy and partnerships for children's rights	11	3	0
Total	**24**	**35**	**16**

Source: Data provided by UNICEF.

124. UNICEF explained that the extent to which information from an indicator is related to the UNICEF programme of cooperation depends on the context of the particular country. However, UNICEF recognized that the current results matrices had some limitations, and it would seek to improve the results matrices of future strategic plans to improve performance reporting.

125. Since only fewer than half of the indicators set out in the Data Companion were directly related to the implementation of the UNICEF country programme, and in the absence of a reporting mechanism that clearly links the achievements of results with the implementation of planned programme activities and utilization of budget, the Board is concerned that the Executive Board, donors and the public may be unable to gain a comprehensive and clear understanding of the full impact of the Fund's direct actions and contributions through country programmes. In these circumstances, it is difficult to objectively demonstrate or determine whether UNICEF had used its resources cost-effectively.

126. **The Board recommends that UNICEF: (a) continue to improve annual reporting by supplementing the Data Companion with more selective key indicators on programme performance in order to represent the direct actions and contributions of UNICEF through country programmes of cooperation; and (b) improve its performance reporting by clearly linking the results achieved with the implementation of the programme activities and the utilization of relevant resources.**

Insufficient disclosure of challenges in the implementation of key programme strategies

127. In 2010, UNICEF established nine key programme strategies as well as benchmarks for each strategy in order to measure the performance of and the results obtained by country offices in terms of programme and management activities.

Performance relating to each key programme strategy was classified according to four ratings: "initiating action to meet benchmarks", "partially met benchmarks", "mostly met benchmarks" and "fully met benchmarks".

128. The Board noted in its previous audit that the performance of country offices with respect to some strategies was unsatisfactory, and therefore inconsistent with the positive outcomes and achievements presented in the Fund's annual reports. During the current audit, the Board was informed that UNICEF headquarters and regional offices were striving to improve the capacity of implementing key programme strategies through a number of initiatives, including staff training, the provision of expert technical advice and changing the competency profiles of staff requirements, where possible. As a result, country offices had reported improvements in meeting benchmarks for applying programme strategies in their 2012 annual reports.

129. The Board, however, also noted that performance with regard to some strategies still needed improvement. For example, with respect to communication for development, knowledge management and gender equality, one third of the 126 UNICEF country offices had not achieved either of the top two performance ratings, "mostly met benchmarks" or "fully met benchmarks", and, with respect to environmental sustainability, 70 of 126 country offices (56 per cent) had not achieved either of the top two performance ratings.

130. The Board also noted that out of the 126 country offices, 34 country offices (27 per cent) had achieved the "mostly met benchmarks" or "fully met benchmarks" performance rating. Another 17 country offices (13 per cent) were rated as "initiating action to meet benchmarks" or "partially met benchmarks" with respect to more than half of the nine strategies. The Board also noted that, as presented in the annual report of the Mauritania country office, eight of the nine indicators were marked as "partially met benchmarks" while the other was marked as "initiating action to meet benchmarks".

131. The Board reviewed the draft version of the 2012 UNICEF annual report and noted that most of the indictors set for each of the five focus areas in the medium-term strategic plan had reflected positive progress, inconsistent with the challenges documented in the annual reports of the field offices.

132. **The Board recommends that UNICEF: (a) improve the annual report of the Executive Director by integrating information on in-depth analysis of programme performance disparities and the impact on programme implementation; and (b) analyse the performance disparities within country offices with respect to each strategy and provide support or guidance to those country offices whose performance falls far short of the benchmarks.**

7. Inventory management

133. UNICEF inventory mainly comprises programme supplies and greeting cards and products. According to the financial statements, inventories amounted to $270.2 million as at 31 December 2012, with $208.66 million in programme supplies located at or in transit to the country offices, $53.48 million of programme supplies in the Supply Division and $8.06 million in the form of cards and products.

Management of pharmaceutical products

134. The Supply Division is responsible for ensuring that suppliers provide good quality pharmaceuticals and micronutrient formulations for UNICEF programmes. The quality of pharmaceutical products is ensured through two key controls: prequalification and good manufacturing practice inspections of product manufacturers; and prequalification and quality control test of products. At the beginning of each year, a tentative quality control test plan is established. The plan is updated after six months, where necessary. The test results are summarized in an annual report by the Supply Division on the monitoring of suppliers.

135. The Board noted that 41 of 64 pharmaceutical products (64 per cent) and 19 of 25 nutrition products (76 per cent) had not been tested according to the 2012 quality control test plan, while 29 pharmaceutical products and 27 nutrition products that were not in the quality control test plan had been tested. Despite the change of tested products, the quality control test plan had not been revised during the year, as required. In addition, the Board noted that the Supply Division had not prepared a summary report for 2012, and the report for 2011 had not been finalized until August 2012.

136. Furthermore, the 2011 inspection report showed that 10,070 packs of chloramphenicol oral suspension procured from a vendor did not meet the specified requirements, but that 376 packs of the suspension had been distributed to Somalia refugees before the inspection. UNICEF explained that it did not insist that the manufacturer recall the product as it was used for the treatment of serious infections in an emergency situation and no immediate replacement of the product was possible.

137. **The Board recommends that UNICEF ensure that its Supply Division: (a) prepare and implement the quality control test plan on pharmaceutical and nutrition products and prepare the summary report in a timely manner; and (b) continue to monitor the test results through yearly reports and include the test results in its performance monitoring of suppliers to ensure that only products that meet accepted standards are provided to its customers.**

8. Consultants and individual contractors

138. Consultants and individual contractors are utilized when specific capacity or expertise is not readily available within UNICEF. The authority to issue and administer contracts in these cases is delegated, within certain limitations to division directors and heads of offices.

Selection of a single source

139. The UNICEF Human Resources Manual requires that consultants and individual contractors be selected through competitive selection procedures. A single-source approach can be used only in cases where it can be demonstrated that the consultant or individual contractor is the only individual able to provide the required service at an acceptable level of quality and cost; and/or where it can be demonstrated that a true emergency situation prevents a competitive selection process. The procedures are designed to minimize risks to the Fund, including poor value for money and fraud.

140. In its previous report the Board noted that UNICEF headquarters and some offices had hired or rehired their contractors through a sole source approach, and it had recommended that UNICEF comply with the requirements of its Human Resources Manual in relation to the selection of consultants. During the period under review, the Board continued to note the following weaknesses:

(a) **Extensive use of single sourcing**. At UNICEF headquarters in New York, out of a total number of 924 contracts for consultants and individual contractors valued at $23.69 million in 2012, 184 contracts (20 per cent) with a total amount of $4.56 million were single-source appointments. While lower than the level in 2010-2011 (28 per cent), the Board considers that UNICEF needs to make more progress in this regard;

(b) **Inappropriate justifications for use of the sole source approach**. At UNICEF headquarters in New York, the Board reviewed a sample of 17 contracts with consultants and individual contractors that had been entered into through the single-source approach, and noted that the justifications for nine contracts were not documented and the justifications for the other six cases were not consistent with the requirements of the Fund's Human Resources Manual. Similar cases were noted at the country office in Zimbabwe.

141. In March 2013, UNICEF further streamlined and simplified provisions for use of the single-source approach in the selection of consultants and individual contractors, restricting the use of single sourcing to emergency situations in order to facilitate improved control and oversight.

142. **UNICEF agreed with the Board's recommendation to strictly comply with the requirements of the UNICEF policy relating to the selection of consultants and individual contractors.**

Employing consultants on a continuous basis

143. Generally, external consultants should only be engaged on a temporary basis to provide advisory or consultative services that internal staff do not have the specialist skills or knowledge to perform. Consultants should not be used to perform regular and continuing staff functions. Employing consultants on a continuous basis to perform staff-related functions could be misused as a way to shift staff costs to consultant expenditures; such a policy would undermine capacity-building across the organization.

144. The Board had previously noted that some consultants and individual contractors had provided services on a continuous basis, and it had recommended that UNICEF comply with the requirements of its Human Resources Manual and consider employing temporary assistance instead of issuing such contracts if services are needed on a continuous basis.

145. In 2012, the Board sampled consultant contracts in relation to 20 consultants at UNICEF headquarters in New York and noted that 13 consultants (65 per cent) with contract durations of between 102 to 323 days were engaged to perform duties and functions similar to those carried out by staff members. For instance, a consultant was selected as a recruiter to support the work of the Division of Human Resources in recruitment activities, including sourcing suitable candidates, conducting written technical assessments, coordinating selection panels and scheduling interviews. The contract with the consultant had been extended several times, with a total term of service running from April 2012 to July 2013.

146. The Board also noted that although restrictions were set for hiring consultants and individual contractors, there was no clear distinction in place for these two categories of contract in practice. For instance, during the period from August 2011 to April 2012, an individual employed by the Division of Human Resources to perform work related to recruitment was hired under both the consultant's contract and the individual contractor's contract.

147. **The Board recommends that UNICEF ensure that its divisions/offices: (a) put a clear strategy in place for a long-term regular staffing solution; and (b) distinguish consultants and individual contractors, depending on the different nature of service offered, according to its policy on consultants and individual contractors.**

C. Disclosures by management

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

148. In accordance with its financial rule 113.6, UNICEF reported to the Board that losses in assets of $19.74 million ($21.76 million in the biennium 2010-2011) had been written-off during 2012, including inventory of $18.95 million, which was mainly shortage/overage of inventory for country offices. The written-off losses in assets also included $0.79 million in other assets, mainly composed of Private Fundraising and Partnerships cards and losses as a result of a misappropriation of funds.

2. Ex gratia payments

149. As required by its financial rule 113.6, UNICEF reported to the Board that there were no ex gratia payments for the financial period under review.

3. Cases of fraud and presumptive fraud

150. In accordance with paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules of the United Nations, UNICEF reported 30 cases of fraud or presumptive fraud to the Board during the period under review. Those cases had resulted in estimated financial losses amounting to $145,737, of which UNICEF had recovered $12,203 (see table II.7).

Table II.7
Cases of fraud and presumptive fraud for 2012
(United States dollars)

	Number of cases before the Office of Internal Audit and Investigations	*Amount of loss*	*Amount recovered*[a]
Fraud	12	27 242.25	215.65
Burglary, robbery and theft	14	114 130.12	7 622.47
Staff misconduct	4	4 365.00	4 365.00
Total	**30**	**145 737.37**	**12 203.12**

Source: Data provided by UNICEF.
[a] From the records of the Office of Internal Audit and Investigations.

D. Acknowledgement

151. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the staff of UNICEF.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

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

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania

30 June 2013

Annex I

Status of implementation of recommendations for the year ended 31 December 2012

No.	*Subject*	*Paragraph reference in report (A/67/5/Add.2, chap. II)*	*Period first reported*	*Implemented*	*Under implementation*	*Overtaken by events*	*Total*	*Reference in the present report*
1.	Further review the necessity and the fundraising capacity for posts that had been vacant for long periods; abolish those posts deemed unnecessary or without sufficient funding; and take appropriate measures to fill the remaining vacancies — New York headquarters	9	2010-2011	X			1	
2.	Clearly define the scope of the “support personnel” and disclose those staff costs relating to operational functions as administrative or programme support expenditures in the financial statements — New York headquarters	15	2010-2011	X			1	
3.	Develop procedures to appropriately use the reserve for after-service health insurance and correctly reflect its expenditures in the financial statements — New York headquarters	22	2010-2011	X			1	
4.	Take into account historical vacancy rates and quantify foreseeable factors that have an impact on the budget when preparing its support budget in the future — New York headquarters	29	2010-2011	X			1	
5.	Prepare programme budget proposals for each office with detailed activities and outcomes based on the actual requirements and resources available — New York headquarters	34	2010-2011		X		1	
6.	Review its current budget preparation methodology to ensure that budgets are prepared and presented in an integrated manner — New York headquarters	39	2010-2011		X		1	raised

No.	Subject	Paragraph reference in report (A/67/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Overtaken by events	Total	Reference in the present report
7.	Ensure that financial resources are reasonably determined to reflect the actual requirements for the achievement of the expected objectives established in the budget — New York headquarters	43	2010-2011	X			1	
8.	Comply strictly with the requirements of the Executive Board that it seek senior approval from the appropriate authority when the budget ceiling is exceeded — New York headquarters	45	2010-2011	X			1	
9.	Establish a mechanism for performance reporting to the Executive Board on the utilization of biennial support budget resources, the explanation of variances between the original budget and actual expenditures and the fulfilment of expected results — New York headquarters	48	2010-2011	X			1	
10.	Prepare an annual management plan with clearly defined baselines, targets and performance indicators and periodically review the annual workplan/annual management plan and expedite implementation of planned activities — all country offices	58	2010-2011		X		1	
11.	UNICEF's headquarters divisions work with all country offices to ensure the implementation of capacity assessments and assurance activities — New York headquarters and all country offices	63	2010-2011		X		1	raised
12.	Strictly monitor the payment procedure to ensure that appropriate authorizations are obtained prior to the release of cash transfers to implementing partners — New York headquarters and all country offices	64	2010-2011	X			1	

No.	Subject	Paragraph reference in report (A/67/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Overtaken by events	Total	Reference in the present report
13.	Comply with the relevant requirements of UNICEF Programme Policy and Procedure Manual with regard to raising requisitions and making disbursements — New York headquarters and all country offices	67	2010-2011			X	1	
14.	Consider revising the methodology and periodicity of monitoring direct cash transfer utilization — New York headquarters	72	2010-2011	X			1	
15.	Prepare realistic integrated monitoring and evaluation plans and make every effort to improve their completion rate — all country offices	76	2008-2009 (A/65/5/Add.2, para. 145)	X			1	
16.	Improve annual reporting by supplementing the Data Companion with more selective key indicators on programme performance — New York headquarters	81	2010-2011		X		1	
17.	Ensure that all country offices improve their annual reports by integrating information on the in-depth analysis of programme performance disparities and the resulting impact on programme implementation; and analyse the performance disparities within country offices on each strategy and provide support or guidance to those country offices whose performance falls far below the benchmarks — New York headquarters and all country offices	87	2010-2011		X		1	
18.	Develop procedures and strengthen its monitoring of contributions to ensure the completeness and accuracy of reporting on income due to UNICEF by National Committees; and strengthen the communication with National Committees to ensure that all eligible funds raised are transferred to UNICEF in a timely manner — New York headquarters, Private Fundraising and Partnerships	98	2010-2011	X			1	

No.	Subject	Paragraph reference in report (A/67/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Overtaken by events	Total	Reference in the present report
19.	Strengthen the monitoring of the administrative expenditure of National Committees; bring down the cost related to private sector fundraising; and conduct continuous monitoring and review on National Committees sales of UNICEF owned cards and products — Private Fundraising and Partnerships	112	2010-2011	X			1	
20.	Strengthen monitoring of National Committees conversions of regular resources to other resources, and carefully monitor donations raised under the UNICEF name but not used in UNICEF programmes; require National Committees to disclose separately the costs of advocacy and education for development in their revenue and expenditure reports, and ensure that advocacy resources are used by the National Committees to advocate for the most disadvantaged children, and fully comply with the requirements of the cooperation agreement to ensure that the National Committees' affiliated parties are duly monitored — Private Fundraising and Partnerships	123	2010-2011	X			1	
21.	Consider developing an International Public Sector Accounting Standards (IPSAS) benefit realization plan; and continue its active communication with the Board to expedite the timely finalization of its accounting policy position paper regarding the treatment of private sector funds raised by National Committees — New York headquarters	127	2010-2011		X		1	

No.	Subject	Paragraph reference in report (A/67/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Overtaken by events	Total	Reference in the present report
22.	Make timely decisions regarding the merits of implementing the deferred functionalities included in the original scope of the enterprise resource planning (ERP) project and accelerate the completion of all processes relating to the ERP system as planned; and expedite the implementation of Approva to manage system sensitive access and the process of managing segregation of duties in accordance with the internal controls policy — New York headquarters	128	2010-2011	X			1	
23.	Ensure that its offices strictly comply with the provisions set out in the Supply Manual in relation to competitive bidding — all offices	131	2008-2009 (A/65/5/Add.2, para. 158)	X			1	
24.	Enhance communication with suppliers to identify the reasons for delays and take measures to receive delivery of supplies in a timely manner — all offices	134	2010-2011	X			1	
25.	Take measures to ensure that country offices conduct a physical count of non-expendable property by year-end to the extent possible — all country offices	138	2010-2011	X			1	
26.	Take appropriate measures to improve its management of non-expendable property — all offices	140	2010-2011	X			1	
27.	Comply strictly with the requirements of the UNICEF Human Resources Manual in relation to the selection process — all offices	144	2002-2003 (A/59/5/Add.2, paras. 176 and 181)			X	1	

No.	Subject	Paragraph reference in report (A/67/5/Add.2, chap. II)	Period first reported	Implemented	Under implementation	Overtaken by events	Total	Reference in the present report
28.	Adhere strictly to the requirements of UNICEF Human Resources Manual in issuing contracts for consultants and individual contractors; and consider employing temporary assistance instead of issuing such contracts if the services are needed on a continuous basis beyond three months — all offices	148	2010-2011	X			1	
29.	Conduct a comprehensive review of the functions currently performed by consultants to identify those functions needed on an ongoing basis; and mobilize sufficient funds to support posts deemed to be needed on a continuous basis — all offices	149	2010-2011	X			1	
	Total		–	**20**	**7**	**2**	**29**	
	Percentage to total		–	**69**	**24**	**7**	**100**	

Annex II

Retention of gross proceeds: total retention and retention rates for 36 National Committees during the period from 2006 to 2012

(United States dollars)

No.	*National Committees*	*Total retention*	*Retention rate (Percentage)*
1.	United States of America	384 499 132	39.56
2.	Japan	248 531 100	19.50
3.	United Kingdom of Great Britain and Northern Ireland	228 775 867	42.51
4.	France	178 587 481	28.33
5.	Italy	173 655 503	31.40
6.	Netherlands	172 288 742	25.52
7.	Spain	168 915 534	34.16
8.	Germany	144 698 037	18.12
9.	Canada	122 668 700	61.22
10.	Switzerland	72 251 151	32.08
11.	Sweden	69 481 316	17.74
12.	Belgium	50 383 568	29.78
13.	Republic of Korea	45 802 682	15.27
14.	Denmark	43 844 333	27.21
15.	Norway	40 108 796	30.49
16.	Finland	39 778 114	26.60
17.	Australia	32 560 175	30.07
18.	Greece	28 461 023	41.33
19.	Hong Kong, China	24 634 003	17.13
20.	Portugal	18 002 830	28.96
21.	New Zealand	15 071 890	46.54
22.	Ireland	13 132 978	23.34
23.	Austria	12 831 369	27.69
24.	Poland	9 901 875	40.79
25.	Luxembourg	7 945 555	37.39
26.	Slovenia	7 920 093	35.38
27.	Slovakia	6 699 345	73.89
28.	Czech Republic	5 795 644	21.83
29.	Turkey	5 452 929	25.88
30.	Iceland	5 051 433	26.26
31.	Hungary	2 638 902	45.36
32.	Andorra	2 009 199	24.15

No.	*National Committees*	*Total retention*	*Retention rate (Percentage)*
33.	Estonia	1 594 714	76.34
34.	Lithuania	1 293 569	78.39
35.	Israel	533 005	38.52
36.	San Marino	415 516	59.15

Source: Revenue and expenditure reports provided by UNICEF.

Annex III

Status of joint strategic plans for 36 National Committees at the time of audit

No.	*National Committee*	*Joint strategic plans in place by the end of 2012*	*Joint strategic plans in place at the time of audit*	*Duration of current joint strategic plans*	*Comments*
1.	United States of America	No	No		Plan never signed
2.	Lithuania	No	No		Plan never signed
3.	Estonia	No	No		Plan never signed
4.	Ireland	No	No	2005-2007	Plan had not been updated for five years
5.	Slovenia	No	No	2007-2009	Plan had not been updated for three years
6.	Israel	Yes	No	2011-2012	
7.	Slovakia	Yes	No	2010-2012	
8.	Germany	Yes	No	2013	One-year extension was permitted by UNICEF
9.	Iceland	Yes	No	2013	One-year extension was permitted by UNICEF
10.	Japan	Yes	No	2013	One-year extension was permitted by UNICEF
11.	Republic of Korea	Yes	Yes	2013	One-year extension was permitted by UNICEF
12.	Andorra	Yes	Yes	2010-2013	
13.	Australia	Yes	Yes	2012-2014	
14.	Austria	Yes	Yes	2011-2013	
15.	Belgium	Yes	Yes	2011-2013	
16.	Canada	Yes	Yes	2011-2013	
17.	Czech Republic	Yes	Yes	2011-2013	
18.	Denmark	Yes	Yes	2012-2015	
19.	Finland	Yes	Yes	2012-2014	
20.	France	Yes	Yes	2012-2014	
21.	Greece	Yes	Yes	2011-2013	
22.	Hong Kong, China	Yes	Yes	2012-2014	
23.	Hungary	Yes	Yes	2012-2014	
24.	Italy	Yes	Yes	2013-2015	

No.	*National Committee*	*Joint strategic plans in place by the end of 2012*	*Joint strategic plans in place at the time of audit*	*Duration of current joint strategic plans*	*Comments*
25.	Luxembourg	Yes	Yes	2011-2013	
26.	Netherlands	Yes	Yes	2013-2015	
27.	New Zealand	Yes	Yes	2012-2016	
28.	Norway	Yes	Yes	2013-2015	
29.	Poland	No	Yes	2013-2015	
30.	Portugal	Yes	Yes	2011-2013	
31.	Spain	No	Yes	2013-2015	
32.	Sweden	Yes	Yes	2013-2015	
33.	Switzerland	No	Yes	2013-2016	
34.	Turkey	Yes	Yes	2012-2014	
35.	United Kingdom of Great Britain and Northern Ireland	Yes	Yes	2011-2015	
36.	San Marino	N/A	N/A	N/A	

Annex IV

Percentage of reserve balance to total expenditure, excluding transfers to the United Nations Children's Fund, as at 31 December 2012

No.	*National Committees*	*Percentage of reserve balance to total expenditure*
1.	Hong Kong, China	446.26
2.	Hungary	250.53
3.	Japan	125.50
4.	Italy	74.14
5.	Luxembourg	59.82
6.	Poland	59.77
7.	Netherlands	59.11
8.	France	51.99
9.	United States of America	45.38
10.	Denmark	44.65
11.	Portugal	39.46
12.	Andorra	37.82
13.	Australia	34.69
14.	Greece	34.38
15.	Estonia	33.74
16.	Norway	26.27
17.	Finland	24.14
18.	Czech Republic	23.44
19.	Sweden	18.42
20.	Republic of Korea	17.31
21.	New Zealand	16.77
22.	Iceland	15.63
23.	United Kingdom of Great Britain and Northern Ireland	14.84
24.	Canada	11.56
25.	Spain	8.11
26.	Israel	7.14
27.	Ireland	6.31
28.	Lithuania	1.77
29.	Belgium	0.42
30.	Austria	0.00
31.	Germany	0.00
32.	Slovakia	0.00
33.	Switzerland	0.00
34.	Turkey	0.00
35.	Slovenia	0.00
36.	San Marino	0.00

Source: Revenue and expenditure reports provided by UNICEF.

Chapter III

Financial report for the year ended 31 December 2012

Introduction

1. In compliance with regulation 13.3 of its financial regulations and rules, UNICEF submits herewith its 2012 financial report and statements to the Board of Auditors for examination and opinion. The financial statements have been prepared in accordance with IPSAS.

2. Prior to 1 January 2012, UNICEF prepared its financial statements based on UNSAS and the financial regulations and rules of UNICEF, which prescribed the use of a modified cash basis. On 1 January 2012, UNICEF adopted IPSAS reporting standards. The conversion to full accrual accounting as prescribed by IPSAS has resulted in significant changes in the type and measurement of assets, liabilities, revenue and expenses recognized. Comparative information is therefore not provided in the financial report.

Financial performance

3. Total revenue in 2012 was $3,941.8 million, and expenses amounted to $3,622.3 million, which resulted in a net surplus of $319.5 million.

4. UNICEF operations are primarily funded by voluntary contributions from Governments, intergovernmental organizations and non-governmental organizations, including National Committees for UNICEF and private foundations. Together, these entities contributed revenue of $3,790.1 million to UNICEF in 2012. Interest revenue amounted to $29.5 million.

5. Government contributions to regular resources (unearmarked) and other resources (earmarked) totalled $600.8 million and $1,434.7 million, respectively, while intergovernmental organizations donated $235.8 million as earmarked grants. In addition, UNICEF received $349.5 million in 2012 from interorganizational arrangements, including multi-donor trust funds managed by other United Nations organizations.

6. Nearly one third of UNICEF revenue in 2012 originated from private sector donations. Contributions from National Committees, which are non-governmental organizations that promote child rights in 36 industrialized countries and raise funds for UNICEF programmes worldwide, totalled $834.2 million. Gross revenue from the sales of greeting cards and other products generated largely by the National Committees on behalf of UNICEF totalled $74.5 million. In addition, UNICEF received $319.7 million from private individuals, organizations and foundations.

7. On the expense side, UNICEF outflows were concentrated in three major categories of its programme input: cash assistance; programme supplies (such as vaccines, medical supplies and educational materials); and technical assistance.

8. About 31 per cent of UNICEF expenses in 2012 ($1,105.9 million) was in the form of cash assistance to implementing partners, Government departments and non-governmental organizations. In addition, UNICEF provided essential supplies

targeting vulnerable communities, including those affected by natural disasters and other humanitarian calamities, at a total value of $628.8 million.

9. During the reporting period, UNICEF programmes in support of policy dialogue and capacity development, as well as expenses related to technical experts, comprising both UNICEF staff and consultants, comprised a larger share of the organization's expenses. In 2012, employee and consultancy costs and other operational expenses totalled $1,875.5 million.

Financial position

10. At the end of 2012, UNICEF's cash and investments were valued at $3,450 million. The bulk of the Fund's cash and investments is related to funds received for earmarked and multi-year projects ($2,020 million) or held on behalf of third parties ($570.2 million). Reserves for long-term employee liabilities such as after-service health insurance and other Board approved funds totalled $454.8 million. The regular resources cash balance as at 31 December 2012 was $398.2 million, which is equivalent to approximately four months of regular resources expenditures.

11. Inventories held by UNICEF offices worldwide were valued at $270.2 million while properties and equipment controlled by the organization had a book value of $182.6 million at the end of 2012. Cash advances to implementing partners that had not been liquidated at year-end were $556.7 million.

12. Total receivables, primarily contributions, were $1,033.9 million. Total assets were $5,726.7 million as at 31 December 2012.

13. Total liabilities at year-end were $2,602.6 million, of which $1,062.2 million were long-term employee benefit liabilities. An actuarial study carried out by an external firm in February 2013 estimated the Fund's after-service health insurance liability at $950.3 million, and other end-of-service entitlements were estimated at $110.4 million. To date, UNICEF has accumulated $444.8 million in its after-service health insurance and separation reserves and continues to set aside additional funds, primarily through a surcharge on the salaries charged to its respective funding sources.

14. Also included in the outstanding liabilities as at 31 December 2012 is an amount of $570.2 million, which represents cash funds held on behalf of third parties, primarily Governments and organizations that have requested UNICEF to procure supplies for activities that benefit children and complement UNICEF programmes.

Budget analysis

15. UNICEF activities are managed within the framework of publicly available budgetary authorities that are approved by the Executive Board and, through delegation by the Board, the Executive Director. Information on these budgets and their utilization are summarized in the statement of comparison of budget to actual amounts (statement V).

16. Unlike other financial statements, the budget to actual amounts statement is prepared and presented on a modified cash basis. All budgetary authorities are

approved for a multi-year period, with the exception of the budget for the Private Fundraising and Partnerships Division and emergency appeals, which are prepared on an annual basis.

Changes from original to final budget

17. Since UNICEF is voluntarily funded, the budgets approved by the Executive Board for the various programmes are subject to the availability of funding. At the outset, the total budget comprises the amounts for both regular resources and other resources originally approved or allocated for the current year and any residual amounts that are carried forward from prior years. Since offices may receive additional contributions of other resources within Board approved ceiling during the year, the total final budget is determined in large part by the volume and magnitude of such contributions. In 2012, the total final budget of $6,040.7 million exceeded the total original budget of $5,664.7 million by $376.0 million or 7 per cent.

18. The Executive Board has approved the use of the Emergency Programme Fund to accelerate urgent humanitarian actions when contributions have not yet been made by donors but are expected to be raised through emergency appeals. The Emergency Programme Fund operates as a standing biennial authority for UNICEF to allot up to $75 million. During the reporting period there was no variance between the original and the final budget.

19. For the institutional budget, the difference between the original budget and final budget is the result of the advanced implementation of an information technology investment project within the approved budgetary authority for the biennium.

Budget utilization

20. The total budget utilized in 2012 was $3,865.7 million.

21. The utilization of final budgets funded by regular resources, including the institutional budget and the budget for the Private Fundraising and Partnerships Division, ranged from 85 per cent to 95 per cent. The variances between budgeted and actual amounts are due, in part, to cost reductions and efficiencies driven by business process improvements and to savings related to the projected cost of posts worldwide.

22. Budgets funded by other resources are allocated in full in the year in which the contributions are made, even though the grants are mostly intended for use over multi-year periods. They are also allocated in full even when the contributions are confirmed towards the end of a year. The 2012 utilization of final budgets funded by other resources ranged from 50 per cent to 70 per cent. Of the total final budgets funded by other resources in 2012, 71 per cent had validity dates beyond the end of 2012 and 10 per cent were confirmed only in December 2012.

23. Unlike other budgetary authorities, the Emergency Programme Fund is expected to have a low utilization rate as it is meant to bridge funding gaps and be reimbursed with contributions from other resources.

(*Signed*) Anthony **Lake**
Executive Director
United Nations Children's Fund

Chapter IV
Financial statements for the year ended 31 December 2012

A. Financial statements

Statement I
Financial position as at 31 December 2012

(Thousands of United States dollars)

	Note	*2012*
Current assets		
Cash and cash equivalents	8	949 795
Contributions receivables, net	9	721 531
Other receivables	9	59 174
Advances of cash assistance	10	556 661
Inventories	11	270 208
Investments	12	2 199 181
Other assets	13	229 387
Total current assets		**4 985 937**
Non-current assets		
Contributions receivables, net	9	252 824
Other receivables, net	9	428
Investments	12	301 026
Property and equipment	14	182 650
Intangible assets	15	3 861
Total non-current assets		**740 789**
Total assets		**5 726 726**
Current liabilities		
Accounts payable and accrued liabilities	16	243 712
Contributions received in advance and deferred revenue	17	290 495
Funds held on behalf of third parties	18	570 153
Finance leases and other liabilities	19	25 691
Employee benefit	20	87 061
Provisions	21	19 681
Total current liabilities		**1 236 793**

	Note	2012
Non-current liabilities		
Contributions received in advance and deferred revenue	17	245 217
Employee benefit liabilities	20	1 062 161
Finance leases and other liabilities	19	58 439
Total non-current liabilities		**1 365 817**
Total liabilities		**2 602 610**
Accumulated surplus	22	2 772 128
Reserves	22	351 986
Net assets		**3 124 114**

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

Statement II
Financial performance for the year ended 31 December 2012

(Thousands of United States dollars)

	Note	*2012*
Revenue		
Voluntary contributions	23	3 790 880
Revenue from sale of greeting cards	24	74 500
Interest revenue	25	29 461
Other revenue	26	50 446
Gains and (losses), net	27	(3 497)
Total revenue		**3 941 790**
Expenses		
Cash assistance	28	1 105 939
Transfer of programme supplies	28	628 817
Employee benefits expenses	29	1 022 818
Depreciation and amortization	14, 15	8 440
Other expenses	30	852 717
Finance costs	25	3 590
Total expenses		**3 622 321**
Net surplus		**319 469**

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

Statement III
Changes in net assets for the year ended 31 December 2012

(Thousands of United States dollars)

As previously stated under the United Nations system accounting standards, as at 31 December 2011	**2 890 161**
Prior period adjustment (note 22)	
Decrease in reserve for capital assets	(19 402)
Increase in accumulated surpluses	19 402
Changes in accounting policies	
Initial recognition of property and equipment	155 206
Initial recognition of inventories	267 513
Initial recognition of advances for cash assistance	496 177
Initial recognition of employee benefit liabilities	(921 449)
Initial recognition of finance leases	(64 928)
Initial recognition of investment revaluation reserve	25
Other changes	84 803
1 January 2012, as adjusted under the International Public Sector Accounting Standards	**2 907 508**
Actuarial gains/(losses) recognized directly in net assets	(103 327)
Changes in fair value of available-for-sale financial assets	465
Surplus (deficit) for the period	319 469
Total revenue and expense for the period	**216 607**
Net assets as at 31 December 2012	**3 124 115**

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

Statement IV
Cash flow for the year ended 31 December 2012

(Thousands of United States dollars)

	2012
Cash flows from (used in) operating activities	
Net surplus (deficit)	319 469
Adjustments to reconcile surplus to net cash flows	
Depreciation and amortization	8 442
Gain (loss) on sale or disposal of property and equipment	(1 023)
Unrealized gain or loss on foreign exchange	5 268
Fixed asset impairments, write-offs	413
Interest received	(29 461)
Other adjustments	(6 145)
Changes in assets	
Decrease in inventories	41 131
Increase in receivables from contributions, net	(517 466)
Increase in other receivables, net	(3 134)
Increase in advances from cash assistance	(60 484)
Increase in other assets	(196 142)
Changes in liabilities	
Increase in accounts payable	123 843
Increase in contributions received in advance	515 442
Increase in funds held on behalf of third parties	101 514
Increase in employee benefit liabilities	59 263
Decrease in provisions	(359)
Decrease in other liabilities	(6 277)
Net cash used in operating activities	**354 294**
Cash flows from (used in) investing activities	
Purchases of investments	(4 195 141)
Maturities and sale of investments	3 495 723
Interest received	29 461
Additions to property and equipment	(16 124)
Proceeds on sale of property and equipment	115
Additions to intangible assets	(4 334)
Other cash flows from investing activities	(58)
Net cash used in investing activities	**(690 358)**
Cash flows from (used in) financing activities	
Payment of finance lease liabilities	(3 327)
Net cash used in financing activities	**(3 327)**

	2012
Effect of exchange rate changes on cash and cash equivalents	(5 681)
Net increase (decrease) in cash and cash equivalents	**(345 072)**
Cash and cash equivalents	
Beginning of year	1 294 867
End of year	949 795

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

Statement V
Comparison of budget to actual amounts for the year ended 31 December 2012

(Thousands of United States dollars)

	Original budget	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Expenditure by budget				
Country programme budgets by region				
Central and Eastern Europe and Commonwealth of Independent States				
Regular resources	18 793	24 615	20 875	3 740
Other resources: regular	74 293	118 654	55 115	63 539
Subtotal	**93 086**	**143 269**	**75 990**	**67 279**
East Asia and the Pacific				
Regular resources	59 669	66 597	60 511	6 086
Other resources: regular	218 626	309 895	139 979	169 916
Subtotal	**278 295**	**376 492**	**200 490**	**176 002**
Eastern and Southern Africa				
Regular resources	191 876	203 738	185 742	17 996
Other resources: regular	665 914	905 864	512 478	393 386
Subtotal	**857 790**	**1 109 602**	**698 220**	**411 382**
Middle East and North Africa				
Regular resources	33 754	44 474	36 990	7 483
Other resources: regular	175 805	201 034	85 375	115 659
Subtotal	**209 559**	**245 508**	**122 365**	**123 142**
South Asia				
Regular resources	133 876	141 036	131 082	9 954
Other resources: regular	417 671	478 638	247 563	231 075
Subtotal	**551 547**	**619 674**	**378 645**	**241 029**
Latin America and the Caribbean				
Regular resources	24 383	29 369	24 028	5 341
Other resources: regular	204 532	184 923	102 751	82 173
Subtotal	**228 915**	**214 292**	**126 779**	**87 514**
Western and Central Africa				
Regular resources	237 118	262 793	240 600	22 193
Other resources: regular	620 156	678 664	330 640	348 024
Subtotal	**857 274**	**941 457**	**571 240**	**370 217**
Total country programme budgets	**3 076 466**	**3 650 294**	**2 173 729**	**1 476 565**

	Original budget	*Final budget*	*Actual on comparable basis*	*Difference between final and actual*
Other resources: emergency				
Central and Eastern Europe and Commonwealth of Independent States	14 241	8 493	3 781	4 712
East Asia and the Pacific	52 947	51 650	32 771	18 879
Eastern and Southern Africa	417 154	379 790	289 205	90 586
Middle East and North Africa	327 182	236 636	124 869	111 767
South Asia	140 545	153 877	110 026	43 851
Latin America and the Caribbean	39 192	101 025	62 657	38 368
Western and Central Africa	520 809	310 524	239 756	70 768
Global	21 900	22 733	6 331	16 401
Total emergency	**1 533 970**	**1 264 728**	**869 396**	**395 332**
Programme emergency (regular resources)	75 000	75 000	39 487	35 513
Advocacy and programme development and intercountry programme budget				
Regular resources	16 114	16 090	13 940	2 150
Other resources: regular	356 042	418 642	195 321	223 320
Total	**372 156**	**434 732**	**209 261**	**225 470**
Institutional budget[a]				
Development effectiveness	126 387	126 387	123 745	2 641
Management	339 414	341 521	321 748	19 774
Special purpose	9 188	15 885	15 285	599
United Nations development coordination	1 719	1 719	1 710	9
Total institutional budget	**476 708**	**485 512**	**462 488**	**23 023**
Private fundraising and partnerships budget	**130 444**	**130 444**	**111 351**	**19 094**
Grand total	**5 664 744**	**6 040 710**	**3 865 712**	**2 174 997**

[a] Operational costs totalling $91.65 million are included in programme budget categories. Refer to note 7 (Comparison to budget) for full definitions of costs included within the institutional budget and the programme budget.

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

B. Notes to the financial statements

Note 1
Reporting entity

1. The United Nations Children's Fund (UNICEF) was established by the General Assembly in its resolution 57 (I), which mandated the Fund to advocate the protection of children's rights, to help meet their basic needs and to expand their opportunities to reach their full potential. The organization mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build their capacity to form appropriate policies and deliver services for children and their families.

2. The financial statements include only the operations of UNICEF. UNICEF has no subsidiaries or interests in associates or jointly controlled entities.

3. UNICEF is headquartered in New York and maintains a presence throughout the world including at other headquarters offices in Belgium, Denmark, Italy, Japan and Switzerland, as well as regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

Note 2
Statement of compliance and approval of the Executive Director

1. UNICEF's financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). These are the organization's first financial statements prepared in accordance with IPSAS and certain transitional provisions, as further outlined in note 4, have been applied.

2. The financial statements were certified by the Comptroller, as required by the UNICEF Regulations and Rules, and approved and authorized for issue by the Executive Director on 31 March 2013.

Note 3
Change in accounting standards: initial adoption of the International Public Sector Accounting Standards

1. Prior to 1 January 2012, UNICEF prepared its financial statements based on United Nations system accounting standards (UNSAS) and the Financial Regulations and Rules of UNICEF, which prescribed the use of a modified cash basis. On 1 January 2012, UNICEF adopted IPSAS reporting standards. The conversion to full-accrual accounting as prescribed by IPSAS has resulted in significant changes in the type and measurement of assets, liabilities, and revenue and expense recognized.

2. Adjustments were made to the UNICEF audited statement of financial position as at 31 December 2011 under UNSAS to arrive at its opening statement of financial position under IPSAS as of 1 January 2012. Details are outlined in note 37 below.

Note 4
Basis of preparation

A. Basis of measurement

1. The financial statements have been prepared on a full-accrual method of accounting under IPSAS. The accounting policies have been applied consistently throughout the reporting period. No comparative information is provided as UNICEF has elected to use the transitional provision that permits an entity not to report comparative figures in the year that it adopts IPSAS. UNICEF applies the historical cost principle, except for the following material items, in its statement of financial position:

(a) Assets acquired through non-exchange transactions that are initially measured at fair value;

(b) Financial instruments that are measured at fair value through surplus or deficit and available-for-sale financial assets measured at fair value through reserves.

2. These financial statements are expressed in thousands of United States dollars unless otherwise indicated.

B. Foreign currency translation

Functional and presentation currency

3. Items included in the financial statements are measured using the currency of the primary economic environment in which an entity operates ("the functional currency"). UNICEF's functional and presentation currency is the United States dollar.

Transactions and balances

4. Foreign currency transactions are translated into United States dollars at the prevailing United Nations operational rate of exchange at the time of the transaction. The United Nations rates approximate market rates. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the reporting date. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising upon revaluation are recognized in the statement of financial performance and included under gains and losses, net.

C. Use of estimates and critical judgements

5. The preparation of financial statements in accordance with IPSAS requires UNICEF management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Since uncertainty is inherent in the use of estimates and assumptions, actual results may differ significantly from management estimates.

6. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Examples of estimates include: loss contingencies; fair value of investments; useful lives of tangible and

intangible assets; allowances for doubtful accounts; and provisions and adjustments of advances of cash assistance. Examples of assumptions include: determining when investment impairments are other-than-temporary; and discount and inflation rates applied to employee benefit liabilities.

7. Advances of cash assistance outstanding at year-end are adjusted downwards to consider timing differences where implementing partners have submitted expense reports to UNICEF that have not yet been assessed or processed by UNICEF at year-end. These expense reports received from implementing partners are used to determine whether an advance has been liquidated or not. The adjustment is determined based on the weighted average monthly liquidation trend over the previous three-year period. The most significant assumptions are that: the three-year monthly weighted average is representative of current liquidation trends; expenses in the reports are valid expenses; and implementing partners begin to implement their respective projects after the first month of receiving a cash advance.

8. In 2011, no adjustment was necessary as UNICEF did not recognize advances of cash assistance in its statement of financial position.

9. Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and which could have a significant risk of resulting in a material adjustment is included in the following notes:

(a) Note 9 (Contributions receivable and other receivables) and note 23 (Revenue from voluntary contributions): non-exchange transactions are defined in International Public Sector Accounting Standard 23 (Revenue from Non-Exchange Transactions (Taxes and Transfers)). Where non-exchange transactions are deemed to include conditions, standard 23 requires that a liability be recognized until such time that the condition is satisfied, at which time revenue may be recorded. The determination of the existence of conditions for non-exchange transactions requires significant professional judgement. Although many UNICEF contribution agreements with donors include general stipulations, most do not include conditions that would preclude the recognition of revenue;

(b) Note 20 (Employee benefits liabilities). UNICEF participates in a defined-benefit pension plan and other benefit plans. IPSAS requires that management measure the defined-benefit obligations and annual costs under such plans, using assumptions that are long-term in nature and reflect the Fund’s best judgement and estimates. UNICEF reviews key assumptions on an annual basis with its independent actuaries using relevant experience, in conjunction with market-related data. The key assumptions include expected long-term rate of return on plan assets, rate of compensation increase, the discount rate and the longevity of plan members. The management assumption with the greatest potential impact on the organization’s defined-benefit obligation is the discount rate. The discount rate is determined by reference to the yield of a portfolio of high-quality fixed income instruments (rated AA or higher), which has the same duration as the plan’s defined-benefit obligation;

(c) Note 34 (Contingencies). Legal proceedings covering a wide range of matters are or may be pending or threatened in various jurisdictions against UNICEF. Provisions are recorded for pending litigation when it is determined that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherently uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

D. Use of transitional provisions

10. All IPSAS standards effective as of 1 January 2012 have been applied retrospectively, with the exception of Standard 1, Presentation of Financial Statements, Standard 17, Property, Plant and Equipment, Standard 25, Employee Benefits, and Standard 31, Intangible Assets. UNICEF has used transitional provisions of those standards as follows:

(a) Comparative information is not provided, with the exception of certain roll-forwards in the notes to the financial statements;

(b) As of 1 January 2012, UNICEF did not capitalize all items of its property and equipment in accordance with Standard 17, Property, Plant and Equipment. UNICEF applied the transitional provisions of Standard 17 on an asset-class basis. As of 1 January 2012, items of property and equipment, such as land, buildings and construction in progress, and equipment located at UNICEF headquarters in New York, have been capitalized. Items of equipment that were located anywhere other than at UNICEF headquarters in New York have not been capitalized. All items of property and equipment acquired on or after 1 January 2012 are capitalized at historical cost or, in the case of contributions in kind, at fair value;

(c) Land and buildings controlled by UNICEF were recognized at fair value as of 1 January 2012. Items of construction in progress were recognized at cost. Equipment was measured at cost, less accumulated depreciation as of 1 January 2012;

(d) Standard 31, Intangible Assets, was applied prospectively. As a result, intangible assets that were acquired or internally developed before 1 January 2012 have not been capitalized;

(e) UNICEF has not presented amounts for the previous four reporting periods with regard to the present value of defined-benefit obligations and experience adjustments arising as a result of plan liabilities;

(f) Standard 28, Financial Instruments: Presentation, Standard 29, Financial Instruments: Recognition and Measurement, and Standard 30, Financial Instruments: Disclosures, are effective for annual periods beginning on or after 1 January 2013. UNICEF has adopted those standards early and applied them in its 31 December 2012 financial statements.

E. Future accounting changes

11. The International Public Sector Accounting Standards Board has a number of projects in progress for the period 2013-2014. Standards and projects that may be relevant to UNICEF are listed below:

(a) **Conceptual framework for general purpose financial reporting by public sector entities**. The conceptual framework represents the highest profile project of the IPSAS Board. The objective of the project is to develop a conceptual framework for the public sector that makes explicit the concepts, definitions and principles that underpin the development of IPSAS. The framework will consider the unique characteristics of the public sector, including objectives and users. It will also address matters related to the recognition of the elements of financial statements, including measurement, presentation and disclosure. The project is to be completed in late 2013;

(b) **Financial statements: discussion and analysis**. This project is for the development of mandatory guidance on the discussion and analysis that accompanies the financial statements. The IPSAS Board has agreed that a revised draft will be considered at the March 2013 meeting;

(c) **Reporting service performance**. This project uses a principles-based approach in the development of a consistent framework for reporting service performance information of public sector programmes and services that focuses on meeting the needs of users. A draft is to be released in the first half of 2013;

(d) **Revision of International Public Sector Accounting Standards 6 to 8**. The project is looking into various issues, including control, in order to maintain alignment between the International Financial Reporting Standards where the respective International Public Sector Accounting Standard is based on an underlying International Financial Reporting Standard. The Board will continue to discuss the matters in 2013;

(e) **Other**. Other projects that may have an impact on the UNICEF financial statements once they become standards include:

(i) Amendments to International Public Sector Accounting Standards 28 to 30, Financial Instruments;

(ii) Improvements to Standard 23: Revenue from Non-Exchange Transactions (Taxes and Transfers);

(iii) Update of Standard 20: Related Party Disclosures;

(iv) Update of Standard 18: Segment Reporting.

The Fund is assessing the impact of these new and amended standards and projects on its financial statements.

Note 5
Prior-period adjustment

Certain components of net assets for 2011 have been restated. In 2011, the reserve for capital assets was not reduced to reflect activity in the reserve. Instead, the reduction was reflected in accumulated surpluses (previously entitled “fund balances” in statement II under UNSAS). As presented in note 22 below (Net assets), the effect of the adjustment is a reclassification within net assets of $19.40 million from the reserve for capital assets to accumulated surpluses. The adjustment has no net effect on total net assets.

Note 6
Significant accounting policies

Financial assets

1. UNICEF classifies financial assets into the following categories: financial assets at fair value through surplus or deficit; loans and receivables; and available-for-sale financial assets. The designation depends on the purpose for which the

financial assets are acquired and is determined at initial recognition. UNICEF does not classify any financial assets as held-to-maturity.

Major financial asset type	*Classification*
Cash and cash equivalents (with original maturities of 3 months or less)	Loans and receivables
Traded bonds	Available-for-sale
Structured deposits	Fair value through surplus or deficit
Forward exchange contracts in gain	Held for trading (fair value through surplus or deficit)
Term deposits (with original maturities greater than 3 months)	Loans and receivables
Contributions receivables	Loans and receivables
Other receivables	Loans and receivables

2. UNICEF initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNICEF becomes a party to the contractual provisions of the instrument. All financial assets are initially measured at fair value.

Financial assets at fair value through surplus or deficit

3. A financial asset is classified at fair value through surplus or deficit if it is designated as such upon initial recognition or is classified as held for trading (including forward exchange contracts in gain). Financial assets at fair value through surplus or deficit are measured at fair value on each reporting date, and changes therein are recognized as surplus or deficit in each period.

4. UNICEF regularly enters into contracts for structured deposits. A structured deposit is a hybrid financial instrument that has an embedded option along with a fixed-term deposit. The fixed-term deposit is deemed the host. These structured deposits include embedded derivatives. UNICEF designates such hybrid financial instruments at fair value through surplus or deficit in their entirety. As a result, UNICEF does not need to bifurcate these embedded derivatives and account for them separately. Furthermore, UNICEF holds foreign exchange forward contracts (freestanding derivatives) which are valued with reference to the prevailing United Nations operational rate of exchange. UNICEF uses derivatives only to manage foreign exchange risk. These derivatives are only contracted with creditworthy counterparties pre-approved by the Financial Advisory Committee. UNICEF does not apply hedge accounting to its derivatives and its foreign exchange forward contracts are usually closed out at year-end. If they are not closed out, derivatives with a positive fair value are reported as derivative instruments within other current assets while derivatives with a negative fair value are reported as derivative instruments within other current liabilities in the statement of financial position. Gains and losses from changes in the fair value of derivatives are recognized in net

gains and (losses) in the statement of financial performance. All financial assets at fair value through surplus or deficit are classified as current assets (see note 31).

Loans and receivables

5. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

6. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. Such loans and receivables are classified as non-current assets.

Available-for-sale financial assets

7. Available-for-sale financial assets are non-derivative financial assets comprising traded bonds. They are initially recorded at fair value plus transaction costs and subsequently are reported at fair value with any resultant fair value gains or losses recognized directly in net assets except for impairment losses, foreign currency exchange differences and interest calculated using the effective-interest method. When an available-for-sale financial asset is derecognized, the gain or deficit accumulated in net assets is reclassified to surplus or deficit. Available-for-sale financial assets are included in non-current investments unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period (see note 12 below).

Impairment of financial assets

A. Assets carried at amortized cost

8. At the end of each reporting period, UNICEF assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. UNICEF considers evidence of impairment, for loans and receivables, such as default or delinquency of a debtor, at the specific asset level. No collective impairment is made. The amount of the loss is measured as the difference between the carrying amount of an asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate for the asset. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of financial performance and reflected in an allowance account in the statement of financial position. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of financial performance.

B. Assets classified as available-for-sale

9. As noted above, at the end of each reporting period UNICEF assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from accumulated surplus (deficit) and recognized in the statement of financial performance. Impairment losses on equity instruments recognized in the statement of financial performance are not reversed through the statement of financial performance. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in surplus (deficit), the impairment loss is reversed through the statement of financial performance.

Inventory

10. Inventory held for distribution at no charge or for a nominal charge, such as programme supplies, is stated at the lower of cost or current replacement cost. Inventory held for sale, such as greeting cards and products, are stated at the lower of cost or net realizable value. Cost is determined using a weighted average cost formula.

11. The cost of inventory includes costs incurred in acquiring the inventory and other costs incurred in bringing them to their existing location and condition. For inventory acquired through a non-exchange transaction (for example, donations in kind), the fair value as at the date of acquisition is deemed to be its cost.

12. UNICEF regularly reviews inventory quantities on hand, inventory valuation and the estimated use of its inventory. If the review indicates estimated or actual losses arising from excess or obsolete inventory or a decline in the value of the inventory, the inventory is reduced to a new cost basis through a charge to other expenses in the statement of financial performance. Reductions are determined by assessing replacement costs (see note 11 below).

Property and equipment

13. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. This includes costs that are directly attributable to the acquisition of assets and the initial estimate of dismantling and site restoration costs. Where an asset is acquired for nil or nominal consideration, the fair value as at the date of acquisition is deemed to be its cost.

14. Property and equipment includes right-to-use arrangements for property that meets the criteria for recognition. An equivalent liability is established if the arrangement has conditions attached to it. The liability is released to revenue at the same time as the value of the asset is consumed through depreciation or impairment.

15. Subsequent costs are included in an asset’s carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNICEF and the cost of the item can be measured reliably.

Repairs and maintenance, which do not qualify for capitalization, are charged to surplus or deficit in the period during which they are incurred.

16. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method over the estimated useful lives. When parts of an item of property and equipment have different useful lives and are significant, they are accounted for as separate items (major components) of property and equipment.

17. Estimated useful lives are calculated as follows:

• Buildings	50 years
• Communications and information technology equipment	5 years
• Transportation equipment	5 years
• Furniture, fixtures and other equipment	10 years
• Leasehold and land improvements	Shorter of the lease term or remaining useful life of the asset

18. The gain or loss arising from the disposal or retirement of an item of property or equipment is determined as being the difference between the sale proceeds and the carrying amount of the asset, and it is recognized in other income or expenses within surplus or deficit (see note 14 below).

Intangible assets

19. Separately acquired intangible assets (for example, software and rights) and internally developed software are stated at cost less accumulated amortization and accumulated impairment losses. UNICEF does not have any intangible assets with indefinite lives.

20. Amortization of intangible assets is recognized in surplus or deficit on a straight-line basis over the estimated useful lives of the related assets. Software is amortized over periods ranging from 3 to 10 years. Other rights and licences are amortized over the shorter of the licence or rights period and 2 to 6 years (see note 15 below).

Impairment of non-cash generating assets

21. Property and equipment and intangible assets are reviewed for impairment at each reporting date. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of such assets should be assessed, including any significant decrease in market value. An impairment loss is recognized in other expenses within surplus or deficit when the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount of an asset is the higher of an asset’s fair value, less costs to sell, and its value in use. In assessing value in use, UNICEF uses a variety of methodologies depending on the availability of data and the nature of impairment, including a depreciated replacement cost approach, a restoration cost approach and a service units approach.

22. Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the impairment value has decreased or no longer exists.

An impairment deficit is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed, net of depreciation or amortization, if no impairment deficit had been recognized (see note 14 below).

Financial liabilities

23. Other financial liabilities are initially recognized at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method.

Major financial liability type	*Classification*
Accounts payable	Other financial liabilities
Finance leases and other liabilities	Other financial liabilities
Forward exchange contracts in loss	Held for trading (fair value through surplus or deficit)

24. Accounts payable and accruals arising from the purchase of goods and services are recognized when supplies are delivered or services consumed. Liabilities are stated at the invoice amounts less the payment discounts if eligible at the reporting date. Where invoices are not available at the reporting date, the liability is estimated and recorded. Financial liabilities measured at amortized cost, due within 12 months of the date of the statement of financial position, are classified as current liabilities. Otherwise, they are classified as non-current liabilities (see notes 16, 18 and 19 below).

25. Forward-exchange contracts in loss are classified as held-for-trading. Financial liabilities held-for-trading are initially recorded at fair value with any subsequent realized and unrealized gains or losses recognized in the statement of financial performance. Transaction costs are expensed as they are incurred. As at the year-end, the balance of forward-exchange contracts in loss is zero.

Funds held on behalf of third parties

26. Arrangements in which UNICEF is engaged on behalf of a third party, including procurement, administrative or custodial arrangements, are reviewed to determine whether they comprise agency arrangements. UNICEF is acting as an agent when the Fund: (a) is not primarily responsible for providing any procured goods or services; (b) is not exposed to significant inventory risk; (c) has no significant discretion in establishing prices; and (d) has no significant exposure to a partner's credit risk. A liability is reported for any cash held in the Fund's bank account that is simply passing through the account on behalf of a third party. The liability is reduced once cash is disbursed to a supplier or otherwise, in accordance with the terms of the arrangement.

27. A liability is not reported for goods held on behalf of a third party under supported deliveries arrangements where UNICEF provides logistical services (see note 18).

Employee benefits

28. UNICEF recognizes the following categories of employee benefits:

- Short-term employee benefits
- Post-employment benefits
- Other long-term employee benefits
- Termination benefits.

Short-term employee benefits

29. Short-term employee benefits are those that are due to be settled within 12 months after the end of the period during which employees have provided related services. These benefits include wages and salaries, compensated absences (such as paid leave and annual leave) and other benefits, including medical care and housing subsidies. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled as at the reporting date and represents the amount expected to be paid to settle the liability. Due to the short-term nature of such entitlements, the liability is not discounted for the time value of money.

Post-employment benefits

30. Post-employment benefits are those payable after completion of employment, excluding termination payments.

Defined contribution plan

31. UNICEF is a participating organization 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 by article 3(b) of the regulations of the Fund, membership in the Fund is 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.

32. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the 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. UNICEF, in line with the other participating organizations in the Fund, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated the plan as if it were a defined contribution plan in line with the requirements of International Public Accounting Standard 25. Thus, obligations for contributions to the Joint Staff Pension Fund are recognized as an employee benefit expense in surplus or deficit in the statement of financial performance when they are due. The employee benefit expense represents the amount of employer contributions payable for the period.

Defined-benefit plans

33. UNICEF's defined-benefit plans include after-service health insurance and certain end-of-service entitlements. UNICEF's obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is discounted to determine its present value and stated at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The calculation is performed annually by a qualified independent actuary using the projected-unit credit method. The benefits expense for these plans principally represents the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

34. The discount rate is the yield at the reporting date on high-quality credit-rated corporate bonds that have maturity dates approximating the terms of the payment obligations.

35. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to a reserve (IPSAS reserve — actuarial gains/(losses) on defined-benefit plans) in net assets during the period in which they arise. All other changes in the liability for such obligations are recognized in surplus or deficit in the period during which they arise.

Other long-term employee benefits

36. Other long-term employee benefit obligations are those that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits comprise home leave and compensation for death and injury attributable to the performance of duties. These obligations are valued annually using a qualified actuary.

37. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to a reserve (IPSAS reserve — actuarial gains/(losses) on defined-benefit plans) in net assets during the period in which they arise. All other changes in the liability for these obligations are recognized in surplus or deficit during the period in which they arise.

Termination benefits

38. Termination benefits are recognized as an expense only when UNICEF is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to reduce redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported at present value of the estimated future cash outflows.

Leases

39. UNICEF leases certain property and equipment. Leases of property and equipment where UNICEF substantially assumes all the risks and rewards of ownership are classified as finance leases. Initial recognition of a finance lease

results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments.

40. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their useful lives in accordance with the accounting policies for property and equipment.

41. Each finance lease payment is allocated between the finance lease liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense under other expenses in the statement of financial performance over the term of the lease in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in finance-lease and other obligations.

42. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of incentives received from the lessor, if any) are recognized on a straight-line basis under other expenses in the statement of financial performance over the period of the lease (see note 19 below).

Provisions

43. A provision is recognized if, as a result of a past event, UNICEF has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where the provision is expected to be settled beyond the next 12 months, the increase in the provision due to passage of time is recognized as interest expense. When an outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

44. A provision for the return of unused funds to donors is reported for unused balances related to grants that have expired at year-end where the donor agreement requires unused funds to be returned and where it is probable that funds will be returned as opposed to being reprogrammed. Where the donor has not disbursed all the cash to UNICEF, the receivable balance is written down to net realizable value. A provision for returns of unused funds is reported only if there are funds to be returned after the receivable has been fully written down. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis. The expense arising from reporting a provision (or reducing any receivable) for unused funds is presented in the statement of financial performance as a component of other expenses.

45. Other provisions include a provision for medical insurance for active employees among other provisions (see notes 10 and 21 below).

Revenue recognition

Voluntary contributions

46. Voluntary contributions are non-exchange transactions, which means that resources (such as cash, items of property and equipment, inventory or enforceable rights to such) are received by UNICEF with no or with nominal consideration provided directly in return to the donor. The resources are to be applied towards advancing UNICEF's mission.

47. Voluntary contributions are received from Governments, intergovernmental agencies, National Committees for UNICEF, other United Nations organizations, other non-governmental organizations and individuals.

48. Voluntary contributions may be subject to terms in a binding agreement imposed upon the use of the resource (termed earmarked funds or other resources) or may be free of specific terms allowing UNICEF to direct such resources according to its mandate (termed unearmarked funds or regular resources). Earmarked funds may be subject to conditions where terms not only restrict the use of resources, but also require the return of resources, if not used as specified.

49. With regards to unearmarked funds (regular resources) and earmarked funds (other resources) with no conditions attached, UNICEF recognizes an asset (cash or receivable) and revenue at the earlier of cash received or formal acknowledgement/agreement of the contribution to be provided unless the agreement specifies a later contribution start date. Funds received for future years are recorded as "contributions received in advance" while amounts accrued for future years are presented separately as "deferred revenue".

50. For earmarked contributions:

(a) Where the agreement has a legislative clause, the receivable and related revenue is not recorded until UNICEF is notified of the legislative approval;

(b) Where the agreement has a performance clause, the receivable and related revenue is not recorded until UNICEF has performed its obligation.

51. For earmarked funds with a condition attached, UNICEF recognizes an asset (cash or receivable) and a liability (that is, contributions received in advance) at the earlier of cash received or formal written acknowledgement/agreement of the contribution to be provided (unless the contribution specifies a later start date). The liability is reduced and revenue is recognized only when conditions have been satisfied.

52. Assets received or receivables recorded are initially measured at their fair value. Fair values of non-monetary assets (that is, in-kind contributions) are determined by reference to observable market values or by independent appraisal.

53. Revenue from voluntary contributions is shown net of:

(a) Returns of unused funds to donors, transfer of unused funds to regular resources, transfer of unused funds to other resources and write-downs of receivables that are no longer enforceable by UNICEF following the expiry or termination of contribution agreements;

(b) Realized gains and losses on foreign exchange as UNICEF does not assume the risk of foreign exchange on contribution revenue consistent with its Regulations and Rules (see note 23 below).

Contributions in kind

54. UNICEF receives contributions of office space and other facilities from member States. These contributions, as well as in-kind contributions of goods, are initially measured and recorded at their fair value at the date of receipt. The fair value of these non-monetary assets is determined by reference to observable market values or by independent appraisal. The revenue and the corresponding expense are recorded in the statement of financial performance as part of voluntary contributions.

55. UNICEF does not recognize contributions of services in-kind as assets and revenue, with the exception of contributions of transportation of supplies. Many of these services cannot be measured reliably and many are not considered specialized professional skills or crafts that would otherwise be purchased by the organization.

Revenue from exchange transactions

56. Exchange transactions are transactions in which UNICEF sells goods or provides services. Revenue comprises the fair value of considerations received or receivable for the sale of goods and services. Revenue is shown net of returns and discounts.

57. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met for each of the type of activities described below:

(a) Revenue from sales of greeting cards and products is recognized by UNICEF in the reporting year the sale has been made to a final customer. Where greeting cards and products are sold with volume discounts, revenue is stated net thereof;

(b) Revenue from the transfer of pre-positioned supplies at cost to fulfil a procurement services contract with a third party is recorded when goods are delivered to the freight forwarder;

(c) Revenue from commissions and fees for procurement, administrative, custodial and other services rendered to Governments, United Nations organizations and other partners is recognized when the right to receive payment is established;

(d) Interest revenue is recognized on a time-proportion basis, using the effective interest rate method with regard to the respective financial asset;

(e) Revenue from royalties is recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to UNICEF, and the amount of revenue can be measured reliably (see notes 23 to 26 below).

Recognition of expenses

58. Expenses are recognized in the statement of financial performance in the period to which they relate.

Transfers of cash assistance and programme supplies

59. In fulfilling its mandate, UNICEF transfers cash and programme supplies to Governments, non-governmental organizations and other third parties (“implementing partners”). In the case of transferred supplies, an expense is recorded when the control of goods is transferred to an implementing partner. Transfers of cash assistance are initially reported as an advance on the statement of financial position where there are performance obligations imposed on the implementing partner, and they are expensed when UNICEF is satisfied that those performance obligations are met. A provision against advances is recorded at year-end for expenses incurred by implementing partners but not yet reported to UNICEF (see notes 10 and 28 below).

Commitments

60. Commitments are future expenses and liabilities to be incurred on contracts outstanding at the reporting date for which UNICEF has little, if any, discretion to avoid in the ordinary course of operations, including:

(a) Capital commitments: represents the aggregate amount of capital expenditures contracted for but not recognized as paid or provided for at the period-end;

(b) Contracts for the supply of goods or services which UNICEF is expecting to be delivered in the ordinary course of operations;

(c) Cash transfers;

(d) Other non-cancellable commitments.

Commitments relating to employment contracts are not included in the commitments note. In addition, UNICEF does not have any non-cancellable lease agreements (see note 33 below).

Contingencies

Contingent assets

61. A contingent asset is a possible asset that is not wholly within the control of the organization. Contingent assets are reviewed to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an asset is no longer contingent and the asset’s value can be measured reliably, the asset is recognized during the period in which the change occurs (see note 34 below).

Contingent liabilities

62. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recorded during the period in which the change of probability occurs (see note 34 below).

Segment reporting

63. Operating segments are reported in a manner consistent with internal reporting on strategic decision-making on resource allocation and assessment of financial performance provided to the Fund’s Executive Director. For UNICEF, the relevant

segments are labelled institutional, regular resources, other resources — regular and other resources — emergency.

64. The operating segments represent fund types and enable the Executive Director to ensure that UNICEF accounts for financial resources in compliance with its Financial Regulations and Rules (see note 36 below).

Note 7
Comparison to budget

1. UNICEF approved budgets, which are approved by the Executive Board, permit expenditures to be incurred. UNICEF has classified its budgets as: (a) country programme budgets; (b) emergency appeal budgets; (c) advocacy and programme development and intercountry programme; (d) emergency programme fund; (e) institutional budget; and (f) Private Fundraising and Partnerships budget.

2. Programme budgets include activities such as programme formulation, implementation, monitoring and evaluation, and programme and technical policy advisory services, which are funded from country/regional/global programmes or other programming arrangements as direct costs. Examples include supplies and equipment, subcontracts, cash assistance, programme and technical advisers, monitoring and evaluation advisers, related direct support staff and operational costs.

3. The Private Fundraising and Partnerships budget consists of the annual level of estimated financial resources required for the best achievement of its objectives. The budget is provided from regular and other resources.

4. The institutional budget is also broken down by cost classification, which is comprised of the following categories as disclosed in statement V (Comparison of budget to actual amounts): development effectiveness, a subclassification of development activities, which also includes programme; management; special purpose; and United Nations development coordination. These cost classifications are defined as follows:

(a) **Development effectiveness**. This comprises the costs of activities of a policy-advisory, technical and implementation nature that are needed for the achievement of the objectives of programmes and projects in the focus areas of the organization. These inputs are essential to the delivery of development results, and are not included in specific programme components or projects in country, regional or global programme documents;

(b) **Management**. This comprises activities and associated costs whose primary function is the promotion of the identity, direction and well-being of an organization. These include executive direction, representation, external relations and partnerships, corporate communications, legal, oversight, audit, corporate evaluation, information technology, finance, administration, security and human resources;

(c) **Special purpose**. This covers activities and associated costs of a cross-cutting nature that (i) are mandated by the General Assembly (that is, not within the direct management control of the organizations); (ii) involve material capital investments; or (iii) do not represent a cost related to the management activities of the organization;

(d) **United Nations development coordination**. This comprises activities and associated costs supporting the coordination of development activities of the United Nations system.

5. The emergency appeals budgets and the Private Fundraising and Partnerships budget were approved for the financial year 2012. The budgets for advocacy and programme development and intercountry programmes, the budget for the Emergency Programme Fund and the institutional budget were approved for a two-year period comprising financial year 2012-2013. The country programme budgets are approved for varying multi-year cycles usually between five to seven years. Whenever budgets are prepared for a multi-year period, UNICEF breaks them down into annual amounts in order to provide the budget-to-actual comparison.

6. While UNICEF's financial statements are prepared under the IPSAS full-accrual basis, UNICEF budgets are prepared and managed on a modified cash basis.

7. Statement V, Comparison of budget and actual amounts, documents the various budgets to the actual amounts incurred against them. Both budgets and actuals are calculated on the same modified cash basis. Explanations of material differences between the original and the final budgets as well as between final budgets and actual amounts are presented in the financial report for the year ended 31 December 2012 and form part of these financial statements.

8. Actual net cash flows from operating activities, investing activities and financing activities reconcile with the amounts presented in the following financial statements:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Exchange rate changes*	***Total***
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(3 865 713)	–	–	–	**(3 865 713)**
Basis differences	379 730	(690 358)	(3 327)	–	**(313 955)**
Exchange rate changes on cash and cash equivalents	–	–	–	(5 681)	**(5 680)**
Entity differences	(101 514)	–	–	–	**(101 514)**
Presentation differences	3 941 790	–	–	–	**3 941 790**
Net cash flows from the statement of cash flows	**354 293**	**(690 358)**	**(3 327)**	**(5 681)**	**(345 072)**

Note 8
Cash and cash equivalents

Convertible cash in the bank and on hand are those currencies that are allowed to be freely exchanged to other currencies without licence or authorization. Non-convertible cash at bank and on hand are those currencies that cannot be freely exchanged into other currencies without permission from the national/central bank of the host country.

Cash and cash equivalents

(Thousands of United States dollars)

	2012
Cash at bank and on hand — convertible	154 959
Cash at bank and on hand — non-convertible	26 996
Cash at bank in money market demand accounts	158 697
Term deposits and other (90 days or less)	609 143
Total cash and cash equivalents	**949 795**

Credit ratings for financial assets are disclosed in note 31.

Note 9
Contributions receivable and other receivables

Contributions receivable

(Thousands of United States dollars)

	Governments and intergovernmental agencies	*Inter-organizational arrangements*	*National Committees*	*Other organizations*	*Total*
Gross current receivables					
Unearmarked	3 808	–	257 730	–	261 538
Earmarked	354 907	2 573	101 375	1 138	459 993
Impairment	–	–	–	–	–
Total current contributions	**358 715**	**2 573**	**359 105**	**1 138**	**721 531**
Gross non-current receivables					
Unearmarked	16 155	–	680	–	16 835
Earmarked	235 989	–	–	–	235 989
Impairment	–	–	–	–	–
Total non-current contributions receivable	**252 144**	**–**	**680**	**–**	**252 824**
Total contributions receivable	**610 859**	**2 573**	**359 785**	**1 138**	**974 355**

1. Receivables are earmarked when agreements specify terms for the use of contributions, such as the purpose, geographical area and period of use, and are unearmarked when contributions are free of specific terms, allowing UNICEF to direct such resources according to its mandate. Both earmarked and unearmarked receivables are recorded when contribution agreements become enforceable, which occurs at the date when the agreement is signed, free of general termination, legislative approval or reduction clauses, or at the date when donor’s notification of the amount to be disbursed to UNICEF when such clauses exist is received. Where a prerequisite for payment exists, both earmarked and unearmarked receivables are recorded when UNICEF has met the prerequisite. Ageing of receivables as well as

UNICEF's exposure to credit and currency risks related to those receivables is disclosed in note 31.

Other receivables

2. Unused transfers of cash assistance due from implementing partners represent the Fund's claims to unused cash assistance funds remaining with implementing partners after the completion or termination of a project.

3. Receivables from staff members includes interest-free advances from UNICEF to staff for up to 12 months for specified purposes, such as initial appointment or reappointment or reassignment. As those advances have an initial maturity of less than 12 months, the carrying value approximates the fair value.

4. UNICEF's exposure to credit and currency risks related to other receivables is disclosed in note 31 below.

Other receivables

(Thousands of United States dollars)

	2012
Current other receivables	
Receivables from sales of greeting cards and products	35 273
Value-added tax receivables	10 846
Receivables from staff members	6 303
Receivables from procurement services	–
Receivables from other United Nations agencies	2 434
Unused transfers of cash assistance due from implementing partners	8 117
Other	1 541
Impairment	(5 340)
Total current other receivables	**59 174**
Non-current other receivables	**428**
Total other receivables	**59 602**

Note 10
Advances of cash assistance

(Thousands of United States dollars)

	2012
Advances of cash assistance by region	
Central and Eastern Europe and Commonwealth of Independent States	7 795
East Asia and Pacific	41 463
Eastern and Southern Africa	196 858
Latin America and Caribbean	36 502

	2012
Middle East and North Africa	70 634
South Asia	95 480
Western and Central Africa	176 710
Transfers to United Nations agencies and other organizations at Headquarters	575
Adjustment	(69 356)
Total advances of cash assistance by region	**556 661**

1. Advances of cash assistance represent transfers of cash assistance where implementing partners have not yet met performance obligations as specified by UNICEF. UNICEF monitors the utilization of cash assistance by implementing partners and liquidates advances and recognizes expenses only when those funds have been used by implementing partners as specified by UNICEF.

2. Reporting by implementing partners on the utilization of cash assistance is due within up to 6 months. Where an implementing partner fails to report on the utilization of cash assistance or breaches the performance obligation, those amounts, as well as any unused funds, are reclassified from advances of cash assistance to other receivables (unused transfers of cash assistance due from implementing partners). The impairment of receivables is disclosed in note 9.

3. The adjustment included in the above table represents an accrual for timing differences where implementing partners have incurred valid expenses as at 31 December, although reports had not yet been received by UNICEF at the reporting date.

Note 11
Inventory
(Thousands of United States dollars)

	2012
Programme supplies	262 144
Greeting cards and products	8 064
Total inventories	**270 208**

The cost of sales for greeting cards and products is disclosed in note 24 below. The cost of direct sales for procurement services is disclosed in note 26 below.

Note 12
Investments
(Thousands of United States dollars)

	2012
Current investments	
Term deposits (greater than 90 days)	1 989 991
Traded bonds	–
Structured deposits	209 190
Forward exchange contracts in gain	–
Total current investments	**2 199 181**
Non-current investments	
Term deposits	–
Traded bonds	301 026
Total non-current investments	**301 026**
Total investments	**2 500 207**

Note 13
Other assets
(Thousands of United States dollars)

	2012
Education grant advances to staff members	7 807
Prepaid expenses and other assets	221 580
Total other assets	**229 387**

Prepaid expenses and other assets are mainly comprised of advances to vendors.

Note 14

Property and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Leasehold improvements*	*Furniture, fixtures and equipment*	*Infrastructure, information technology and communications equipment*	*Office information technology and computer equipment*	*Transportation equipment*	*Total*
Cost								
Balance at 1 January 2012	83 712	84 123	998	5 769	11 407	2 300	374	188 683
Additions	–	4 122	691	1 745	2 189	2 719	4 658	16 124
Disposals	–	–	–	(368)	(2 458)	(64)	(77)	(2 967)
Balance at 31 December 2012	**83 712**	**88 245**	**1 689**	**7 146**	**11 138**	**4 955**	**4 955**	**201 840**
Accumulated depreciation								
Balance at 1 January 2012	–	–	–	(5 317)	(6 635)	(1 770)	(351)	(14 073)
Depreciation	–	(4 726)	(143)	(271)	(1 741)	(687)	(401)	(7 969)
Impairment loss	–	–	–	–	–	–	–	–
Reversal of impairment	–	–	–	–	–	–	–	–
Disposals	–	–	–	301	2 417	61	73	2 852
Balance at 31 December 2012	**–**	**(4 726)**	**(143)**	**(5 287)**	**(5 959)**	**(2 396)**	**(679)**	**(19 190)**
Carrying value at 31 December 2012	**83 712**	**83 519**	**1 546**	**1 859**	**5 179**	**2 559**	**4 276**	**182 650**

1. UNICEF does not currently hold any donated property or items of equipment that are subject to conditions.

2. Included within buildings are $3.88 million in construction, renovation and security enhancements costs in progress.

3. The carrying value of property and equipment recognized under finance leases is:

(Thousands of United States dollars)

	2012
Land	80 000
Buildings	69 375
Furniture, fixtures and equipment	194
Total	**149 569**

4. UNICEF leases a building, the adjacent plaza and the land underlying both, collectively referred to as the Three United Nations Plaza complex, from the United Nations Development Corporation, a public benefit corporation of the State of New York. The lease agreement, which commenced in 1984 (with amendments thereto in 1994 and 2009) and expires in 2026, is classified as a finance lease. UNICEF will receive title to the Three United Nations Plaza complex upon the expiration of the lease agreement if it fulfils the conditions of continuous and uninterrupted occupancy of the building and maintenance of its worldwide headquarters in New York City until 2026.

5. The Three United Nations Plaza complex is recorded on the statement of financial position at its estimated fair value as at the date of the adoption of IPSAS. The annual lease payments of $6.73 million, exclusive of operating expense escalations, are allocated between the finance charges and the repayment of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the obligation. While the building and plaza are depreciated over their remaining useful lives, the underlying land is not depreciated. Finance charges on the Three United Nations Plaza complex are recorded within finance costs while depreciation expense on the building and plaza are recorded within depreciation and amortization expense in the statement of financial performance.

6. UNICEF has approximately 700 operating lease agreements for land, office, warehouse and residential space. The majority of lease agreements are under commercial terms. Approximately 150 agreements are for space provided to UNICEF by host Governments on a free-of-charge basis, for which fair value of annual rent was estimated and recognized as an expense of $19.86 million as well as in-kind contributions revenue (see note 23). Rent for all operating leases is reported within rental and leasing expense (see note 30).

Note 15
Intangible assets

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Intangibles under development*	*Total*
Cost				
Balance at 1 January 2012	–	–	–	–
Additions	229	3 131	974	4 334
Balance at 31 December 2012	**229**	**3 131**	**974**	**4 334**
Amortization	(8)	(465)	–	(473)
Carrying value at 31 December 2012	**221**	**2 666**	**974**	**3 861**

Note 16
Accounts payable and accrued expenses

(Thousands of United States dollars)

	2012
Accounts payable	243 117
Accrued expenses	595
Total accounts payable	**243 712**

The exposure of UNICEF to currency and liquidity risk related to trade and other payables is disclosed in note 31 below.

Note 17
Contributions received in advance and deferred revenue

(Thousands of United States dollars)

	2012
Contributions received in advance of specified period	22 415

1. Contributions received in advance of a specified period include contributions received, which, based on the terms of agreements, are to be used by UNICEF in future periods specified by donors. The liability is reduced and revenue from contributions is recognized at the start date of the specified period. The total of contributions received in advance and deferred revenue (see below) is reported together on the statement of financial position.

2. Deferred revenue comprises accrued contributions receivable related to future years.

Deferred revenue balance

(Thousands of United States dollars)

	2012
Closing balance	**513 297**
Current portion	268 080
Long-term portion	245 217

Note 18
Funds held on behalf of third parties

1. The following table summarizes the movement in the balance of funds held on behalf of others.

(Thousands of United States dollars)

	Balance at 1 January 2012	*Funds received*	*Funds disbursed*	*Balance at 31 December 2012*
Procurement services				
Governments	360 916	328 812	(411 563)	278 165
Inter-organizational arrangements	102 756	207 886	(137 515)	173 127
Non-governmental organizations	474	10 441	(426)	10 489
National Committees	(3)	14	(13)	(2)
Global Alliance for Vaccines and Immunization (GAVI)	–	934 447	(826 986)	107 461
Other arrangements				
Others	5 557	60 101	(64 745)	913
Total	**469 700**	**1 541 701**	**(1 441 248)**	**570 153**

2. Funds held on behalf of third parties represent liabilities in respect of cash held in UNICEF bank accounts under agency arrangements.

3. For standard procurement services, UNICEF is responsible for arranging and coordinating the delivery of goods or services on behalf of procuring partners (including Governments and United Nations agencies). Funds are received from procuring partners in advance to cover UNICEF commitments to suppliers and handling fees (fixed percentage).

4. Similarly, for procurement services funded by the Global Alliance for Vaccines and Immunization (GAVI), UNICEF arranges and coordinates the procurement and delivery of vaccines and vaccine-related devices on behalf of the Alliance for the benefit of eligible countries. Funds are received from the Alliance in advance and kept in an escrow account for which UNICEF has a security interest and sole drawing rights. UNICEF draws funds to its own bank account prior to paying suppliers.

5. In other arrangements, UNICEF receives and disburses cash on behalf of a third party.

Note 19
Finance lease and other liabilities

1. The following table summarizes finance lease and other liabilities balances for 2012.

(Thousands of United States dollars)

	2012
Current other liabilities	
Unearned income	15 071
Finance lease liabilities	3 162
Other	7 458
Total current finance lease and other liabilities	**25 691**
Non-current other liabilities	
Finance lease liabilities	58 439
Total non-current finance lease and other liabilities	**58 439**
Total finance lease and other liabilities	**84 130**

2. Other liabilities include unapplied cash that has been received by UNICEF and land and building sold but not yet transferred.

3. The following table presents minimum lease payments payable for finance leases, the present value of minimum lease payments payable and future finance charges for 2012.

(Thousands of United States dollars)

	2012
Undiscounted minimum lease payments	
Not later than one year	6 903
Later than one year and not later than five years	27 036
Later than five years	57 192
Total	**91 131**
Present value of minimum lease payments	
Not later than one year	3 162
Later than one year and not later than five years	14 130
Later than five years	44 309
Total	**61 601**

4. In 2012 UNICEF made payments under finance leases totalling $6.90 million.

Note 20
Employee benefit liabilities
(Thousands of United States dollars)

	2012
Current employee benefit liabilities	
Home leave	6 206
Annual leave	75 900
Accrued contributions to UNJSPF	–
Other end-of-service entitlements	3 126
After-service health insurance[a]	–
Other employee benefits	1 829
Total current employee benefit liabilities	**87 061**
Non-current employee benefit liabilities	
Home leave	875
Annual leave	–
Accrued contributions to UNJSPF	–
Other end-of-service entitlements	110 430
After-service health insurance[a]	950 305
Other employee benefits	551
Total non-current employee benefit liabilities	**1 062 161**
Total employee benefit liabilities	**1 149 222**

[a] After-service health insurance in this table includes liability for the medical insurance plan.

Multi-employer pension plans

1. UNICEF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The pension plan is a funded multi-employer defined-benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund is 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.

2. The actuarial method adopted by the United Nations Joint Staff Pension Fund to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future assets and liabilities, is the open group aggregate method, which uses various sets of assumptions as to future economic and demographic developments. The United Nations Board of Auditors carries out an annual audit of the Fund and reports to the General Assembly on the audit every two years.

3. At the time of the compiling of the present financial statements, the most recent actuarial valuation carried out was at 31 December 2011 and the plan reported an actuarial deficit. This information is publicly available and is presented below.

Actuarial valuation of the United Nations Joint Staff Pension Fund: 31 December 2011
(Thousands of United States dollars)

	2011
United Nations Joint Staff Pension Fund actuarial surplus/(deficit)	(6 709 800)
Surplus/(deficit) as a percentage of pensionable remuneration	1.87

Contributions to the United Nations Joint Staff Pension Fund: 2012
(Thousands of United States dollars)

	2012
UNICEF contributions	123 502
Participant's contributions	61 751
Total contributions	**185 253**

4. The financial obligation of UNICEF to the United Nations Joint Staff Pension Fund consists of its mandated contribution, at the same uniform rate as specified by the Regulations of the Fund (7.9 per cent for participants and 15.8 per cent for member organizations), which was established by the General Assembly, together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund.

5. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following the determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the fund as of the valuation date. Under that provision, each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date. At the time of the writing of the present report, the General Assembly had not invoked that provision.

6. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and other participating organizations in the plan. UNICEF, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has accounted for the plan as if it were a defined contribution plan in line with International Public Sector Accounting Standard 25 (Employee Benefits).

Defined-benefit plans

7. In addition to the benefit provided by the United Nations Joint Staff Pension Fund, UNICEF offers to its employees and former employees the following defined-benefit plans.

(a) **After-service health insurance.** This plan is the largest, providing worldwide coverage for the health-related expenses of eligible former staff members and their dependants. The liability represents the present value of the share of UNICEF medical insurance costs for retirees and post-retirement benefits accrued to date by active staff. It comprises three main arrangements: United States-based insurance plans; Van Breda/Geneva; and the medical insurance plan;

(b) **The after-service health insurance medical insurance plan.** This plan is a health and dental insurance scheme operated by UNICEF for the benefit of its locally recruited active staff members (both in the General Service and National Officer categories) and for former locally recruited staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters locations.

8. The after-service health insurance medical insurance plan is presented with the after-service health insurance liability in the first table to this note. For further transparency, the medical insurance plan liability is presented separately from the after-service health insurance liability in the tables below.

9. **End-of-service** entitlements comprise repatriation grant, travel expenses and shipping costs.

10. **Death** benefit is a post-employment defined-benefit plan. The obligation to provide this entitlement is generated when eligible employees report for service. The payment is made upon the death of an employee who leaves behind a surviving spouse or a dependent child.

11. Defined-benefit plans are appraised using an actuarial valuation method; additional details on the valuation of the plans are provided below

12. The movement in the present value of the defined-benefit obligation for each of the defined-benefit plans, as provided in the table below, is included in the year-end employee benefit liability.

Movement in the value of the defined-benefit obligation: 2012

(Thousands of United States dollars)

Defined-benefit obligation	*After-service health insurance*	*End-of-service entitlements*	*Medical insurance plan*	*Death benefit*	*Total*
Balance at 1 January 2012	494 464	97 872	288 708	2 964	884 008
Current service cost	22 696	6 690	20 406	343	50 135
Interest cost on benefit obligation	22 084	4 212	12 945	127	39 368
Actuarial losses/(gains) on benefit obligation	57 964	4 692	40 548	123	103 327
Benefits paid (net of participant contributions)	(7 419)	(8 544)	(2 091)	(282)	(18 336)
Past service costs	–	–	–	–	–
Balance at 31 December 2012	**589 789**	**104 922**	**360 516**	**3 275**	**1 058 502**

Contributions from the United Nations Children's Fund for each of the contributory defined-benefit plans: 2012

(Thousands of United States dollars)

UNICEF contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical insurance plan*	*Total*
2012 actual contributions	6 519	41 757	13 968	62 244

Contributions from plan participants for each of the contributory defined-benefit plans: 2012

(Thousands of United States dollars)

Participant contributions	*After-service health insurance*	*End-of-service and death benefit*	*Medical insurance plan*	*Total*
2012 actual contributions	n/a	n/a	3 722	3 722

13. The value of the defined-benefit obligation equals the defined-benefit liability that is recognized in the statement of financial position since any assets set aside by UNICEF to fund those benefits do not qualify as plan assets under International Public Sector Accounting Standard 25 because such assets are not held in a trust that is legally separate from the reporting entity, which exists solely to pay or fund employee benefits. UNICEF earmarks funds to reserves for each of the defined-benefit plans below (see table below under "funding of reserves" for details). The amounts recognized in the statement of financial performance are as follows:

(Thousands of United States dollars)

	After-service health insurance	*End-of-service*	*Medical insurance plan*	*Death benefit*	*Total*
Current service cost	22 696	6 690	20 406	343	50 135
Interest cost on benefit obligation	22 084	4 212	12 945	127	39 368
Expected return on plan assets	–	–	–	–	–
Past-service cost benefit — vested	–	–	–	–	–
Total expense included in surplus (deficit)	**44 780**	**10 902**	**33 351**	**470**	**89 503**

Actuarial losses (gains) recognized directly in net assets: 2012

(Thousands of United States dollars)

Actuarial losses/(gains)on benefit obligation	*After-service health insurance*	*End-of-service*	*Medical insurance plan*	*Death benefit*	*Total*
Current period	57 964	4 692	40 548	123	103 327

14. UNICEF funds its liabilities for the defined-benefit plans it offers to its employees through the use of reserves. Reserves, like other savings plans, are mechanisms for earmarking funds for future expenses of a designated nature. The funding deficit for the aggregate of the defined-benefit plans and other liabilities is presented in the table below. The table includes liabilities and earmarked funds for

actuarially determined defined-benefit plans (for example, after-service health insurance, end-of-service entitlements, medical insurance plan and death benefits) and for other liabilities, including annual leave.

(Thousands of United States dollars)

	2012
Funding of reserves	
Actuarial liabilities recognized in the statement of financial position	1 058 502
Other liabilities and provisions recognized in the statement of financial position	77 692
Funding	(444 830)
Funding deficit	**691 364**

Actuarial valuation

15. The financial health of the defined-benefit plans is measured by actuarial valuations.

16. An actuarial valuation conducted by UNICEF actuaries in 2011 (as at 31 December 2011) was used for the IPSAS opening balances on 1 January 2012. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

17. The census data provided to the actuary and used in the calculations for the defined-benefit plans as at 31 December 2011 represented employee data as at 31 December 2011. For 31 December 2012, a roll-forward of the obligations was performed by the actuaries. The only actuarial assumption that changed from the 31 December 2011 actuarial valuation was the discount rate for all of the benefits. Details on actuarial assumptions are provided below.

18. The next formal valuations will be conducted in 2013 (as at 31 December 2013).

19. Actuarial valuations as at 31 December 2012 and 1 January 2012 include actuarial losses resulting from changes in the major assumptions used by the actuary since the previous valuation. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in the table under paragraph 12 above as "(net of participant contributions)", are deducted from the obligation to determine the residual obligation borne by UNICEF. Retirees and active staff members participate in the same health-care plans. Their collective contributions are offset against the total cost of providing health care in accordance with the cost-sharing ratios approved by the General Assembly.

Actuarial assumptions

20. The two key assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. These assumptions must be based on the same underlying inflation assumption.

21. **Inflation rate**. The inflation rate is an economic indicator that measures the rate of increase of a price index. Under International Public Sector Accounting

Standard 25 (para. 88) assumptions such as the discount rate and the health-care cost trend should be based on the same underlying inflation assumption. An inflation assumption rate of 2.5 per cent was used for the 1 January 2012 IPSAS opening-balance valuation. There was very little change in the long-term inflation expectations during 2012 and it appears therefore that the 2.5 per cent inflation assumption rate can continue to be used as a proxy for the long-term inflation expectations 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

22. **Discount rate**. The discount rate should reflect the time value of money and the estimated timing of future-benefit payments. In accordance with International Public Sector Accounting Standard 25, the discount rate used to determine the defined-benefit obligations should be based on market rates for high-quality corporate bonds that match the currency and estimated term of the obligations. The United Nations has used spot rates from the Citigroup pension discount curve as the basis for determining the discount rate for the actuarially valued defined-benefit plans. For the 1 January 2012 IPSAS opening-balance valuation, the single equivalent discount rate was 4.42 per cent. The United Nations agencies selected a 4.5 per cent discount rate for use in that valuation, continuing the past practice of rounding the single equivalent rate to the nearest 25 basis points.

23. Based on the analysis for 2012, the single equivalent discount rate is 4.07 per cent as of 31 December 2012 and a discount rate, rounding to the nearest 25 basis points, would equal 4.0 per cent.

24. **Rate of compensation increase**. The rate of compensation increase used for defined-benefit obligations represents a long-term assumption and includes components for inflation, productivity increases and merit and promotion adjustments.

25. **Future mortality assumptions**. Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics in the form of mortality tables.

26. **After-service health insurance participation and election assumption**. It is assumed that 95 per cent of future retirees who are expected to meet the eligibility requirements for after-service health insurance benefits will participate in the plan in retirement; and that 80 per cent of future male retirees and 50 per cent of future female retirees will be married at the time of retirement and will elect to cover their spouse under the same medical arrangement that they have elected.

27. The following table summarizes the principal actuarial assumptions used to determine the defined-benefit liabilities, expressed as weighted averages, where applicable.

	Percentage
Discount rate	
Rate at 1 January 2012	4.5
Rate at 31 December 2012	4.0
Rate of inflation	2.5
Expected rate of medical cost increase	
2013 Medical inside the United States[a]	7.00
2027 and onwards Medical inside the United States	4.50
2013 United States dental	5.00
2027 and onwards United States dental	4.50
Expected rate of salary increases (declining from age 20 to age 60)	**6.86-4.00**

[a] United States Medical Medicare (United States medical non-Medicare is slightly higher).

Current rates of death underlying the values of UNICEF liabilities

Rate of death: pre-retirement	*At age 20*	*At age 69*
Male	0.00065	0.00906
Female	0.00034	0.00645

Rate of death: post-retirement	*At age 20*	*At age 70*
Male	0.00072	0.01176
Female	0.00037	0.00860

Rates of retirement for Professional staff with 30 or more years of service

Rate of retirement	*At age 55*	*At age 62*
Male	0.200	0.750
Female	0.250	0.750

Sensitivity analysis

28. The following table outlines the potential impact of changes in certain key assumptions used in measuring defined-benefit obligations and benefit costs. The sensitivity analysis contained in the table is hypothetical and should be used with caution. If the assumptions about the discount rate and the health-care cost trends described above were to change, this would impact the measurement of the obligation and expense as shown in the table below.

Potential impact of changes in key assumptions used in measuring defined-benefit obligations and benefit costs

(Thousands of United States dollars)

Sensitivity of assumptions (impact on)	*After-service health insurance*		*End of service*	*Medical insurance plan*		*Death-benefit obligation*
	Obligation	*Expense*	*Obligation*	*Obligation*	*Expense*	
Discount rate						
Impact of: 1 per cent increase	(107 636)	n/a	(8 922)	(75 348)	n/a	(238)
Impact of: 1 per cent decrease	143 791	n/a	10 404	103 252	n/a	272
Health-care cost trend rates						
Impact of: 1 per cent increase	138 330	13 026	n/a	99 749	10 982	n/a
Impact of: 1 per cent decrease	(106 036)	(9 616)	n/a	(74 535)	(7 947)	n/a

Note 21
Provisions

(Thousands of United States dollars)

	For returns of unused funds	*Other provisions*	*Total*
Balance at 1 January 2012	**19 709**	**1 624**	**21 333**
Additional provisions recognized	(1 767)	115	(1 652)
Reversal of previous provisions	–	–	–
Balance at 31 December 2012	**17 942**	**1 739**	**19 681**

A provision is reported for unused funds to be returned to donors, as determined for all completed or terminated projects in the reporting year in which the contribution agreements require the return of unused funds. UNICEF expects to settle the liability within 12 months from the reporting date.

Note 22
Net assets

(Thousands of United States dollars)

		IPSAS reserves		Other reserves							
	Accumulated surpluses	*Actuarial gain/(loss)*	*Investment revaluation*	*Procurement services*	*Insurance*	*After-service health insurance fund*	*Separation fund*	*Medical insurance plan fund*	*Capital assets fund*	*Total reserves*	*Total net assets*
Balance at 31 December 2011, as previously reported	**2 539 279**	**–**	**–**	**2 000**	**115**	**270 000**	**51 403**	**–**	**27 365**	**350 883**	**2 890 161**
Prior-period adjustment	19 402	–	–	–	–	–	–	–	(19 402)	(19 402)	–
Balance at 31 December 2011, restated	**2 558 681**	**–**	**–**	**2 000**	**115**	**270 000**	**51 403**	**–**	**7 963**	**331 480**	**2 890 161**
Net changes in accounting policy	(47 861)	–	25	–	–	–	–	65 183	–	65 208	17 347
Balance at 1 January 2012	**2 510 820**	**–**	**25**	**2 000**	**115**	**270 000**	**51 403**	**65 183**	**7 963**	**396 688**	**2 907 508**
Surplus/(deficit)	319 469	–	–	–	–	–	–	–	–	–	319 469
Actuarial gains/(losses)	–	(103 327)	–	–	–	–	–	–	–	(103 327)	(103 327)
Changes in fair value of available-for-sale financial assets	–	–	465	–	–	–	–	–	–	465	465
Transfers to/from the fund	(58 161)	–	–	–	–	53 491	(711)	5 465	(84)	58 161	–
Balance at 31 December 2012	**2 772 128**	**(103 327)**	**490**	**2 000**	**115**	**323 491**	**50 692**	**70 647**	**7 878**	**351 986**	**3 124 114**

1. Net assets represent the value of UNICEF assets less its outstanding liabilities at the reporting date. UNICEF net assets comprise accumulated surpluses and reserves.

2. Accumulated surpluses represent the accumulated surpluses and deficits from UNICEF operations over the years.

3. UNICEF maintains the following IPSAS reserve and other reserves (see paras. 5-11). For internal reporting and budgeting purposes, the UNICEF Executive Board has designated portions of accumulated surpluses as funding for specified activities and future expenses, including after-service health insurance, capital assets, the separation fund, procurement services and insurance.

4. **Reserve for investment revaluation**. The reserve comprises revaluation transactions of available-for-sale financial assets. Where a revalued financial asset is

sold, the portion of reserve that relates to that financial asset is effectively realized and is recognized in the statement of financial performance. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognized in the statement of financial performance.

5. **Reserve for after-service health insurance**. In 2003, the Executive Board approved the establishment of a reserve for after-service health insurance. The reserve is used to fund the after-service health insurance liability included in employee benefit liabilities and recorded on the statement of financial position.

6. **Reserve for capital assets**. In 1990, the Executive Board approved the establishment of a capital asset reserve of $22.0 million from regular resources to improve control over future purchases of capital assets such as office buildings and staff housing in the field.

7. **Reserve for separation fund.** In 2006, the Executive Board approved the establishment of a separation fund to cover separation and termination liabilities. The fund comprises the net accumulation of total contributions from the funding source of current eligible staff members less payments made to staff members upon termination or retirement.

8. **Reserve for procurement services**. In 1993, the Executive Board approved the establishment of a reserve for procurement services of $2.0 million to absorb possible future shortfalls. The reserve was funded by the surplus of handling fees charged for each procurement request against staff and related expenses charged against such fees by the Supply Division.

9. **Reserve for medical insurance plan**. The medical insurance plan is a health and dental insurance scheme operated by UNICEF for the benefit of their locally recruited active staff members (both in the General Service and National Officer categories) and former locally recruited staff members (and their eligible family members) serving or residing at designated duty stations away from headquarters locations. Staff members and the organization share in the cost of the premiums. This reserve is used for the payment of all approved claims filed under the medical insurance plan and is funded through monthly transfers by UNICEF and contributions by plan participants.

10. **Reserve for insurance**. In 1950, the Executive Board approved the establishment of a reserve for insurance of $0.2 million to absorb losses of UNICEF programme supplies and equipment not covered by commercial insurance. This amount was funded by approved freight allocations.

Note 23
Revenue from voluntary contributions

1. The following tables summarize voluntary contributions by type of organization and type of resource.

(Thousands of United States dollars)

	2012
Voluntary cash contributions	
Governments and intergovernmental agencies	2 248 672
Inter-organizational arrangements	351 272
National Committees	834 219
Others	317 306
Total voluntary cash contributions	**3 751 469**
Voluntary in-kind contributions	
Governments and intergovernmental agencies	24 464
Inter-organizational arrangements	–
National Committees	6 309
Others	11 452
Total voluntary in-kind contributions	**42 225**
Total voluntary contributions	**3 793 694**
Less: returns to donors of unused contributions	2 814
Total voluntary contributions (net)	**3 790 880**

UNICEF National Committees

2. The voluntary cash contribution revenue of $834.22 million from National Committees represents the net contributions that the Committees have approved for transfer to UNICEF. Total cash contributions received by the National Committees in 2012, excluding proceeds from sales activities, were $1,175.63 million. Of that amount, $341.41 million was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 35 below for additional information on the relationship between UNICEF and the National Committees).

In-kind contributions

3. In-kind contributions comprise contributions received as goods. Major types of goods received include vitamin A, ready-to-use therapeutic food, Lego pieces and solar lamps, at a total value of $22.36 million. In-kind contributions also include rights to use assets such as land and buildings valued at $19.86 million.

Resource types

4. UNICEF classifies voluntary contributions based on whether they are unearmarked or earmarked. Unearmarked resources are regular resources, while earmarked resources are further sub-classified based on the type of programmes they are specifically earmarked to fund: Development programmes and projects are considered to be “Other resources — regular”, while emergency programmes and projects are “Other resources — emergency”.

(Thousands of United States dollars)

	2012
Earmarked/unearmarked classification of voluntary contributions	
Regular resources	1 134 368
Foreign exchange gains/(losses)	(1 572)
Total regular resources (net)	**1 132 796**
Other resources — regular	1 834 227
Foreign exchange gains/(losses)	203
Total other resources — regular (net)	**1 834 430**
Other resources — emergency	823 370
Foreign exchange gains/(losses)	284
Total other resources — emergency (net)	**823 654**
Total voluntary contributions (net)	**3 790 880**

Note 24
Revenue from sale of greeting cards and products

(Thousands of United States dollars)

	2012
Gross proceeds from sale of greeting cards and products	69 184
Royalties from sale of greeting cards and products	5 316
Total	**74 500**

1. Through the sales of greeting cards and products, UNICEF generates additional funds for programmes of cooperation in developing countries. UNICEF sells greeting cards and products either directly to customers, using its country offices, or indirectly through National Committees and other sales partners that act as an agent on UNICEF's behalf. Gross proceeds from the sale of greeting cards and products are accrued on basis of preliminary sales reports received at year-end. In 2012, the gross proceeds are $74.50 million and the related cost of sales is $36.02 million.

2. UNICEF has agreements with a number of greeting cards companies which design, manufacture, warehouse, distribute and sell cards and products on behalf of UNICEF in the United States of America and in countries throughout Europe and remits a percentage of the retail sales to UNICEF. Royalties are remitted (a) from the sales partners to National Committees acting on behalf of UNICEF and then paid to UNICEF; and (b) from sales to partners in which the funds will come directly to UNICEF through the country offices.

Note 25
Interest revenue and finance costs

UNICEF generates interest revenue primarily from short-term deposits and money market demand deposits, structured deposits and fixed-income securities. Interest revenue for 2012 is $29.46 million. Finance costs of $3.59 million resulted from finance lease liabilities.

Note 26
Other revenue

(Thousands of United States dollars)

	2012
Procurement services	38 649
Miscellaneous revenue	11 797
Total	**50 446**

UNICEF undertakes procurement services for Governments, non-governmental organizations, United Nations agencies and other international organizations and foundations. In 2012, the total value of the procurement services carried out on behalf of third parties was $1,481.60 million. UNICEF recognized revenue of $38.65 million related to these procurement services through recovery of these costs incurred in providing those services to third parties. The costs include $29.96 million in direct and indirect costs comprised mostly of salaries and wages, which are included as part of disclosed amounts in note 29 below. In addition $8.69 million in goods related to the sale for orders to third parties filled directly from the warehouse in Denmark are disclosed separately in note 30 below.

Note 27
Net gains and losses

(Thousands of United States dollars)

	2012
Net foreign exchange gains and losses	(3 370)
Net fair value gains and losses on:	
Structured deposits	(738)
Forward exchange contracts	–
Net gains and losses on sale of traded bonds	–
Net gains and losses on sale of property, plant and equipment	612
Other gains and losses	(1)
Total net gains/(losses)	**(3 497)**

Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*Total*
Gains	6 697	14 901	21 598
Losses	(8 319)	(16 649)	(24 968)
Total	**(1 622)**	**(1 748)**	**(3 370)**

In addition to the above, a realized loss of $3.01 million and an unrealized gain of $2.03 million are included within voluntary contributions in note 23 above, in accordance with UNICEF Financial Regulations and Rules.

Note 28
Transfers of programme supplies and cash assistance

1. The direct inputs of UNICEF to country programmes include programme supplies and cash assistance.

(Thousands of United States dollars)

	Transfers of cash assistance	*Transfers of programme supplies*	*Total*
Assistance by region			
Eastern and Southern Africa	362 723	232 292	595 015
Western and Central Africa	269 246	212 729	481 975
East Asia and Pacific	83 165	36 866	120 031
South Asia	185 489	79 712	265 201
Middle East and North Africa	65 553	41 005	106 558
Latin America and Caribbean	86 344	18 915	105 259
Central and Eastern Europe and Commonwealth of Independent States	26 564	5 230	31 794
Transfers to United Nations agencies and other organizations at headquarters	24 300	2 068	26 368
Subtotal	**1 103 384**	**628 817**	**1 732 201**
Adjustment for timing differences	2 555	–	2 555
Total transfers by region	**1 105 939**	**628 817**	**1 734 756**

2. Adjustment for timing differences represents accrued expenses at year-end to account for implementing partners that have incurred valid expenses but for which UNICEF has not yet received reports. The adjustment for timing differences was $66.80 million and $69.36 million for 1 January 2012 and 31 December 2012, respectively. The difference between these amounts is reflected in the table above.

Note 29
Employee benefits expenses

(Thousands of United States dollars)

	2012
Salaries and wages	617 168
Contribution to the United Nations Joint Staff Pension Fund	122 335
Increase/(decrease) in after-service health insurance	43 992
Increase/(decrease) in other post-employment liabilities	21 731
Increase/(decrease) in other long-term employee benefit liabilities	8 769
Other personnel expenses	208 823
Total	**1 022 818**

Note 30
Other expenses

(Thousands of United States dollars)

	2012
Consultants and expert services	336 567
Travel	126 485
Distribution	85 326
Rental and leasing	76 588
Retentions commissions and cost of greeting cards and products	36 024
Repairs and other maintenance	34 659
Supplies and materials	32 010
Investment funds for market development	29 520
Communication	21 635
Other operating expenses	22 906
Write-offs and inventory shortages	18 491
Utilities	13 208
Procurement services (see note 26 for details)	8 694
Professional development	10 604
Insurance	1 603
Impairment loss (recovery)	(1 603)
Total	**852 717**

Note 31
Financial instruments and financial risk management

1. UNICEF has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The present note contains information about the Fund's exposure to each of the above risks, its objectives,

policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout the financial statements.

Accounting classifications and fair values

2. The following tables detail the value of financial assets and financial liabilities by class of instrument and by category, as defined in the accounting policies.

Financial assets as at 31 December 2012

(Thousands of United States dollars)

		Fair value through surplus or deficit				
Financial assets	*Loans and receivables*	*Available-for-sale*	*Designated as such upon initial recognition*	*Held for trading*	*Total carrying value*	*Total fair value*
Cash and cash equivalents	949 795	–	–	–	949 795	949 795
Investments						
Term deposits	1 989 991	–	–	–	1 989 991	1 989 991
Traded bonds	–	301 026	–	–	301 026	301 026
Structured deposits	–	–	209 190	–	209 190	209 190
Receivables from contributions	974 355	–	–	–	974 355	974 355
Other receivables	59 602	–	–	–	59 602	59 602
Total financial assets	**3 973 743**	**301 026**	**209 190**	**–**	**4 483 959**	**4 483 959**

3. Most receivables are short-term and are expected to be settled within the next 12 months. The carrying value of these receivables is a reasonable approximation of fair value.

Financial liabilities as at 31 December 2012

(Thousands of United States dollars)

	Other financial liabilities (amortized cost)	*Held for trading (fair value through surplus or deficit)*	*Total carrying value*	*Total fair value*
Financial liabilities				
Accounts payable	243 712	–	243 712	243 712
Funds held on behalf of third parties	570 153	–	570 153	570 153
Finance lease	61 601	–	61 601	61 601
Other liabilities	22 529	–	22 529	22 529
Total	**897 995**	**–**	**897 995**	**897 995**

4. With the exception of finance leases, most liabilities are short-term and are expected to be settled within the next 12 months. Any other non-current liabilities are reported at amortized cost on the statement of financial position and it is assumed that the carrying amounts approximate the fair values of the financial instruments.

Valuation method

5. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(a) Level 1. Average quoted prices from two separate sources (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 (as price) or indirectly (derived from prices);

(c) Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Financial instruments at fair value through surplus or deficit, including:				
Structured deposits	–	209 190	–	209 190
Available-for-sale financial assets	301 026	–	–	301 026
Total	**301 026**	**209 190**	**–**	**510 216**

6. UNICEF does not hold any financial liabilities that are recognized at fair value through surplus or deficit.

Exposure to credit risk

7. Credit risk is the risk of financial loss to UNICEF, if a donor, customer or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from cash and cash equivalents, investments, receivables from contributions and other receivables.

8. UNICEF holds bank accounts in more than 160 countries. This exposes the organization to significant default risk. To mitigate this risk, UNICEF has established a risk-assessment process that is to be completed before bank accounts may be opened at any bank where UNICEF has not had a prior business relationship. In addition, if there are no alternatives to dealing with a specified bank that has a higher risk, UNICEF may impose internal guidelines such as minimizing the balances on its bank accounts.

9. With regard to investments, UNICEF mitigates its exposure to credit risk by imposing certain restrictions, including, but not limited to, minimum credit rating of the underlying financial instrument or institutions (generally at least A for long-term investments and P-1 from Moody's for short-term investments for financial institutions and AA to AAA from Moody's for investments in debt instruments); maximum thresholds to be invested per counterparty; and maximum thresholds to be invested by type of investment. UNICEF has a Financial Advisory Committee that approves each new counterparty before any investments may be made.

10. UNICEF exposure to credit risk from receivables from contributions and other receivables is mainly influenced by the type of donor. Receivables from Governments, intergovernmental agencies and other United Nations organizations generally have a very low default risk. UNICEF has established an allowance for impairment that represents its estimate of incurred losses in respect of receivables from contributions and other receivables, based on specific identification of receivables that might be impaired.

11. The carrying value of all financial instruments represents UNICEF's maximum exposure to credit risk.

Concentration of credit exposure by credit rating

(Thousands of United States dollars)

At 31 December 2012	*AAA*	*AA*	*A*	*B*	*Non-rated*	*Total*
Cash and cash equivalents	–	312 516	520 358	10 001	106 920	949 795
Term deposits	–	724 435	1 265 556	–	–	1 989 991
Traded bonds	301 026	–	–	–	–	301 026
Structured deposits	–	4 473	101 127	103 590	–	209 190
Total	**301 026**	**1 041 424**	**1 887 041**	**113 591**	**106 920**	**3 450 002**

12. Non-rated financial assets represent cash and cash equivalents held in various operating accounts in country offices. Ratings are based on credit ratings by Moody's. UNICEF uses Moody's as a benchmark to rate issuing institutions and financial instruments. Ratings above correspond to the Moody credit ratings as follows:

Moody's credit ratings		*UNICEF credit ratings*
Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	AAA
Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	AA
A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.	A
Baa1 Baa2 Baa3	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	B

Ageing of loans and receivables: 2012

(Thousands of United States dollars)

	Not past due					
	0 to 1 months	*1 to 6 months*	*6 to 12 months*	*1 to 2 years*	*More than two years*	*Total*
Contributions receivable	901 168	60 125	3 294	7 453	2 315	974 355
Other receivables	39 562	11 841	4 184	2 941	1 074	59 602
Total	**940 730**	**71 966**	**7 478**	**10 394**	**3 389**	**1 033 957**

13. UNICEF believes that all receivables are collectible based on historic payment behaviour and analysis of the outstanding balances.

Movements in allowance for impairment in respect of loans and receivables during 2012

(Thousands of United States dollars)

	Gross receivable at 31 December 2012	*Impairment losses recognized*	*Impairment losses reversed*	*Amounts written-off as uncollectible*	*Net receivable at 31 December 2012*
Contributions receivable	974 355	–	–	–	974 355
Receivables from greeting cards	35 534	–	272	(665)	35 141
Other receivables	22 127	(8 825)	11 284	(125)	24 461
Total	**1 032 016**	**(8 825)**	**11 556**	**(790)**	**1 033 957**

14. As at 31 December 2012, UNICEF had no collective impairment on its loans and receivables; there are no further impairment losses on other financial assets.

Exposure to liquidity risk

15. Liquidity risk is the risk that UNICEF will encounter difficulty in meeting its obligations associated with its accounts payables, other liabilities and promised transfers of cash to programmes. UNICEF Regulations and Rules do not permit the Fund to borrow.

16. Management believes that UNICEF can meet its obligations because purchase orders are not raised unless budget is available. Management maintains liquidity by continually monitoring actual and forecasted cash flows from operations and anticipated investing and financing activities and by holding cash and liquid investments, some of which have secondary financial markets. It should be noted that UNCIEF does not have financing activities other than finance leases activities as it is not permitted to borrow.

17. Surplus cash is invested in a range of short-dated financial instruments, including money-market demand accounts, structured deposits, time deposits and fixed-income securities, which seek to ensure the security and liquidity of investments while optimizing yield. In all cases, investments are only permitted in

high credit quality institutions and issues, with diversification of investment supported by maintaining counterparty credit limits.

Contractual maturities of UNICEF financial liabilities

(Thousands of United States dollars)

	Due					*Overdue*					
	Less than 1 month	*1-3 months*	*3-6 months*	*6 months-1 year*	*More than 1 year*	*Less than 1 month*	*1-3 months*	*3-6 months*	*6 months-1 year*	*More than 1 year*	*Total carrying value*
Accounts payable	39 315	3 159	(1 902)	3 152	762	87 943	263	–	–	2	132 693
Accrued liabilities	111 019	–	–	–	–	–	–	–	–	–	111 019
Total	**39 427**	**3 159**	**(1 902)**	**3 152**	**762**	**87 943**	**263**	**–**	**–**	**2**	**243 712**

18. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Exposure to market risk

19. Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk. UNICEF is exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates. Through its policies and procedures, UNICEF ensures that market risks are identified, measured, managed and regularly reported to management and the Financial Advisory Committee.

Currency risk

20. Currency risk (or foreign exchange risk) arises with regard to financial instruments that are denominated in a foreign currency. UNICEF is exposed to currency risk on revenues and expenses that are denominated in a currency other than the United States dollar. The currencies in which these transactions are primarily denominated are as follows:

(a) Regarding revenues: the euro, the Norwegian krone, the Swedish krona, the Canadian dollar, the pound sterling, the Australian dollar, the New Zealand dollar, the Swiss franc, the Danish krone and the Japanese yen;

(b) Regarding expenses: all currencies used at UNICEF country offices, including the Indian rupee, the Pakistani rupee, the Nigerian naira, the Ethiopian birr and the Kenyan shilling, among many others.

21. UNICEF does not apply hedge accounting, although it applies "natural hedges" by holding foreign currencies in order to cover forecasted foreign currency cash outflows in revenue-side currencies, in addition to entering into foreign exchange forward contracts on revenue-side currencies.

22. The overall position of UNICEF in foreign currencies is not significant. The following table provides a summary of UNICEF foreign currency positions in financial instruments in the statement of financial position at the end of the reporting period.

(Thousands of United States dollars)

	United States dollar	*Euro*	*Pound sterling*	*Swiss franc*	*Swedish krona*	*Norwegian krone*	*Other*	*Total*
Cash and cash equivalents	787 577	94 868	1 148	7 878	8 098	54	50 172	949 795
Term deposits	1 989 991	–	–	–	–	–	–	1 989 991
Traded bonds	301 026	–	–	–	–	–	–	301 026
Structured deposits	13 057	40 437	25 411	–	62 317	39 339	28 629	209 190
Forward exchange contracts in gain	–	–	–	–	–	–	–	–
Receivables from contributions	921 472	27 701	13 708	–	1 953	–	9 521	974 355
Other receivables	35 200	17 979	(280)	3 096	423	1 798	1 388	59 603
Total financial assets	**4 048 323**	**180 985**	**39 987**	**10 974**	**72 791**	**41 191**	**89 710**	**4 483 959**
Accounts payable	(222 999)	(8 142)	(75)	(1 028)	–	–	(11 468)	(243 712)
Funds held on behalf of third parties	(568 874)	(880)	–	–	–	–	(399)	(570 153)
Finance lease and other liabilities	(81 827)	(1)	–	–	–	–	(2 302)	(84 130)
Forward exchange contracts in loss	–	–	–	–	–	–	–	–
Total financial liabilities	**(873 700)**	**(9 023)**	**(75)**	**(1 028)**	**–**	**–**	**(14 170)**	**(897 995)**
Net exposure	**3 174 623**	**171 961**	**39 913**	**9 947**	**72 791**	**41 191**	**75 541**	**3 585 964**

Interest rate risk

23. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As of the reporting date, all of UNICEF's financial assets held in the portfolio were subject to fixed interest rates. There were no financial assets subject to variable interest rates.

(Thousands of United States dollars)

	2012
Fixed rate instruments	
Financial assets	3 148 976
Financial liabilities	(61 602)
Total	**3 087 374**

Sensitivity analysis: foreign currency

24. The following table shows the sensitivity of net assets and surplus/deficits to strengthening and weakening of key currencies used by UNICEF. This analysis is

based on foreign currency exchange rate variances that UNICEF considered to be reasonably possible as at the reporting date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted contributions and expenditures.

(Thousands of United States dollars)

	Strengthening		*Weakening*	
As of 31 December 2012	*Surplus/deficit*	*Net assets*	*Surplus/deficit*	*Net assets*
Euro (10 per cent change)	22 923	–	(22 923)	–
Pound sterling (10 per cent change)	7 093	–	(7 093)	–
Total	**30 016**	**–**	**(30 016)**	**–**

25. The information presented above is calculated by reference to carrying amounts of assets and liabilities at 31 December 2012 only.

Sensitivity analysis: interest rates

26. The following table presents the sensitivity of net assets and surplus/deficits to a change in interest rates in the range of minus 30 basis points and plus 100 basis points, given outstanding positions as at 31 December 2012.

(Thousands of United States dollars)

	Impact	
	Net assets	*Surplus/deficit*
Plus 100 basis points	7 700	–
Minus 30 basis points	679	–

27. The change in net assets is attributable to the impact on the bonds, which are financial instruments classified as available-for-sale. Any changes in the market rate of interest will have an impact on the fair value of the bonds. Changes in fair value for available-for-sale financial instruments are recorded directly in net assets.

Other price risk

28. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market (see paras. 7-16 above).

29. Information on factors affecting the fair value measurement of UNICEF investments can be found at the beginning of this note.

Derivatives

30. UNICEF uses forward exchange contracts to manage risks related to foreign currencies. The Fund's reasons for holding these derivatives include reducing and efficiently managing the economic impact of foreign currency exposures as effectively as possible.

31. Gains/(losses) from changes in fair values of forward exchange contracts were nil in 2012 since UNICEF had closed out all of its forward exchange contracts before the end of the reporting period.

32. UNICEF invests in traded bonds, which are classified as available-for-sale financial instruments. These bonds have a call-option feature agreed to with the issuer at the time of purchase. This call-option feature gives the issuer the right to call the bond on pre-agreed dates throughout the life of the bond. Since the bonds are callable at par value (that is, their stated or face value), there is no risk of loss to the principal. All bonds held at the end of 2012 included a call-option feature.

33. UNICEF also invests in structured deposit financial instruments that include an embedded option (that is, an embedded derivative) along with a fixed-term deposit. This financial instrument earns an enhanced yield that is higher than a basic, standard time deposit. While this financial instrument has an underlying element of currency risk, it is only limited to the foreign exchange benefit forgone between the strike price and the current spot if the deposit is repaid in the alternative currency. No risk is involved if the option is not exercised.

Note 32
Capital management

1. UNICEF defines the capital it manages as the aggregate of its net assets, which is comprised of accumulated surpluses and reserve balances. This definition of capital is used by management and may not be comparable to measures presented by other United Nations organizations. UNICEF does not have any long-term borrowings outside of its finance lease liabilities as its Financial Regulations and Rules and prohibit it from borrowing funds to either bridge its cash requirements or leveraging its cash position. Various reserves are established by management in order to provide funding of future expenses (see note 22 above for further details on reserves).

2. The Fund's objectives in managing capital are to:

- Safeguard its ability to continue as a going concern;
- Fulfil its mission and objectives as established by its strategic plan;
- Ensure sufficient liquidity to meet its operating cash requirements;
- Preserve capital;
- Generate a competitive market rate of return on its investments.

3. It should be noted that risk and liquidity management are emphasized over absolute rate of return for the investment portfolio.

4. A four-year medium-term strategic plan is proposed by the Executive Director and submitted to and approved by the Executive Board. The plan outlines a recommended apportionment and utilization of existing and anticipated resources of

UNICEF over the plan period, determining affordability while maintaining fund balance to ensure liquidity. The plan also includes a financial plan. The financial plan provides detailed financial projections of:

- Estimated future financial resources for each year of the plan period;
- Estimated yearly levels of costs;
- Working capital levels required for the liquidity of UNICEF.

Other resources: regular and emergency

5. For other resources, regular and emergency, the objective is to ensure programme implementation while remaining within the available fund balance. Management to that end is carried out on an individual programme budget basis. The cash component of these resources are commingled with other institutional resources and managed as a portfolio (the opening and closing balances for net assets is disclosed in note 22 above).

6. The ability of UNICEF to obtain additional capital is subject to:

- Its ability to raise financial resources and generate revenue;
- Market conditions;
- The provisions of its Financial Regulations and Rules, and investment guidelines.

7. As stated above, under its Financial Regulations and Rules, UNICEF is precluded from borrowing.

Restriction

8. UNICEF is subject to a board-imposed liquidity requirement. The requirement does not constitute an external restriction. The UNICEF Financial Regulations and Rules indicate that, in order to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. In 1987, the Executive Board established the minimum year-end cash balance of regular resources as 10 per cent of projected regular resources income for the following year (decision 1987/14).

9. In the financial plan for 2012, a minimum regular resources convertible cash balances was recommended. For the purpose of meeting that requirement, UNICEF includes cash holdings and investments, excluding trust funds as part of its cash balance. UNICEF has met its internal liquidity requirement for 2012. There have been no changes in the way UNICEF manages its capital in 2012.

Note 33
Commitments

1. The following tables present the open purchase orders for which UNICEF had not received the related services or goods as at 31 December 2012. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2012
Commitments for purchase of property and equipment (including finance leases)	
Land	–
Buildings	12
Leasehold improvements	262
Vehicles	2 792
Furniture and fixtures	234
Communications and information technology equipment	9 203
Total property and equipment	**12 503**
Other capital commitments	
Intangible assets	182
Total capital commitments	**12 685**
Operating commitments	
Operating leases	–
Contracts for purchase of supplies and other goods	181 495
Contracts for purchase of services	187 018
Commitments to transfer cash to implementing partners	26 967
Commitments to transfer supplies to implementing partners	321 318
Total operating commitments	**716 798**
Total commitments	**729 483**

2. UNICEF operating lease agreements include cancellation clauses with 30-day notice periods. As a result, there is no disclosure of operating lease commitments in the above table.

Long-term agreements

3. UNICEF also has various long-term agreements with suppliers. The table below identifies the total remaining contract value on long-term agreements that remained open as at 31 December 2012.

(Thousands of United States dollars)

	2012
Long-term agreements for goods	7 353 786
Long-term agreements for services	181 121
Total long-term agreements	**7 534 907**

Note 34
Contingencies

Contingent assets

1. In certain cases, prior to concluding contribution agreements, UNICEF receives pledges for future contributions. These contingent assets are not recorded in the statement of financial position but are disclosed since the inflow of resources is probable. At the reporting date, probable contributions to UNICEF are estimated at $615.09 million.

Contingent liabilities

2. UNICEF is subject to a variety of claims and suits that arise from time to time in the ordinary course of its operations. These claims are segregated in the following two main categories: third-party claims; and human resources claims.

3. As at 31 December 2012, UNICEF did not have any accrued liabilities for contingent legal matters. Consistent with IPSAS, UNICEF is not required to disclose descriptions of the nature of its contingent liabilities as potential outflows from settlements are remote. With respect to outstanding legal matters, based on current knowledge, UNICEF believes that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on its operations, financial position, financial performance or cash flows. However, as the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties, these possible obligations may become actual liabilities by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of UNICEF.

Note 35
Related parties

National Committees

1. National Committees, which constitute a unique category of UNICEF partners, were established for the purposes of advancing children’s rights and well-being globally through resource mobilization, advocacy and other activities. Working as partners of the Fund in their respective countries, National Committees are independent, non-governmental organizations registered under the laws of their respective countries as charities, trusts, foundations or associations. National Committees are required by their statutes to have governing boards that have control over the resources that they raise. The relationship between the National Committees and UNICEF, as well as their use of its name and logo, are regulated by the recognition and cooperation agreements signed between UNICEF and each National Committee. National Committees are currently established in 36 countries.

2. As stipulated in the cooperation agreements, National Committees provide UNICEF with annual certified revenue and expenditure reports. These reports indicate the total contributions received by the National Committee, the amount withheld to cover the costs of National Committee activities, or as reserves, and the net due to UNICEF.

Voluntary contribution revenue and receivables from National Committees

(Thousands of United States dollars)

	Revenue	*Receivables*
Voluntary cash contributions	834 219	359 784
Voluntary in-kind contributions	6 309	–
Total	**840 528**	**359 784**

3. According to the revenue and expenditure reports submitted by the National Committees, total cash contributions received by the National Committees in 2012, excluding proceeds from sales activities, were $1,175.63 million. Of that amount, $341.41 million was retained by the National Committees to cover the costs of their fundraising, advocacy and management and administration activities, or as reserves. As a result, a total amount of $834.22 million in net cash contributions was transferred to UNICEF from the National Committees.

4. In addition to the revenue and expenditure reports, National Committees prepare annual financial statements that are audited by independent certified auditors and are publicly available on the websites of the National Committees. These financial statements provide additional detail on the financial performance and financial position of the National Committees.

5. In accordance with the terms of the respective cooperation agreement with UNICEF, National Committees may establish reserves in order to comply with national laws and statutes as well as for other purposes. In the event of the liquidation of a National Committee, net assets, including reserves, would be transferred to UNICEF, subject to the provisions of the cooperation agreement, if legally permitted, or otherwise in accordance with national law and the statute of the Committee. The National Committees reported to UNICEF through their revenue and expenditure reports that the retained reserves, based on their local accounting standards, stood at $188.60 million as at 31 December 2012.

Key management personnel

6. UNICEF's leadership structure is stratified into two main tiers:

(a) Executive: collectively this tier of leadership consists of the first two levels within the hierarchy, an Under-Secretary-General (Executive Director) and three Assistant Secretaries-General (Deputy Executive Directors);

(b) Management: collectively this tier of leadership consists of the third level within the hierarchy, the "head of office" of the global headquarters divisions and the regional offices;

(c) Close family members of key management personnel are presumed to be their spouses, domestic partners, children, grandchildren, brothers, sisters, parents, grandparents, or in-laws and relatives living in a common household as key management personnel, unless personal circumstances (such as estrangement) prevent the key management personnel from having influence over the close family member.

(Thousands of United States dollars)

	Number of individuals	*Salary and post adjustments*	*Other entitlements*	*Post-employment and long-term benefits*	*Total remuneration in 2012*
Key management personnel	30	5 016	3 019	1 170	9 205

7. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements, such as assignment grants, the employer contribution to health insurance and pensions, dependency allowances, education grants, hardship, mobility and non-removal allowances, real estate agency reimbursements and representation allowances.

8. Key management personnel and their close family members are also eligible for post-employment employee benefits such as after-service health insurance, repatriation benefits and payment of unused annual leave.

9. Loans are referred to as "salary advances" at UNICEF. Salary advances are available to all UNICEF staff, including key management personnel, for specific purposes.

10. There were no loans and advances granted to key management personnel and their close family members that were not available to other categories of staff in accordance with United Nations Staff Rules.

United Nations programmes, funds and specialized agencies

11. UNICEF and other United Nations organizations work for and towards the enhancement of the United Nations efforts to achieve a better world for all. UNICEF is engaged extensively in the United Nations inter-agency financial and operating mechanisms, such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations organizations work together to achieve a set of activities. Each participating organization assumes its share of responsibilities related to planning, implementing, monitoring and evaluating activities.

Other related parties

UNAIDS

12. UNAIDS is guided by the Programme Coordinating Board. UNICEF participates in the setting of financial and operating policies of the Programme Coordinating Board, which is comprised by 33 members, including 6 seats for co-sponsors (membership rotates among 10 United Nations organizations — co-sponsors). All 10 co-sponsoring organizations through reports and recommendations to the Programme Coordinating Board may influence strategy and technical policy-setting.

Global Alliance for Improved Nutrition

13. The Global Alliance for Improved Nutrition (GAIN), an alliance that was created in 2002 at a special session of the General Assembly on Children, supports public-private partnerships to increase access to the missing nutrients in diets

necessary for people, communities and economies to be stronger and healthier. UNICEF participates in the setting of the Alliance's strategy and its financial and operating policies, holding 1 of 17 votes on its the Board of Directors.

Revenue realized from other related parties as at 31 December 2012

(Thousands of United States dollars)

Other related parties	*Revenue*	*Amounts owed by related party*	*Expenses*	*Amounts owed to related party*
UNAIDS	21 641	–	–	–
Global Alliance for Improved Nutrition (GAIN)	1 641	–	–	–
Total	**23 282**	**–**	**–**	**–**

Supported deliveries

14. During the reporting period, UNICEF handled supported deliveries on behalf of third parties valued at $61.49 million. The deliveries are not reflected in the financial accounts of UNICEF, although they are handled through the administrative structures of the organization.

Note 36
Segment information

1. A segment is a distinguishable activity or group of activities for which it is appropriate to report financial information separately. At UNICEF, segment information is based on the principal activities and sources of financing of the organization. For UNICEF the relevant segments are labelled institutional, regular resources, other resources — regular and other resources — emergency.

Institutional and regular resources segments

Revenue

2. Revenue included in these segments is defined as regular resources in the UNICEF Financial Regulations and Rules. Regular resources include funds from the voluntary annual contributions of Governments, intergovernmental agencies and non-governmental organizations, the income received through the Private Fundraising and Partnerships Division, non-earmarked funds contributed by the public and other income.

3. Revenue from regular resources is allocated between the institutional segment and the regular resources segment as follows:

- The regular resources segment includes voluntary contributions (non-exchange revenue);
- The institutional segment includes exchange revenue such as interest, proceeds on sale and procurement services fees.

4. This breakdown, while not a requirement of the UNICEF Financial Regulations and Rules, is meaningful because the costs incurred to generate the exchange revenue are, for the most part, included within the institutional segment.

For example, all costs related to the sales of greeting cards and gifts are included in the institutional segment. For interest revenue, the investments that generate such revenue are included as assets within the institutional segment. Institutional revenue also includes cost recovery income, which is eliminated in the "inter-segment" column of the segment report.

Activities

5. The institutional segment includes UNICEF headquarters and central functions, as well as its treasury operations. Headquarters and central functions provide business support in a number of areas, including: communications; finance and accounting; health; human resources; information technology; legal services; travel; asset management and security; and donor-related activities. The central functions also process transactions, manage data and provide other services.

6. These activities are funded from the institutional budget and the Private Fundraising and Partnerships budget. The expenditures against the budget are recorded on a modified cash basis and are described in statement V.

7. Major categories of expenses within this segment include salaries, depreciation of assets and increases in the after-service health insurance liability.

8. This segment includes assets and liabilities that are linked to the overall UNICEF mandate (all UNICEF activities) and are not easily allocated to other segments. The main categories of assets included in this segment are cash, investments, buildings, staff advances and intangible assets. Also included is the inventory maintained in the warehouse in Copenhagen. The main liability is for after-service health insurance.

9. Many items in the statement of financial position are deemed to be part of the institutional segment as UNICEF did not historically manage the assets and liabilities on a segment basis. The change in the basis of accounting from UNSAS to IPSAS has resulted in the inclusion of better information in the statement of financial position.

10. The regular resources segment includes activities described in programme documents. These activities are funded from the country programmes and the advocacy, programme development and inter-country programme. The expenditures against the budget are recorded on a modified cash basis and are described in statement V.

11. Majority categories of expense within this segment include the utilization of cash transferred to implementing partners, programme supplies delivered to implementing partners and salaries and benefits.

12. Major categories of assets are inventory and direct cash transfers, which are funded from the country programmes and the advocacy, programme development and inter-country programme.

13. The combined fund balance of these two segments represents the regular resources fund balance, as defined by the Financial Regulations and Rules. To determine the portion of the regular resources fund balance available for funding the institutional budget, the Private Fundraising and Partnerships budget, country programmes and the advocacy, programme development and inter-country

programme, UNICEF adjusts the fund balance for reserves, capital requirements and relevant assets and liabilities.

Other resources — regular and other resources — emergency segments

14. Other resources (regular) includes funds contributed to UNICEF by Governments, intergovernmental organizations, non-governmental organizations and the United Nations system for specific purposes within the programmes approved by the UNICEF Executive Board.

15. Other resources (emergency) includes those funds contributed for emergency operations.

16. These segments include activities described in programme documents. These activities are funded from the country programmes, emergency appeals and the advocacy, programme development and inter-country programme. The expenditures against the budget are recorded on a modified cash basis and are described in statement V.

17. Majority categories of expense within the other resources (emergency) segment include the utilization of cash transferred to implementing partners, programme supplies delivered to implementing partners and salaries and benefits. In addition, these segments are charged a cost-recovery fee, which is eliminated in the “inter-segment” column in the report on the segment.

18. The fund balance is recorded at the level of individual donor agreements within the Fund’s accounting records. The combined other resources — regular and other resources — emergency fund balance is earmarked for the purposes set out in the donor agreements and, at the conclusion of the activities, unspent balances are either returned to the donor or reprogrammed, as permitted under the donor agreement.

Trust fund segment

19. The trust fund segment includes activities defined by the Financial Regulations and Rules as special accounts. The fund balance is maintained separately and is accounted for as funds held on behalf of a third party.

20. For each trust fund, a determination is made as to whether UNICEF has control over the activity as determined by the organization’s accounting policy. Where the answer is yes, the accounting policy for exchange revenue and recording of expense is applied. Otherwise, all cash inflows and outflows are netted together in a liability account. The fee charged by UNICEF to manage the activities is recorded as other income within the institutional segment.

21. Procurement services represent the primary component of activities within the trust fund segment.

Segment information on revenue and expenses by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2012*
Segment revenue							
Voluntary contributions	–	1 132 796	1 834 430	823 654	–	–	3 790 880
Revenue from the sale of greeting cards and products	74 500	–	–	–	–	–	74 500
Interest revenue	29 372	89	–	–	–	–	29 461
Other revenue	38 921	5 754	(359)	(3 880)	10 011	–	50 446
Internal cost recovery	149 366	–	–	–	–	(149 366)	–
Gains and losses, net	(6 898)	(953)	5 085	(730)	(1)	–	(3 497)
Total segment revenue	**285 261**	**1 137 685**	**1 839 156**	**819 043**	**10 010**	**(149 366)**	**3 941 790**
Segment expenses							
Transfers of cash assistance	30 087	205 331	552 331	318 189	–	–	1 105 939
Transfer of programme supplies	122 351	47 596	267 966	190 893	11	–	628 817
Employee benefit expenses	442 319	244 602	238 440	97 167	290	–	1 022 818
Depreciation and amortization	6 175	1 117	669	479	1	–	8 442
Retentions, commissions and cost of greeting cards	36 024	–	–	–	–	–	36 024
Investment funds for market development	29 520	–	–	–	–	–	29 520
Other expenses	159 296	164 099	402 367	201 983	8 793	(149 366)	787 172
Finance costs	3 590	–	–	–	–	–	3 590
Total segment expenses	**829 362**	**662 745**	**1 461 773**	**808 711**	**9 095**	**(149 366)**	**3 622 321**
Net surplus/(deficit)	**(544 101)**	**474 940**	**377 383**	**10 332**	**915**	**–**	**319 469**

Segment information on assets and liabilities by fund type

(Thousands of United States dollars)

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2012*
Segment assets							
Current segment assets							
Cash and cash equivalents	949 795	–	–	–	–	–	949 795
Investments	2 199 181	–	–	–	–	–	2 199 181
Inventories	118 704	14 472	67 523	69 509	–	–	270 208
Contributions receivable	256 170	3 832	393 700	67 828	–	–	721 531
Other receivables	49 051	3 567	4 343	2 061	152	–	59 174
Advances of cash assistance	12 270	97 915	286 796	159 646	34	–	556 661
Other assets	14 193	4 025	3 136	562	207 470	–	229 387
Non-current segment assets							
Investments	301 026	–	–	–	–	–	301 026
Contributions receivable	680	16 155	235 989	–	–	–	252 824
Property and equipment	174 807	3 094	2 441	2 305	2	–	182 650
Intangible assets	3 855	–	6	–	–	–	3 861
Other receivables	196	(21)	247	5	–	–	428
Total segment assets	**4 079 928**	**143 040**	**994 181**	**301 917**	**207 659**	**–**	**5 726 726**
Segment liabilities							
Current segment liabilities							
Accounts payable	49 046	9 298	18 929	15 110	151 328	–	243 712
Contributions received in advance and deferred revenue	129	297	286 758	3 311	–	–	290 495
Funds held on behalf of third parties	494	(108)	–	–	569 767	–	570 153
Finance leases and other liabilities	11 343	929	(13)	(2)	13 434	–	25 691
Employee benefits	87 426	(36)	(169)	(160)	–	–	87 061
Provisions	20 154	–	(1 733)	1 260	–	–	19 680
Inter-segment activity	2 480 407	116 551	(1 866 363)	(202 813)	(527 782)		–
Non-current segment liabilities							
Contributions received in advance and deferred revenue	–	16 155	229 062	–	–	–	245 217
Employee benefits	1 062 176	(14)	(1)	–	–	–	1 062 161

	Institutional	*Regular resources*	*Other resources — regular*	*Other resources — emergency*	*Trust funds*	*Eliminations/ inter-segment transactions*	*2012*
Finance leases and other liabilities	59 733	–	(1 236)	(58)	–	–	58 439
Total segment liabilities	**3 770 907**	**143 073**	**(1 334 765)**	**(183 351)**	**206 747**	**–**	**2 602 610**
Accumulated surpluses/(deficits)	(42 965)	–	2 328 913	485 269	912	–	2 772 128
Reserves	351 986		–	–	–	–	351 986
Total segment liabilities and net assets	**4 079 928**	**143 073**	**994 148**	**301 917**	**207 659**	**–**	**5 726 726**

Note 37
Reconciliation from UNSAS to IPSAS

1. The transition to IPSAS, which was effected on 1 January 2012, reflects those accounting standards applicable for the year ending 31 December 2012. The following table shows the adjustments made to the Fund's statement of financial position audited under UNSAS as at 31 December 2011 to its IPSAS opening statement of financial position as at 1 January 2012. IPSAS requires that the Fund's initial financial statements under the new standards reflect its financial position as if IPSAS had always been applied, with any differences upon transition eliminated through net assets.

(Thousands of United States dollars)

	UNSAS balance, previously stated	*Prior-period adjustments (see note 22)*	*IPSAS reclassification*	*IPSAS adjustments*	*IPSAS balance*
Current assets					
Cash and cash equivalents	2 731 441	–	(1 436 577)	3	1 294 867
Investments	–	–	1 217 190	–	1 217 190
Inventories	43 825	–	–	267 513	311 338
Contributions receivable	330 306	–	223 592	(97 008)	456 890
Other receivables	325 222	–	(26 181)	(242 926)	56 115
Advances of cash assistance	–	–	–	496 177	496 177
Other assets	–	–	19 391	13 855	33 246
Total current assets	**3 430 794**	**–**	**(2 585)**	**437 614**	**3 865 823**
Non-current assets					
Investments	350 000	–	225 883	25	575 908
Property and equipment	19 402	–	–	155 206	174 608
Other receivables	–	–	273	81	354
Total non-current assets	**369 402**	**–**	**226 156**	**155 312**	**750 870**
Total assets	**3 800 196**	**–**	**223 571**	**592 926**	**4 616 693**
Liabilities					
Current liabilities					
Accounts payable	328 687	–	(12 488)	(196 330)	119 869
Contributions received in advance	19 075	–	223 592	(222 396)	20 271
Funds held on behalf of third parties	497 090	–	(11 392)	(17 059)	468 639
Employee benefits	65 183	–	–	29 865	95 048
Provisions	–	–	12 175	–	12 175
Finance leases and other liabilities	–	–	11 684	22 746	34 430
Total current liabilities	**910 035**	**–**	**223 571**	**(383 174)**	**750 432**
Non-current liabilities					
Employee benefits	–		–	891 584	891 584

	UNSAS balance, previously stated	*Prior-period adjustments (see note 22)*	*IPSAS reclassification*	*IPSAS adjustments*	*IPSAS balance*
Finance leases and other liabilities	–		–	67 169	67 169
Total non-current liabilities	**–**	**–**	**–**	**958 753**	**958 753**
Total liabilities	**910 035**	**–**	**223 571**	**575 579**	**1 709 185**
Net assets					
Accumulated surpluses/(deficits)	2 539 279	19 402	–	(47 861)	2 510 820
Reserves	350 882	(19 402)	–	65 208	396 688
Net assets	**2 890 161**	**–**	**–**	**17 347**	**2 907 508**

Explanations of opening IPSAS adjustments and reclassifications

2. The net assets of UNICEF in the IPSAS opening statement of financial position of 1 January 2012 showed an increase of $17.35 million as compared to the UNSAS statement of 31 December 2011.

3. Total assets in the IPSAS opening balance sheet were $816.5 million higher than in the UNSAS financial statements of 31 December 2011 and total liabilities were $799.15 million higher.

4. These changes are the result of adjustments and reclassifications required by IPSAS. Significant changes are described below.

A. Cash and cash equivalents and investments

Reclassification ($1,436.58 million)

5. Term deposits in the amount of $1,436.58 million with maturities greater than 90 days that were previously reported with cash and term deposits under UNSAS have been reclassified as investments under IPSAS.

B. Advances of cash assistance

($496.18 million)

6. Under UNSAS, transfers of cash assistance were recorded as an expense when the cash was disbursed to the implementing partner. Under IPSAS, $496.18 million in such transfers still met the definition of assets and were recorded as an advance based on cash disbursed. An expense is recorded only after being accounted for by a third party.

C. Inventory

($267.51 million)

7. Programme supplies inventory and related freight costs were expensed in UNSAS. Under IPSAS, UNICEF recognized total programme supplies inventory held in country offices of $145.99 million and $80.05 million for goods in transit. Related freight costs of $37.26 million were also capitalized. Other differences are not significant.

D. Other receivables

($242.93 million)

8. At 1 January 2012, $249.8 million in other receivables and revenue were reversed as the receivables did not meet the definition of an asset and the criteria for revenue recognition were not met. In addition, $17.80 million in impaired other receivables were reversed. UNICEF also identified $7.81 million in direct cash transfer receivables in relation to the reporting by implementing partners that unused funds would either be reprogrammed by mutual agreement between the implementing partner and UNICEF or refunded back to UNICEF. Other differences are not significant.

E. Property and equipment

($155.21 million)

9. Under UNSAS, UNICEF reported owned land and buildings that were funded from the capital asset reserve. In addition, UNSAS assets were not depreciated. Under IPSAS, all assets controlled by UNICEF are recorded and depreciated over their estimated useful lives. Upon its transition to IPSAS, UNICEF elected to use the transitional provisions provided by International Public Sector Accounting Standard 17, Property and Equipment, and to capitalize only equipment at headquarters locations for the opening IPSAS balance. As a result, UNICEF recognized $17.56 million in land and buildings at fair values as "deemed cost". UNICEF has five years to present equipment retrospectively for all locations.

10. UNSAS did not capitalize finance leases, and rents were therefore expensed as incurred. Under IPSAS, finance leases are recorded on the statement of financial position along with a lease liability. As at 1 January 2012, UNICEF recorded the finance leases at the fair value as of the transition date for $150.05 million. The finance lease for the premises located at the Three United Nations Plaza complex represented most of the IPSAS adjustment.

11. The net balance is attributable to other adjustments, including accumulated depreciation.

F. Contributions receivable

($97.01 million)

12. Under UNSAS, receivables and revenue from non-exchange transactions were recorded on the basis of pledges or other information from the donor. Under IPSAS, such transactions are only recorded for enforceable agreements. An opening balance adjustment of $97.01 million was recorded for unenforceable contributions receivables, net of foreign exchange revaluation. The reclassification of $223.59 million relates to the transfer of an UNSAS balance included in contributions receivable that was reclassified to contributions received in advance.

G. Employee benefit liabilities

($921.45 million)

13. Under UNSAS, most of the defined-benefit obligations were not recorded in the financial statements. Under IPSAS, UNICEF recognized cumulative employee

benefits (current and non-current) directly in net assets which resulted in a $921.45 million increase in employee benefit liabilities on the statement of financial position. The employee benefit liabilities include the full actuarially determined liabilities.

H. Accounts payable

($196.33 million)

14. Under UNSAS, UNICEF recognized unliquidated obligations for purchase orders issued at the time the purchase orders were raised. Under IPSAS, a liability is recognized based on the delivery principle when goods or services are received. Unliquidated obligations of $196.33 million did not meet the definition of a liability under IPSAS and were reversed.

I. Contributions received in advance

($222.40 million)

15. Under UNSAS, advance contributions received prior to the start date stipulated in the contribution agreement were recognized as revenue when the payment was received. Under IPSAS, UNICEF determined that for agreements with no conditions, in cases where funds are received prior to the contribution commencement date, funds would be presented as a liability until the commencement of the date stipulated in the contribution agreement. As at 1 January 2012, there were $20.27 million in funds received prior to the commencement date that were recorded as contributions received in advance.

Note 38
Events after the reporting period

On 31 May 2013, subsequent to the date of the statement of financial position and before the financial statements were authorized for issue, UNICEF received the revenue and expenditure reports from the National Committees. The net contributions disclosed in those reports have been recognized in the present financial statements (see note 23 for further details).

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