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United Nations Institute for Training and Research

Financial report and audited financial statements

for the biennium ended 31 December 2013

and

Report of the Board of Auditors

United Nations • New York, 2014

Note

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

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Contents

Letters of transmittal

Letter dated 28 March 2014 from the Acting Head, Executive Director, of the United Nations Institute for Training and Research addressed to the Chair of the Board of Auditors

Pursuant to regulation 6.2 of the Financial Regulations and Rules of the United Nations, I have the honour to submit the 2012-2013 biennial accounts of the United Nations Institute for Training and Research as at 31 December 2013, which I hereby approve.

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

(*Signed*) Sally **Fegan-Wyles**
Acting Head, Executive Director
United Nations Institute for Training and Research

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2013.

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

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 Institute for Training and Research (UNITAR) for the biennium ended 31 December 2013, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities and reserves and fund balances (statement II), the statement of cash flows (statement III), the statement of expenditure against budget (statement IV) and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNITAR as at 31 December 2013 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

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

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

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the 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 2014

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors (the Board) has audited the financial statements and reviewed the operations of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2013. The audit was carried out at its headquarters in Geneva.

Audit opinion

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

Overall conclusion

During the biennium 2012-2013, UNITAR enhanced its governance and internal control. For example, a strategic concept of fundraising was developed and shared with the Board of Trustees at its fifty-fourth session, held in November 2013. Cost recovery approaches were improved, and a new policy for direct support cost was approved by the Board of Trustees and applied as from 1 July 2013. In addition, the recruitment procedures were updated to formalize the publication period of vacancy announcements.

While acknowledging the progress, the Board identified opportunities for improvement in financial disclosure, asset management and programme management.

Key findings

Financial reporting

There is a lack of clarity as to the definition and scope of programme support and direct service costs. Furthermore, the percentage and the methodology of the retention from project funds to cover the direct service cost are not communicated to donors.

Asset management

The Board noted deficiencies in asset management. For example, 28 per cent of total non-expendable property at UNITAR headquarters were not found during the physical inventory, and investigation has not been conducted robustly. There were also cases of misclassification of non-expendable property. These deficiencies not only indicate the need to strengthen asset management but could, if not addressed, compromise the preparation of accurate International Public Sector Accounting Standards (IPSAS) opening balances.

Programme management

UNITAR did not refund the balance of completed projects to donors in a timely manner. An amount of $0.041 million was charged to the balances of completed projects without obtaining the approval from donors. Similarly, another amount of $0.061 million was charged to the ongoing projects without approval from donors.

Recommendations

The Board has made a number of recommendations in its report. The main recommendations are that UNITAR:

(a) **Clarify the definition and scope of the programme support cost and direct service cost; and provide adequate information to donors with regard to the retention from project funds;**

(b) **Conduct a prompt verification of those items not found in the most recent physical inventory and perform reconciliation accordingly; and, in collaboration with the United Nations Office at Geneva, expedite the development of policy and the issuance of guidance on asset classification so as to ensure that assets are properly classified;**

(c) **Consult with donors before disposing of surplus funds from completed projects, and use funds for ongoing projects in compliance with the requirements of the letter of agreement.**

Follow-up of previous recommendations

Of the three recommendations made for the biennium 2010-2011, one was under implementation, one was not implemented and one was overtaken by events.

A. Mandate, scope and methodology

1. The United Nations Institute for Training and Research (UNITAR) was established in 1965 as an autonomous body within the United Nations system with the purpose of enhancing the effectiveness of United Nations through appropriate training and research. UNITAR is governed by a Board of Trustees and is headed by an Executive Director. It is entirely self-funded and does not receive contributions from the United Nations regular budget. The Institute is supported by voluntary contributions from Governments, intergovernmental organizations, foundations and other non-governmental sources.

2. The Board of Auditors (the Board) has audited the financial statements of UNITAR and has reviewed its operations for the biennium from 1 January 2012 to 31 December 2013 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNITAR as at 31 December 2013 and the results of its operations and cash flows for the financial biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNITAR operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNITAR operations. The Board also followed up on its previous recommendations and addressed these matters in the relevant sections of the present report.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions.

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

B. Findings and recommendations

1. Follow-up of previous recommendations

7. Of the three recommendations made for the biennium 2010-2011, one was under implementation, one was not implemented and one was overtaken by events. Details of the status of implementation of those recommendations are shown in the annex to the present report.

8. One recommendation that was not implemented relates to the disclosure of information about the programme support income, including the definition, scope and calculation methodology, in the notes to the financial statements. UNITAR stated that it had communicated with United Nations Headquarters to revise the notes; however, the latter held the opinion that it was not necessary to disclose the information. The Board again highlights that it would help the user to understand the programme support income if such information were disclosed, and encourages UNITAR to implement this recommendation accordingly.

9. In its letter of 11 November 2013, the Advisory Committee on Administrative and Budgetary Questions requested the Board to follow up on the issues contained in paragraphs 45 and 46 of its report (A/67/381), on the lack of internal audit at UNITAR. The Board followed this request and noted that the internal audit function had not been established in UNITAR. At the time of writing of the present report, the negotiation between UNITAR and the Office of Internal Oversight Services (OIOS) was still ongoing. UNITAR stated that the financial resources available for audit were limited and that it could not support the internal audit service any further.

10. The Board recognizes that it is for management to determine its internal audit arrangement within the framework of the Financial Regulations and Rules of the United Nations. However, the Board is concerned that the absence of suitable internal audit arrangements in UNITAR significantly weakens the internal control environment. While internal audit services need to be delivered in a cost-efficient manner, it is simply not an option to have no internal audit coverage.

11. **The Board recommends that UNITAR, in collaboration with OIOS, urgently resolve the issues of funding and service cost and establish appropriate internal audit coverage.**

12. OIOS commented that it would start the annual work planning process for the identification of internal audit assignments for 2015. As part of the exercise, OIOS will undertake a more detailed risk assessment of UNITAR operations and include an audit of UNITAR in the 2015 workplan.

2. Financial overview

13. For the biennium 2012-2013, the total income of UNITAR was $43.21 million, compared with that for 2010-2011 of $42.05 million. The total expenditure amounted to $42.16 million, compared with that for 2010-2011, which stood at $42.62 million.

14. As at 31 December 2013, the total assets of UNITAR were $18.19 million while the total liabilities amounted to $10.49 million. Among the $18.19 million in assets, $16.18 million were cash or cash-equivalent assets deposited in the United Nations Office at Geneva cash pool, which was invested by the United Nations

Treasury in New York. The $16.18 million cash assets were derived mainly from the accumulated reserves and fund balances.

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

15. The United Nations Office at Geneva performs the financial and accounting functions of UNITAR, and UNITAR follows exactly the same procedures and approaches as the Office in the implementation of IPSAS. In 2011, the United Nations Office at Geneva assigned its IPSAS team to coordinate all the activities relating to IPSAS preparation for its clients and supporting entities, including UNITAR. In order to prepare the IPSAS opening balance, the Office issued a series of administrative and financial instructions and set the deadlines for submitting the necessary information.

16. However, the Board noted that the opening balance had not been finalized at the time of the audit in April. Furthermore, the Board observed deficiencies in asset management, such as insufficient investigation of the assets not found and misclassification of non-expendable property, which might compromise the preparation of accurate IPSAS opening balances (see paras. 22-31).

17. **The Board recommends that UNITAR coordinate closely with the United Nations Office at Geneva to ensure IPSAS implementation in a timely manner.**

4. Financial reporting

18. Currently in UNITAR, the support cost comprises mainly programme support cost and direct service cost. The Board was informed that the programme support cost is funded by 7 per cent of all project funds, which is reflected as “program support income” on the face of the financial statements. For the biennium under review, it amounted to $2.81 million.

19. The direct service cost is funded by an additional percentage of funds of those projects after 30 June 2013. Generally, 11 per cent is applied to projects implemented by UNITAR and 6 per cent to projects implemented by a third entity, and all the funding is collected under a separate account code of the Special Purpose Grants Fund. For the biennium under review, it amounted to $0.81 million.

20. The Board noted the following deficiencies:

- Lack of clarity on the classification of programme support cost and direct service cost.
- Lack of disclosure of direct service costs: programme support cost has been disclosed independently as a separate line in financial statements, but direct service cost is not clearly reported, which may result in financial statement users wrongly taking them as direct activity costs.
- Insufficient information provided to donors with respect to the retention by UNITAR: in terms of the additional retention (11 per cent or 6 per cent) for projects after 30 June 2013, although a provision for the recovery of direct service cost was included in the letter of agreement, the percentage and methodology are not communicated to donors.

21. **The Board recommends that UNITAR: (a) clarify the definition and scope of the programme support cost and direct service cost; (b) ensure that direct service costs are completely and clearly disclosed in the financial statements; and (c) provide adequate information to donors with regard to the retention from project funds.**

5. Asset management

22. According to note 7 to the financial statements, non-expendable property amounted to $0.676 million as at 31 December 2013, which consists of $0.442 million at UNITAR headquarters in Geneva, $0.031 million in the New York office, $0.019 million in the Hiroshima office and $0.184 million in the Nigeria office. UNITAR headquarters assets are managed by the United Nations Office at Geneva, including recording, management, physical verification and reporting. The assets at the New York, Hiroshima and Nigeria offices are managed by the field offices themselves. UNITAR headquarters is responsible for consolidating the assets records for reporting to United Nations Headquarters and for disclosure in the financial statements.

23. During the biennium under review, the Board noted the following deficiencies in relation to assets management and reporting:

Physical inventory of non-expendable property

24. At UNITAR headquarters, the United Nations Office at Geneva performed a comprehensive rolling inventory check for 2010-2012 and two physical inventories in 2013, in the first and fourth quarters, respectively. Owing to a lack of experience, the physical inventory conducted by a service provider in the first quarter of 2013 proved to be unsatisfactory. Through a daily spot check made by staff of the United Nations Office at Geneva, the quality of the physical inventory conducted in the fourth quarter of 2013 had been improved and was considered satisfactory. In October 2013, the Office consolidated a physical inventory report based on the three inventories. According to that consolidated report, 210 items of non-expendable property ($0.123 million) were “in use” but not found in the most recent physical inventory conducted in the fourth quarter of 2013. The high number of items “not found” (28 per cent of total value) indicates the insufficient management of non-expendable property at UNITAR headquarters.

25. Furthermore, the United Nations Office at Geneva requested concerned units to double-check or conduct fact-finding investigations for only those items that had not been found during all three physical inventories. The Office explained that it had adopted a prudent approach to write-offs: only items not found during the three inventories would be written off, and only after a detailed fact-finding investigation was completed. However, the Board is of the view that all those 210 items not found in the most recent inventory should be followed up and investigated promptly and a decision taken in terms of their existence.

Classification of non-expendable property

26. The Board noted cases of inconsistent classification of assets. For example, 15 smartphones with values ranging from $507 to $975 were disclosed as non-expendable property, while a smartphone valued at $627 was not classified as such. The United Nations Office at Geneva has stated that the inconsistency will be

the subject of a formal policy determination and the issuance of appropriate guidance.

27. Furthermore, 45 expendable property items with a total value of $0.014 million at UNITAR headquarters and 19 expendable property items amounting to $0.006 million at field offices were mistakenly disclosed as non-expendable property.

Disclosure of non-expendable property

28. The Board noted in the interim audit that, among the UNITAR non-expendable property disclosed, 505 items (with a total value of $0.053 million) were actually purchased and owned by the United Nations Office at Geneva but issued to UNITAR for use. Of those, 328 items valued at $0.045 million were still disclosed as UNITAR non-expendable property in note 7 to the financial statements.

29. The United Nations Office at Geneva states that historic practices endorsed by Office Instruction No. 176 base the reporting of property on the utilization and allocation of property. Therefore, items found in use at UNITAR offices have historically been reported as property of UNITAR regardless of the method of acquisition and, when those items are no longer utilized by UNITAR, they are returned to the United Nations Office at Geneva and thereafter reported as property of the latter. The Board is of the view that UNITAR should reconsider this Instruction by introducing the concept of “control” under IPSAS so as to ensure the accuracy of IPSAS opening balances.

30. The Board is concerned that the deficiencies mentioned above not only indicate insufficient asset management but may also compromise the preparation of accurate IPSAS opening balances.

31. **The Board recommends that UNITAR: (a) conduct a prompt verification of those items not found in the most recent physical inventory and perform reconciliation accordingly; (b) expedite the development of policy and the issuance of guidance on asset classification to ensure that assets are properly classified; (c) in collaboration with the United Nations Office at Geneva, review Office Instruction No. 176 to ensure that it is IPSAS-compliant with respect to the definition of assets.**

6. Programme management

Inappropriate use of the Special Purpose Grants Fund

32. The Board noted in the interim audit of UNITAR in 2013 that a total balance of $0.077 million relating to two completed projects had not been refunded to donors in a timely manner. In the final audit, the Board noted that $0.172 million in United Nations Office at Geneva service costs had been charged to the balances of 30 projects funded by the Special Purpose Grants Fund, while it was supposed to be paid from the General Fund or direct service cost.

33. The Board sampled six projects with a total amount of $0.125 million from the above-mentioned 30 projects funded by the Special Purpose Grants Fund. Of the six projects, four were completed and two were ongoing. According to the letter of agreement between UNITAR and donors, UNITAR is required to consult with donors before disposing of the surplus for completed projects. However, UNITAR

charged $0.041 million from the unused balances of two completed projects without obtaining approval from donors. Furthermore, the two ongoing projects were charged another $0.061 million, which is not in the scope of the letter of agreement, without the approval of donors.

34. **The Board recommends that UNITAR consult with donors before disposing of the surplus of completed projects and use the funds of the ongoing projects in compliance with the requirements of the letter of agreement.**

Delays in submission of financial reports to donors

35. With regard to completed projects, UNITAR needs to submit financial and substantive reports to donors for review within the timeline requested in the corresponding letters of agreement. However, out of a sample of 16 completed projects, the financial reports of 6 projects had not been submitted in a timely manner.

36. UNITAR explains that delays in submitting financial reports were due mainly to limited staffing resources in the Administration and Finance Section to prepare the financial reports and the focus of the existing staff on tasks directly linked to programme implementation and day-to-day transaction processing.

37. **The Board recommends that UNITAR comply with the requirements of the letters of agreement to submit financial reports to donors in a timely manner.**

7. Procurement and contract management

Lack of clarity as to the responsibility for vendor performance evaluation

38. Vendor performance evaluation is the assessment of the vendor's fulfilment of the contracted requirements with regard to quality, delivery and timeliness, as well as all other performance indicators regarding the promised goods, services or works. Such evaluations are important in deciding future contract awarding.

39. In UNITAR, purchases of goods or services above $100,000 are procured through the United Nations Office at Geneva. For all those procurement activities through the Office, the Board noted that no vendor performance evaluation had been done.

40. This is due mainly to a lack of clarity as to the responsibility for undertaking vendor performance evaluations in the memorandum of understanding between UNITAR and the United Nations Office at Geneva on procurement services. It appears that UNITAR and the Office have different views on who will conduct vendor performance evaluation and how it will be conducted. UNITAR believes that, as all cases above $100,000 are fully conducted by the Office, it should include the evaluation of vendor performance as part of contract administration, while the Office believes that UNITAR should conduct vendor performance as the end user or requisitioner, according to the United Nations Procurement Manual.

41. **The Board recommends that UNITAR, as the end user, take responsibility for vendor performance evaluation, and that the memorandum of understanding between UNITAR and the United Nations Office at Geneva be updated and clarified to this effect.**

8. Human resources management

Delays in the update of annual leave balances

42. UNITAR reported the 2013 actuarial valuation census data to United Nations Headquarters, using the balance as at 30 September 2013. The Board reviewed the annual leave balances of 21 regular staff (over half of the total regular staff) and noted that the annual leave balances of two staff members were incorrect. One balance was showing 1.5 days more annual leave than it should, and the other 17 days less. This was due mainly to delays in updating the leave balances in the Integrated Management Information System by the Human Resources Section of UNITAR.

43. The annual leave balances of all UNITAR staff should be updated before the census data are reported to United Nations Headquarters. In this regard, the Board is concerned that inaccurate annual leave balances reported to United Nations Headquarters may have a negative impact on the basis of the actuarial valuation stated in the financial statements for the biennium 2012-2013.

44. **The Board recommends that UNITAR update the annual leave balances in a timely manner and introduce checks before submitting the census data in order to ensure the accuracy of the actuarial valuation basis for the unused leave liabilities.**

C. Disclosures by management

45. UNITAR reported to the Board that, except for write-offs of $7,555 for stolen non-expendable property and one write-off of $62.99 for an unsettled travel claim, there were no write-offs of losses of assets, ex gratia payments or causes of fraud or presumptive fraud during the biennium 2012-2013.

D. Acknowledgement

46. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and the staff members of UNITAR.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the 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 2014

Annex

Status of implementation of recommendations for the biennium ended 31 December 2011

Summary of recommendations	*Paragraph reference in the previous report (A/67/5/Add.4, chap. II)*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Disclose the information about the programme support income, including the definition, the scope and the calculation methodology in the notes to the financial statements	22	2010-2011			X	
Clearly articulate the definition, scope and percentage of programme support cost and administrative cost	28	2010-2011		X		
Intensify its efforts to ensure the timely implementation of the International Public Sector Accounting Standards	32	2010-2011				X
Total			**–**	**1**	**1**	**1**
Percentage			**–**	**33.3**	**33.3**	**33.3**

Chapter III
Certification of the financial statements

Letter dated 28 March 2014 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Institute for Training and Research for the biennium ended 31 December 2013 have been prepared in accordance with financial rule 106.10 of the Financial Regulations and Rules of the United Nations.

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

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

(*Signed*) Maria Eugenia **Casar**
Assistant Secretary-General, Controller

Chapter IV
Financial report for the biennium ended 31 December 2013

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report on the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2013.

2. The present report is designed to be read in conjunction with the financial statements. The annex to the present report includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

B. Overview

Income and expenditure and changes in reserves and fund balances

General Fund

3. Total income for the biennium 2012-2013 decreased by 7 per cent to $3,596,000 from $3,874,000 in the previous biennium. This was due mainly to a decrease in programme support income of $168,000. The projects under the Special Purpose Grants Fund are subject to programme support costs of 7 per cent since the beginning of 2008; projects established earlier are subject to programme support costs of up to 13 per cent.

4. Total expenditure for the biennium 2012-2013 decreased by 7 per cent to $3,607,000 from $3,873,000 in the previous biennium. The decrease in expenditure is attributable largely to reduced travel and other related costs of the Board of Trustees.

5. The reserves and fund balance as at the end of December 2013 decreased to $484,000 from $791,000 as at the end of the previous biennium. This decrease is attributable mainly to a charge related to the closure of a UNITAR office in Brazil.

Special Purpose Grants Fund

6. Total income for the biennium 2012-2013 increased by 6 per cent to $41,215,000 from $38,957,000 in the previous biennium. This is attributable primarily to an increase in contributions to the Special Purpose Grants Fund resulting from increased fundraising activities by the Institute.

7. Total expenditure for the biennium 2012-2013 increased by 2 per cent to $40,159,000 from $39,530,000 in the previous biennium. The increase in expenditure is attributable mainly to the growth in the size and number of projects implemented by UNITAR. The expenditure includes institutional costs and direct service costs generated by the implementation of project activities.

8. The reserves and fund balance as at 31 December 2013 of $12,117,000 increased by 17 per cent from $10,356,000 as at 31 December 2011, supported by the excess of income over expenditure and by the cancellation of prior-period obligations.

Activities financed by the United Nations Development Programme

9. Total expenditure against approved allocation from the United Nations Development Programme (UNDP) decreased from $2,252,000 in the previous biennium to $1,264,000 following a reduction in the number of projects implemented during the biennium which are financed by UNDP.

After–service health insurance

10. The after-service health insurance liability of $4,897,000 as at 31 December 2013, determined on the basis of an actuarial valuation, increased significantly by $1,177,000 compared with the liability of $3,720,000 as at 31 December 2011. The increase is explained mainly by the actuarial valuation of ongoing staff service costs.

Assets, liabilities, reserves and fund balances

11. As at 31 December 2013, the General Fund and the Special Purpose Grants Fund had shares in the United Nations main cash pool in the amounts of $1,990,000 and $14,185,000, respectively. The total assets of the Institute as at 31 December 2013 amounted to $18,192,000, representing an increase of 8 per cent or $1,423,000 from the end of the previous biennium. This was attributable primarily to an increase in donor pledges.

12. As at 31 December 2013, the total liabilities of the Institute increased by $1,146,000 to $10,488,000. This increase of 12 per cent is attributable mainly to the increase in the end-of-service and post-retirement liabilities of $1,500,000, offset partly by a decrease in unliquidated obligations.

Status of expenditure against approved budget

13. The General Fund expenditure against the approved budget during the biennium 2012-2013 amounted to $3,607,000, which was within the approved budget of $7,281,000. The underspending is due primarily to incurring certain support and institutional expenditure under the Special Purpose Grants Fund, as the related voluntary contribution was reported under the Special Purpose Grants Fund.

Annex

Supplementary information

1. The present annex includes supplementary information that the Executive Director is required to report.

Write-off of losses of cash and receivables

2. Pursuant to financial rule 106.7 (a), a receivable of $62.99 in respect of unsettled long-pending travel claim has been approved for write-off against the Special Purpose Grants Fund during the biennium 2012-2013.

Write-off of losses of property

3. Total write-offs of non-expendable property during the biennium 2012-2013 amounted to $7,555 at original acquisition cost of property items.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2012-2013.

Chapter V
Financial statements for the biennium ended 31 December 2013

United Nations Institute for Training and Research[a]

I. Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2013

(Thousands of United States dollars)

	General Fund	Other activities: *Special Purpose Grants Fund*	Other activities: *Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2013*	*Total 2011*
Income							
Voluntary contributions	657	32 438	–	–	–	33 095	28 758
Funds received under inter-organization arrangements	–	5 951	1 264	–	–	7 215	10 561
Programme support income	2 807	–	–	–	(2 807)	–	
Interest income	13	183	–	–	–	196	451
Other/miscellaneous income	119	2 643	–	–	(60)	2 702	2 280
Total income	**3 596**	**41 215**	**1 264**	**–**	**(2 867)**	**43 208**	**42 050**
Expenditure							
Staff and other personnel costs	2 684	21 175	687	–		24 546	23 981
Travel	50	1 567	133	–	–	1 750	2 058
Contractual services	282	2 873	120	–	–	3 275	2 237
Operating expenses	361	1 587	107	–	–	2 055	2 356
Acquisitions	6	193	88	–	–	287	584
Other	224	9 985	41	–	–	10 250	11 406
Total direct expenditure	**3 607**	**37 380**	**1 176**	**–**	**–**	**42 163**	**42 622**
Programme support costs		2 779	88	–	(2 867)	–	–
Total expenditure	**3 607**	**40 159**	**1 264**	**–**	**(2 867)**	**42 163**	**42 622**
Excess (shortfall) of income over expenditure	**(11)**	**1 056**	**–**	**–**	**–**	**1 045**	**(572)**
Non-budgeted accrued income/(expenses) for after-service health insurance costs[c]	–	–	–	(1 177)	–	(1 177)	(1 797)
Net excess (shortfall) of income over expenditure	**(11)**	**1 056**	**–**	**(1 177)**	**–**	**(132)**	**(2 369)**

United Nations Institute for Training and Research[a]

I. Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2013 (continued)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2013*	*Total 2011*
Cancellation of prior-period obligations	19	781	–	–	–	800	774
Refund to donors	(315)	(76)	–	–	–	(391)	(105)
Reserves and fund balances, beginning of period	791	10 356	–	(3 720)	–	7 427	9 127
Reserves and fund balances, end of period	**484**	**12 117**	**–**	**(4 897)**	**–**	**7 704**	**7 427**

[a] See note 3.
[b] See note 5 (b).
[c] Represents net decrease (increase) in accrued liability for after-service health insurance costs.

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

United Nations Institute for Training and Research[a]

II. Statement of assets, liabilities and reserves and fund balances as at 31 December 2013

(Thousands of United States dollars)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2013*	*Total 2011*
Assets							
Cash and term deposits	–	10	–	–	–	10	12
Cash pool[c]	1 990	14 185	–	–	–	16 175	14 457
Pledged contributions receivable	15	1 209	–	–	–	1 224	12
Inter-fund balances receivable	8	–	174	–	(182)	–	–
Other accounts receivable	–	138	–	–	9	147	1 023
Deferred charges	–	636	–	–	–	636	1 265
Total assets	**2 013**	**16 178**	**174**	**–**	**(173)**	**18 192**	**16 769**
Liabilities							
Contribution received in advance	1 342	–	–	–	–	1 342	1
Unliquidated obligations — current period	145	1 597	17	–	–	1 759	2 711
Unliquidated obligations — future period	–	590	–	–	–	590	1 199
Inter-fund balance payable		126	47	–	(173)	–	–
Payable to funding source	–	–	62	–	–	62	422
Other accounts payable	2	281	48	–	–	331	105
End-of-service and post-retirement liabilities	40[d]	1 467[e]	–	4 897	–	6 404	4 904
Total liabilities	**1 529**	**4 061**	**174**	**4 897**	**(173)**	**10 488**	**9 342**
Reserves and fund balances							
Operating reserves	284	–	–	–	–	284	267
Balances relating to projects funded by donors	–	12 117	–	–	–	12 117	10 356
Cumulative surplus (deficit)	200	–	–	(4 897)	–	(4 697)	(3 196)
Total reserves and fund balances	**484**	**12 117**	**–**	**(4 897)**	**–**	**7 704**	**7 427**
Total liabilities and reserves and fund balances	**2 013**	**16 178**	**174**	**–**	**(173)**	**18 192**	**16 769**

(Footnotes on following page)

(Footnotes to Statement II)

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[a] See note 3.
[b] See note 5 (b).
[c] Represents share of United Nations main cash pool and comprises cash and term deposits of $3,380,744, short-term investments of $6,446,258 (market value), long-term investments of $6,326,127 (market value) and accrued interest receivable of $22,165.
[d] Represents total accrued liabilities for unused vacation days of $13,000 and for repatriation benefits of $27,000. See note 5 (c) and (d).
[e] Represents total accrued liabilities for unused vacation days of $358,000 and for repatriation benefits of $1,109,000. See note 5 (c) and (d).

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

United Nations Institute for Training and Research[a]

III. Statement of cash flows for the biennium ended 31 December 2013

(Thousands of United States dollars)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2013*	*Total 2011*
Cash flows from operating activities							
Net excess (shortfall) of income over expenditure (statement I)	(11)	1 056	–	(1 177)	–	(132)	(2 369)
(Increase) decrease in pledged contributions receivable	(3)	(1 209)	–	–	–	(1 212)	113
(Increase) decrease in inter-fund balances receivable	(8)	202	579	–	(773)	–	–
(Increase) decrease in other accounts receivable	1	(29)	6	–	898	876	(215)
(Increase) decrease in deferred charges	11	618	–	–	–	629	(843)
Increase (decrease) in contributions received in advance	1 341	–	–	–	–	1 341	(73)
Increase (decrease) in unliquidated obligations	2	(1 244)	(319)	–	–	(1 561)	1 271
Increase (decrease) in inter-fund balances payable	(48)	126	47	–	(125)	–	–
Increase (decrease) in payable to funding source	–	–	(360)	–	–	(360)	(221)
Increase (decrease) in other accounts payable	(11)	190	–	–	–	179	(158)
Increase (decrease) in end-of-service and post-retirement liabilities	(105)	428	47	1 177	–	1 547	2 233
Less: Interest income	(13)	(183)	–		–	(196)	(451)
Net cash flows from operating activities	**1 156**	**(45)**	**–**	**–**	**–**	**1 111**	**(713)**
Cash flows from investing activities							
Interest income	13	183	–	–	–	196	451
Net cash flows from investing activities	**13**	**183**	**–**	**–**	**–**	**196**	**451**
Cash flows from financing activities							
Cancellation of prior-period obligations	19	781	–	–	–	800	774
Refund to donors	(315)	(76)	–	–	–	(391)	(105)
Net cash flows from financing activities	**(296)**	**705**	**–**	**–**	**–**	**409**	**669**
Net increase (decrease) in cash, term deposits and main cash pool	**873**	**843**	**–**	**–**	**–**	**1 716**	**407**

United Nations Institute for Training and Research[a]

III. Statement of cash flows for the biennium ended 31 December 2013 (continued)

		Other activities					
	General Fund	*Special Purpose Grants Fund*	*Activities financed by UNDP*	*After-service health insurance*[b]	*All funds eliminations*	*Total 2013*	*Total 2011*
Cash, term deposits and main cash pool, beginning of period	**1 117**	**13 352**	**–**	**–**	**–**	**14 469**	**14 062**
Cash, term deposits and main cash pool, end of period	**1 990**	**14 195**	**–**	**–**	**–**	**16 185**	**14 469**

[a] See note 3.
[b] See note 5 (b).

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

United Nations Institute for Training and Research[a]

IV. Statement of expenditure against budget for the biennium ended 31 December 2013

(Thousands of United States dollars)

	Budget[a]			Expenditures			
Programme	*Original*	*Changes*	*Revised*	*Disbursements*	*Unliquidated obligations*	*Total*	*Unencumbered balance*
Office of the Executive Director	1 450	320	1 770	920	33	953	817
Research Department	1 352	(820)	532	107	–	107	425
Support Services Department	4 824	155	4 979	2 434	113	2 547	2 432
Training Department	233	(233)	–	–	–	–	–
Total	**7 859**	**(578)**	**7 281**	**3 461**	**146**	**3 607**	**3 674**

[a] The 2012-2013 budget for the General Fund does not include certain administrative costs that are charged against the Special Purpose Grants Fund, and is extracted from the overall programme budget for the biennium 2012-2013 for UNITAR that was initially approved by the Board of Trustees at its fifty-first session in November 2011 and revised at its fifty-third session in April 2013.

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

United Nations Institute for Training and Research
Notes to the financial statements

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

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

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

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

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

(i) Environment Unit:

- Environmental governance
- Chemicals and waste management
- Climate change

(ii) Peace, Security and Diplomacy Unit:

- Multilateral diplomacy
- International law
- Peacemaking and conflict prevention
- Peacekeeping training

(iii) Governance Unit:

- Public finance and trade
- Local development

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

(a) As provided in article VIII of its statute, the UNITAR accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the Regulations, and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The

Institute follows International Accounting Standard 1, “Presentation of financial statements”, on the disclosure of accounting policies, as modified and adopted by CEB as follows:

(i) Going concern, consistency, and accrual are fundamental accounting assumptions of the United Nations system accounting standards. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Institute’s accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly or the Executive Director. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect the activities of each fund or of a group of funds of the same nature.

(c) The financial period of the Institute is a biennium and consists of two consecutive calendar years. These financial statements have been prepared for the biennium ended 31 December 2013, with comparative prior figures presented for the biennium ended 31 December 2011.

(d) Generally, income, expenditure, assets, and liabilities are recognized on the accrual basis of accounting.

(e) The financial statements of the Institute are presented in United States dollars, which is the functional and presentation currency of the United Nations. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rate of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Institute's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

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

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

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

(j) Income:

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

(ii) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments and investment income earned in the cash pools. All gains/losses on investments and foreign exchange differences relating to the cash pools are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;

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

(iv) Funds received under inter-organization arrangements represent income received from other United Nations entities in support of the Institute's programmes and locations of funding for projects or programmes administered by the Institute on their behalf. The allocation income from UNDP is determined, taking into account gain or loss on exchange and other miscellaneous income and prior-year adjustments, if any, against total expenditures;

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

(k) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget for the period during which it was acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in item (l) (iv) below;

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

(l) Assets:

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

(ii) The cash pool comprises participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pool. The investments in the cash pool are stated at their fair value and include marketable securities and other negotiable instruments acquired to produce income. The share in the cash pool is reported separately in each participating fund's statement and the composition of its investments disclosed in the footnotes to the statements. Currently, the Institute participates only in the main cash pool (see note 4 for additional details);

(iii) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

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

(m) Liabilities and reserves and fund balances:

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

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

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

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

(v) Accrued liabilities for end-of-service and post-retirement benefits, comprising those for after-service health insurance, repatriation benefits and unused vacation days, are recorded on the basis of an actuarial valuation (see note 5);

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

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

(n) Change from United Nations system accounting standards to International Public Sector Accounting Standards (IPSAS):

(i) The United Nations is transitioning from the use of the United Nations system accounting standards to IPSAS, which will guide the presentation of the financial statements of the United Nations, including those of the Institute, commencing from the 2014 financial year. Hence, the present financial statements are the last statements to be prepared on the basis of the United Nations system accounting standards;

(ii) IPSAS are based on full accrual accounting, which means that all assets and liabilities are presented on the face of the financial statements, and expenses and revenues are recognized when incurred/earned, irrespective of the cash flows. IPSAS also require significantly more note disclosures in the financial statements;

(iii) Under the United Nations system accounting standards, financial accounting and budgetary accounting are aligned. With the adoption of IPSAS, the financial statements will be presented on a full accrual basis, whereas budgetary expenditure will continue to be recorded on a modified cash basis. There will be a reconciliation between budget implementation and the financial statements, which will be presented in the notes to the financial statements;

(iv) IPSAS require annual financial statements; as from the 2014 financial year, IPSAS-compliant financial statements will be prepared and audited annually.

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

(a) Statements I, II and III contain financial results for UNITAR that are totalled into four groups of related funds, and, after elimination, combined into a grand total reflecting all activities of the Institute. This combined presentation should not be interpreted to mean that any individual fund can be used for any purpose other than that for which it is authorized. The four groups consist of:

(i) The General Fund;

(ii) The Special Purpose Grants Fund;

(iii) Activities financed by UNDP;

(iv) After-service health insurance.

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

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

Note 4
United Nations cash pools

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the Secretariat, including UNITAR. Such surplus funds are combined in two internally managed cash pools, which invest in major segments of the money and fixed income markets. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities;

(ii) Investment activities of the cash pools are guided by the principles contained in the Investment Management Guidelines. An Investment Committee periodically assesses compliance with the Guidelines and makes recommendations for updates thereto, and also reviews performance.

(b) Investment management objectives:

Further to the Guidelines, investment objectives of the cash pools, in order of priority, are the following:

(i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations and participating entities to readily meet all operating requirements. Only assets which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return, taking into account investment risk constraints and the cash flow characteristics of the pools. Benchmarks determine whether satisfactory market returns are being achieved in the cash pools.

(c) Cash pools:

(i) The United Nations Headquarters Treasury manages investments in two cash pools: the main cash pool and the euro cash pool:

a. Effective 1 July 2013, the United Nations Headquarters and the offices away from Headquarters cash pools were combined to form the main cash pool. The main cash pool now comprises operational bank account balances and investments in United States dollars;

b. The euro cash pool comprises investments in euros; the pool participants are mostly offices away from Headquarters that may have a surplus of euros from their operations;

(ii) The cash pools are invested in a variety of securities. Such securities may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. Cash pools do not invest in derivative instruments or asset-backed, mortgage-backed or equity products;

(iii) Investment transactions are now accounted for on a trade date basis, reflecting a change from settlement date to trade date; the 2011 figures have not been restated, as the impact of the change has been deemed to be immaterial. Investment income is recognized on an accrual basis; transaction costs that are directly attributable to the investment activity of the cash pools are expensed as incurred in the cash pools and the net income is distributed proportionately to the funds participating in the cash pools; and operational bank account fees are not netted but distributed to cash pool participants. The unrealized market gains/losses on securities and foreign exchange gains/losses are distributed proportionately to all participants on the basis of their end-of-year balances;

(iv) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the cash pool participants;

(v) As at 31 December 2013, investments in the cash pools had been revalued at fair value. The 31 December 2011 comparative figures represent the book value of investments; the 2011 figures have not been restated, as the impact of the change in valuation has been deemed to be immaterial;

(vi) As at 31 December 2013, UNITAR participated only in the main cash pool.

(d) Financial information pertaining to the main cash pool:

(i) As at 31 December 2013, the main cash pool held total assets of $9,548.7 million; of this amount, $16.2 million was due to UNITAR, as reflected against the cash pool line in the statement of assets, liabilities and reserves and fund balances;

(ii) Financial information of the main cash pool as at 31 December 2013 is summarized in table 1.

Table 1
Summary of assets and liabilities of the main cash pool as at 31 December 2013
(Thousands of United States dollars)

	Main cash pool
Assets	
Short-term investments[a]	5 687 907
Long-term investments[a]	3 734 459
Total investments	**9 422 366**
Cash	113 200
Accrued investment income	13 084
Total assets	**9 548 650**
Liabilities	
Payable to the Institute	16 175
Payable to other funds participating in the main cash pool	9 532 475
Total liabilities	**9 548 650**
Net assets	**–**

Summary of income of the main cash pool for the biennium ended 31 December 2013

(Thousands of United States dollars)

	Main cash pool
Income	
Investment revenue	96 592
Realized gains on sales of securities	24 643
Foreign exchange adjustments	4 241
Unrealized gains (losses)	4 811
Net income from investments	**130 287**
Bank fees	(1 083)
Net income from operations	**129 204**

[a] Amounts are stated at fair value.

(e) Composition of the main cash pool:

Table 2 shows a breakdown of investments held in the main cash pool by type of instrument:

Table 2
Investments of the main cash pool by type of instrument as at 31 December 2013

(Thousands of United States dollars)

Main cash pool	*Book value*	*Fair value*[a]
Bonds		
Non-United States agencies	2 073 122	2 077 421
Non-United States sovereigns	670 963	674 773
Supranationals	250 075	250 246
United States agencies	555 494	556 492
United States Treasury	1 597 161	1 592 050
Subtotal	**5 146 815**	**5 150 982**
Discounted instruments	2 138 208	2 138 849
Certificates of deposit	250 000	250 003
Term deposits	1 882 532	1 882 532
Total investments	**9 417 555**	**9 422 366**

[a] Fair value is determined by the independent custodian on the basis of valuations of securities that are sourced from third parties.

(f) Financial risk management:

The cash pools are exposed to a variety of financial risks, including credit risk, liquidity risk, currency risk and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk:

The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Viability Rating is used to rate bank term deposits.

The credit ratings of the issuers whose securities were held in the main cash pool are shown in table 3.

Table 3
Investments of the main cash pool by credit ratings as at 31 December 2013
(Thousands of United States dollars)

Main cash pool	*Total*[a]	*Ratings*
Bonds	5 150 982	S&P: 32.3% AAA and 63.1% AA+/AA; 4.6% NR; Moody's: 81.9% Aaa and 18.1% Aa1/Aa3
Discounted instruments	2 138 849	S&P: 71.7% A-1+ and 24.1% NR; Moody's: 95.8% P-1; Fitch: 4.2% aa-
Certificates of deposit	250 003	S&P: 40% A-1; Moody's: 40% P-1; Fitch: 60% a+/a-
Term deposits	1 882 532	Fitch: 58.6% aa- and 41.4% a+/a/a-
Total investments	**9 422 366**	

[a] Represents the fair value of securities as at 31 December 2013.

(ii) Liquidity risk:

The cash pools are exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet commitments as and when they fall due. The major portion of the pools' cash and cash equivalents and investments are available within one day's notice to support operational requirements. Hence, the cash pools are able to respond to withdrawal needs in a timely manner, and liquidity risk is considered to be low.

(iii) Currency risk:

Currency risk is the risk that the value of investments denominated in non-United States dollars will fluctuate owing to changes in foreign exchange rates versus the United States dollar. The main cash pool has no currency risk for its investments, which are in United States dollars. However, the main cash pool has currency risk for operational bank balances. The euro cash pool is exposed to currency risk through the holding of securities in euros. Accordingly, funds participating in the euro cash pool are exposed to currency risk to the extent that their share of investments exceeds their operational requirements for euros.

(iv) Interest rate risk:

Interest rate risk is the risk of variability in investments' values due to changes in interest rates. In general, as interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years: the longer the duration, the greater the interest rate risk.

The cash pools are exposed to interest rate risk, as their holdings comprise interest-bearing securities. As at 31 December 2013, the cash pools invested primarily in securities with shorter terms to maturity, with the maximum term being less than four years. The average durations of the main cash pool and the euro cash pool were 0.92 years and 0.64 years, respectively, which are considered to be indicators of low interest rate risk.

Table 4 shows how the fair value of the main cash pool as at 31 December 2013 would increase or decrease should the overall yield curve shift in response to changes in interest rates. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative.

Table 4
Sensitivity of the main cash pool to interest rates as at 31 December 2013

Shift in yield curve (basis points)	*Change in fair value (millions of United States dollars)*
(200)	174.0
(150)	130.0
(100)	87.0
(50)	43.0
–	–
50	(43.0)
100	(87.0)
150	(130.0)
200	(174.0)

(v) Other price risk:

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

Note 5
Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits and commutation of unused vacation days.

As disclosed in note 2 (m) (v), all three liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm.

(b) After-service health insurance:

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

(ii) The major assumptions used by the actuarial firm to determine the liabilities for after-service health insurance as at 31 December 2013 were a single equivalent discount rate of 4.47 per cent, a flat health-care yearly escalation rate of 5.0 per cent for non-United States medical plans, and health-care escalation rates of 7.3 per cent for all other medical plans (except 6.3 per cent for the United States Medicare plan and 5.0 per cent for the United States dental plan), grading down to 4.5 per cent over 10 years, and retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits;

(iii) Another factor in the after-service health insurance valuation is consideration of contributions by all plan participants in determining the Organization’s residual liability. Thus, contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the Organization’s residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Organization’s share shall not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the Medical Insurance Plan;

(iv) On the basis outlined in sub-items (ii) and (iii) above, the present value of the accrued liability as at 31 December 2013 was estimated at $4,897,000 net of contributions from plan participants;

(v) Further to the assumptions in sub-item (ii) above, it is estimated that the present value of the liability would increase by 34 per cent and decrease by 24 per cent if the medical cost trend were increased and decreased by 1 per cent respectively, all other assumptions held constant. Similarly, it is estimated that the accrued liability would increase by 35 per cent and decrease by 25 per cent if the discount rate were decreased and increased by 1 per cent, respectively, all other assumptions held constant.

(c) Repatriation benefits:

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

(ii) As referred to in note 2 (m) (v), an actuarial firm was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2013. The major assumptions used by the actuarial firm were a single equivalent discount rate of 4.23 per cent, annual salary increases consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits, and travel and shipment cost increases of 2.5 per cent per annum;

(iii) On the basis of these assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2013 was estimated at $27,000 for the General Fund and $1,109,000 for the Special Purpose Grants Fund.

(d) Unused vacation days:

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

(ii) As referred to in note 2 (m) (v), an actuarial firm was engaged to carry out an actuarial valuation of the liability associated with unused vacation days as at 31 December 2013. The major assumptions used by the actuarial firm were a single equivalent discount rate of 4.47 per cent and an annual rate of increase in accumulated annual leave balances of 10.9 days in each of the first three years, 1 day per year in the fourth to eighth years, and 0.5 days annually thereafter, capping at an accumulation of 60 days. Salary is assumed to increase annually at rates consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits;

(iii) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2013 was estimated at $13,000 for the General Fund and $358,000 for the Special Purpose Grants Fund.

Note 6
Contributions in kind

(a) UNITAR received contributions in kind estimated at $2,690,057 from various Governments, United Nations entities and other donors for training programmes, services of experts, conference facilities, local workshop expenses, office expenses and travel and research expenses.

(b) The contributions include a rental subsidy of $863,902 for the 24-month period of the biennium 2012-2013, which represents the difference between the market value and the actual amount paid for the rental of the buildings occupied by the Institute.

(c) Conference-servicing facilities at United Nations Headquarters were provided by the United Nations on an “as available” basis free of charge, and UNITAR pays only for interpretation services and additional electronic equipment, if required. The value of such conference facilities is estimated at $39,240.

Note 7
Non-expendable property

(a) In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Institute but is charged against the current appropriations when acquired. The non-expendable property, valued at historical cost according to the cumulative inventory records of the Institute, amounted to $675,573 as at 31 December 2013 and $694,353 as at 31 December 2011.

(b) The movement in non-expendable property is summarized as follows:

(Thousands of United States dollars)

	2013	*2011*
Balance as at 1 January	694	598
Acquisitions	70	169
Less: Dispositions	(114)	(73)
Other adjustments	25	–
Balance as at 31 December	**676**	**694**

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