General Assembly
Official Records
Seventy-second Session
Supplement No. 5I

A/72/5/Add.9

United Nations Human Settlements Programme

Financial report and audited financial statements

for the financial year ended 31 December 2016

and

Report of the Board of Auditors

United Nations • New York, 2017

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.

ISSN 0257-0815

Contents

Letters of transmittal

Letter dated 31 March 2017 from the Executive Director of the United Nations Human Settlements Programme addressed to the Chair of the United Nations Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, I am transmitting the financial report and accounts of the United Nations Human Settlements Programme, and other related accounts, for the year ended 31 December 2016, which I approve on the basis of the attestations of the Chief Finance Officer, United Nations Office at Nairobi, and the Director of the Management and Operations Division of the United Nations Human Settlements Programme.

Copies of these financial statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(*Signed*) Joan **Clos**
Executive Director
United Nations Human Settlements Programme

Letter dated 30 June 2017 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 Human Settlements Programme for the year ended 31 December 2016.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
Chair of the United Nations Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme: audit opinion

Opinion

We have audited the financial statements of United Nations Human Settlements Programme (UN-Habitat), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Human Settlements Programme as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for opinion

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

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

The Executive Director is responsible for the other information, which comprises the financial overview report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

Those charged with governance are responsible for overseeing the financial reporting process of UN-Habitat.

Auditor's responsibility for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UN-Habitat.

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

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

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

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

Report on other legal and regulatory requirements

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

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
Chair of the United Nations Board of Auditors

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

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

30 June 2017

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Human Settlements Programme (UN-Habitat) promotes socially and environmentally sustainable towns and cities, with the goal of providing adequate shelter for all. That effort includes providing information and support to Member States for developing policies and legislation to improve living conditions, as well as supporting operational activities, for example, improved water provision and sanitation.

The headquarters of UN-Habitat is in Nairobi, with four main regional offices covering Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean. It also has liaison and information offices in New York, Brussels and Geneva and project offices in 76 countries around the world. UN-Habitat employs 317 core staff, 93 of whom are based in offices away from headquarters, together with fluctuating numbers of staff on specific contracts, in particular in field offices.

The revenue of UN-Habitat for 2016 totalled $226.60 million, while total expenses amounted to $186.43 million, resulting in a surplus of $40.17 million.

The Board audited the financial statements and reviewed the operations of UN-Habitat for the year ended 31 December 2016. The audit was carried out through the examination of the financial transactions and operations at the headquarters in Nairobi and at the country offices in Lebanon, Saudi Arabia, the Sudan, Somalia, the Philippines and Nepal.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined nine main areas of UN-Habitat activities (risk management, travel management, annual leave management, results-based management, programme and project management, implementing partners management, assets management, budget processing and monitoring, and financial management and reporting), as well as a detailed follow-up of action taken in response to recommendations made in previous years.

Audit opinion

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

Overall conclusion

The Board did not identify material deficiencies in accounts and records that affect fair presentation of the financial statements of UN-Habitat. However, it noted scope for improvement in a number of areas, specifically with regard to financial management, programme and project management, budget management and employees leave management. Those areas need strong internal control and monitoring of activities both in the country offices and at the headquarters to ensure efficient and effective delivery of the UN-Habitat mandate. Other areas that need management attention for improvement include results-based management and the implementation of enterprise risk management. The Board will continue to monitor the outcome of the management initiative in addressing the noted deficiencies in subsequent audits.

Key findings

The Board has identified a number of issues that management needs to consider in order to enhance the effectiveness of UN-Habitat operations. In particular, the Board highlights the following key findings.

Inadequate implementation of enterprise risk management

During its visit to six country offices, the Board found that enterprise risk management awareness training for staff members, which was scheduled to be conducted from September 2015 to April 2016, had not been conducted as at November 2016. Moreover, the risk register summarizing all important risks and response strategies to mitigate risks in implementation of projects had not been prepared as required under the UN-Habitat enterprise risk management implementation guidelines. The country offices attributed the failure to conduct the training to the delays by the headquarters in dissemination of information to country offices and to inadequate resources. The Board considers that in line with the UN-Habitat enterprise risk management implementation guidelines, the organization needs to ensure that the risk register is prepared and the awareness training is conducted to facilitate implementation of enterprise risk management so that risk management is carried out at country offices where risks occur. The Board is of the view that without effective risk management, it will be difficult for UN-Habitat to measure, identify and evaluate risk and to implement a framework for risk mitigation in order to ensure achievement of the organization's objectives.

Inadequate management of employees annual leave

In accordance with the Staff Regulations of the United Nations and Staff Rules, Umoja performs automatic accrual of staff annual leave at the rate of 2.5 and 1.5 days per month for the fixed-term and temporary staff appointments, respectively. At the end of every month, staff members are required to submit their leave requests for the previous month using the employee self-service module in Umoja and to certify their monthly time statements and annual statement issued on 29 April each year. The Board reviewed leave records for 317 UN-Habitat staff members and noted that 239 (75 per cent of the staff) had not certified their annual time statements issued in April 2016 for the 2015/2016 leave cycle and 81 per cent had not certified their September 2016 time statements. The Board also noted that four staff members had negative leave balances owing to errors in recording leave.

The Board considers that the deficiency in employees annual leave management is caused by inadequate monitoring of leave records by time managers and that the deficiency may eventually affect the annual leave liability balance in the financial statements.

Recommendations

Having regard to the foregoing findings, the Board recommends that UN-Habitat:

(a) **(i) Conduct enterprise risk management awareness training to enable the country offices staff to acquire the skills and knowledge necessary for effective implementation of enterprise risk management; and (ii) maintain the risk register to summarize all important risks and response strategies in order to mitigate risks in the implementation of projects and to comply with enterprise risk management;**

(b) **(i) Strengthen leave monitoring mechanisms to ensure that staff members record and certify their leave balances in Umoja in a timely manner; and (ii) review and verify the accuracy of leave balances of all staff members.**

Key facts

$200.85 million	Original core and earmarked budget
$184.15 million	Final core and earmarked budget
$226.60 million	Total revenue
$186.43 million	Total expenses
317	UN-Habitat staff

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of (UN-Habitat) and has reviewed its operations for the financial period ended 31 December 2016 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The 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.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). That effort included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and

other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal controls and, in general, the administration and management of operations.

4. During the course of the audit, the Board visited UN-Habitat headquarters in Nairobi and country office operations in Lebanon, Saudi Arabia, the Sudan, Somalia, the Philippines and Nepal. The Board continued to work collaboratively with the Office of Internal Oversight Services (OIOS) to provide coordinated coverage.

B. Findings and recommendations

1. Follow-up of previous years' recommendations

5. Of the 13 recommendations outstanding as at 31 December 2015, the Board noted that four recommendations (31 per cent) were fully implemented and nine recommendations (69 per cent) were under implementation. Details of the status of implementation of the recommendations are shown in annex I to chapter II of the present report. The Board considers that the rate of implementation of the Board's recommendations is lower compared with that of the previous year, which highlights the need for increased management effort to implement outstanding recommendations.

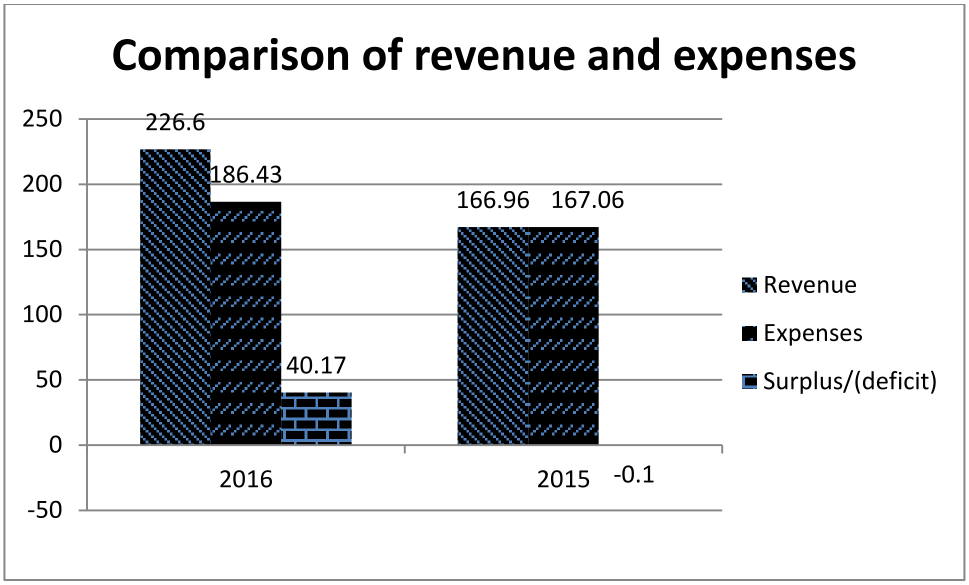
6. The nine recommendations under implementation comprise two recommendations awaiting the endorsement of the Governing Council and United Nations Headquarters directives and seven recommendations at various stages of implementation.

2. Financial overview

Revenue and expenses

7. UN-Habitat revenue includes assessed contributions (regular budget), voluntary contributions, investment revenue and other revenue. During the period under review, total revenue increased by $59.71 million (36 per cent), from $166.89 million in 2015 to $226.60 million in 2016. Moreover, total expenses increased by $19.44 million (12 per cent), from $166.99 million in 2015 to $186.43 million in 2016. Despite the increased expenses, UN-Habitat recorded a surplus of $40.17 million in 2016 compared with a deficit of $0.10 million in 2015. The surplus was attributable mainly to the increases in voluntary contributions revenue. A comparison of revenue and expenses for 2016 and 2015 is shown in figure II.1 below.

Figure II.1
Revenue and expenses
(Millions of United States dollars)



Source: Financial statements for 2015 and 2016.

Ratio analysis

8. Table II.1 contains key financial ratios analysed from the financial statements, mainly from the statements of financial position and financial performance.

Table II.1
Ratio analysis

Description of ratio	*31 December 2016*	*31 December 2015*
Current ratio[a]		
Current assets: current liabilities	6.49	4.76
Total assets: total liabilities[b]	4.71	3.92
Cash ratio[c]		
Cash plus investments: current liabilities	2.76	1.92
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	5.76	4.18

Source: UN-Habitat 2016 financial statements.
[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.
[b] A high ratio is a good indicator of solvency.
[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.
[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

9. The key financial indicators remain sound and UN-Habitat continues to have a high ratio of current assets to current liabilities and total assets to total liabilities. In 2016, all ratios indicate stronger liquidity and solvency position compared with2015. The high ratios are attributable to a higher increase in revenue compared

with the moderate increase in expenses, which resulted in a surplus of $40.17 million in 2016 from a deficit of $0.10 million in 2015. In turn, this led to an increase in assets, with a slight decrease in liabilities, thereby improving all ratios.

3. Risk management

Inadequate implementation of enterprise risk management

10. Enterprise risk management is a structured and systematic approach to manage risks throughout the organization. Guideline number 16 of the UN-Habitat enterprise risk management implementation guidelines requires country offices to maintain a risk register as the consolidated inventory list of all risks and information, including the risk category, risk definition, mitigation strategy, rating results and other relevant information pertaining to each risk.

11. The Board's review of the progress achieved towards the implementation of the UN-Habitat enterprise risk management at six country offices revealed inadequate implementation of the enterprise risk management. The country offices were expected to conduct enterprise risk management awareness training for staff members from September to November 2016, but had not done so as at the time of the audit in April 2017 and the risk registers for consolidation of the inventory lists of all risks had not been prepared.

12. Management at the country offices attributed the failure to implement the enterprise risk management to the delay in dissemination of information from headquarters to country offices and to constrained resources, which did not enable the country offices to comply fully with the implementation guidelines. The Board considers that the failure to conduct the awareness training and to prepare the risk registers may have a negative impact on implementation of enterprise resource management in UN-Habitat. Without effective risk management, it will be difficult for the organization to measure, identify and evaluate risks and to implement a framework for monitoring risks so as to ensure achievement of the organization's objectives.

13. **UN-Habitat agreed with the Board's recommendation that the organization (a) conduct enterprise resource management awareness training to enable the country offices staff to acquire the skills and knowledge necessary for effective implementation of enterprise risk management; and (b) prepare the risk register in accordance with the UN-Habitat enterprise risk management guidelines and summarize all important risks and response strategies in order to mitigate risks in project implementation.**

Absence of a focal point for staff with disabilities

14. Secretary-General's bulletin (ST/SGB/2014/3) of 19 June 2014 on employment and accessibility for staff members with disabilities in the United Nations Secretariat requires entities to appoint a focal point on disability and accessibility in the workplace and to establish monitoring and compliance mechanisms to ensure access to facilities, employment opportunities and availability of reasonable accommodation for staff members.

15. The Board noted that UN-Habitat had not appointed the focal point for staff members with disabilities, hence no formal coordination was carried out and no records were maintained on the employment of such individuals.

16. Management informed the Board that currently, the Chief of Human Resources Management Services and the Chief Medical Officer were dealing with disabled colleagues at all entities residing in Nairobi. However, the Board noted that the two officers in question did not have records of UN-Habitat staff members with

disabilities and the special facilities provided to them. Management explained that it had not received any guidelines on how to implement the Secretary-General's bulletin. Therefore, coordination was carried out informally and cases of employees with disabilities were addressed on an individual needs basis. Management also stated that UN-Habitat would await further guidance from the United Nations Office at Nairobi before taking further action on the matter.

17. The Board is of the view that, since UN-Habitat deals with over 300 staff members in more than 76 countries, it will be difficult to address matters relating to staff with disabilities without a dedicated focal point.

18. **The Board recommends that UN-Habitat appoint a focal point for the monitoring and coordination of issues of staff with disabilities within UN-Habitat.**

Lack of a strategy for controlling and minimizing consultancy costs

19. The UN-Habitat strategic plan for 2014-2019, adopted by the Governing Council in April 2013, set a target of making better use of existing human resources and minimizing use of external consultants. The plan emphasizes the need to systematically harvest the core knowledge and lessons learned internally and externally. However, the Board noted that the consultancy cost had been increasing, contrary to the expectation contained in the strategic plan. The cost increased by $3.31 million (11 per cent), from $29.56 million in 2014 to $32.87 million in 2015. In 2016, UN-Habitat recorded a slight increase of $30,000 (0.11 per cent), from $32.87 million in 2015 to $32.90 million. The consultancy cost of $32.90 million in 2016 accounts for approximately 40 per cent of the staff cost of $81.16 million recorded for 2016. The Board did not find any strategy in place to make better use of existing human resources and to minimize use of external consultants, as envisaged in the strategic plan. Moreover, the results framework used in the reporting of annual progress included 35 expected accomplishments, but the minimization of consultancy costs was not part of those accomplishments.

20. The management of UN-Habitat stated that the use of consultants for project implementation was the strategy pursued by the organization to ensure lower costs, greater expertise and more flexibility. Focus and direction were ensured through strong oversight of UN-Habitat substantive staff and the application of integrated approaches to urban planning. Management also explained that consultancy costs in the core budget were tightly controlled, with non-staff costs dropping by 45 per cent in the past five years.

21. While acknowledging the explanation provided by management, the Board is concerned that the overall consultancy costs in both core and non-core expenses have either remained constant or increased for the past three years, indicating that the target set in the strategic plan to minimize consultancy costs has not been achieved. The Board is of the view that the strategy referred to needs to be aligned with the organizational objective set to minimize the use of external consultants, as envisaged in the UN-Habitat strategic plan for 2014-2019.

22. The Board is also of the view that UN-Habitat needs to establish strategies to minimize consultancy costs so as to attain its target of making better use of existing human resources and minimize use of external consultants.

23. **The Board recommends that UN-Habitat (a) formulate strategies to minimize consultancy costs in accordance with its strategic objectives for the period 2014-2019; and (b) include minimization of consultancy costs in the results framework for tracking and reporting periodically.**

4. Travel management

Delays in submission and approval of travel requests

24. Section 3.3 of the Secretariat administrative instruction on travel (ST/AI/2013/3) lays down that in accordance with staff rule 7.8, all travel arrangements for individuals travelling on behalf of the United Nations should be finalized 16 calendar days in advance of the commencement of [official] travel.

25. Travel arrangements fall under the common shared services framework in which the Travel, Shipping and Visa Unit in the United Nations Office at Nairobi provides travel processing services to UN-Habitat. Whenever there is a need to travel, staff members create a travel request in the Umoja employee self-service module, which is then certified by the UN-Habitat certifying officer before it is sent to the Unit for approval and issuance of a ticket by the travel agent. In order to ensure timely approval of travel requests, allowances of two days for UN-Habitat certification and three days for approval by the Unit are given.

26. The Board noted that for the period from January to September 2016, there were 2,398 approved travel requests, of which 2,067 (86 per cent) related to tickets that were not issued 16 calendar days before travel, as required by the staff rules. Delays in issuing tickets were attributed mainly to delays by staff members in submitting travel requests to the certifying officer and delays by certifying officers in approving and submitting the approved request to the United Nations Office at Nairobi.

27. Furthermore, the Board noted that 367 travel requests had been approved on an ex post facto basis, that is, the requests had been approved after the travel date. While the travel requests approved on an ex post facto basis included 24 (7 per cent) requests that had been submitted on time by staff members between 22 and 65 days before the date of travel, no explanations were provided by management to justify the reasons for the late issuance of tickets.

28. The management of UN-Habitat informed the Board that the organization faced a number of challenges, including the travel of staff members initiated in response to invitations from entities outside UN-Habitat or entities served by the organization. Owing to the nature of the travel, some travel was not foreseeable and therefore the requests could not be submitted at least 21 days in advance. Examples of such travel included medical evacuations, OIOS investigations and responses to emergencies. Moreover, the Umoja system was not fully stabilized and there were often interruptions that blocked the approvals process at the Travel, Shipping and Visa Unit stage, leading to ex post facto approval.

29. Notwithstanding management's responses, the analysis made by the Board identified the fact that the greater proportion of delays was due to the failure by either staff members to submit their requests on time or by travel approvers to accomplish their role in a timely manner. The Board also noted that quarterly travel plans prepared at each division were not observed.

30. The delay in issuing tickets at least 16 days in advance, as required by the administrative instruction on travel, prevents UN-Habitat from maximizing resources allocated for official travel through discounted air fares obtainable from early bookings.

31. **UN-Habitat agreed with the Board's recommendation that, with support provided by the United Nations Office at Nairobi, it review late travel cases on a regular basis and ensure that they are in line with the Secretariat administrative instruction on travel.**

Delayed submission of the travel expense report after return from travel

32. Pursuant to sections 13.1 and 13.5, respectively, of the Secretariat administrative instruction on travel (ST/AI/2013/3), staff members are required to either submit travel reimbursement claim form F.10 or to complete part C of form PT.165 and provide supporting documentation within two calendar weeks after completion of travel. Pursuant to sections 13.3 and 13.6 of the instruction, recovery of the entire amount of travel advances through payroll shall be initiated if the staff member fails to submit duly completed forms and to comply with the terms and conditions of utilizing the lump-sum option, as authorized.

33. The Board reviewed the UN-Habitat Umoja travel report for 2015-2016 and noted that of 6,668 trips made, staff members did not submit travel expense reports for 527 trips (8 per cent) within 14 days after returning from travel, as required by the instruction. Of 527 trips that had no submitted expense reports within 14 days, 220 trips (42 per cent) were approved with advances amounting to $242,611. Those advances had not been accounted for as at the time of audit (May 2017) and no recoveries from payroll had been made. The delays ranged from 1 to 700 days, as shown in table II.2 below.

Table II.2
Travel with missing expense reports

Range of days overdue	*Number of trips with missing expense reports*	*Trips with missing expense reports (percentage)*
1-100	17	3
101-200	150	28
201-300	80	15
301-400	67	13
401-500	125	24
501-600	73	14
601-700	15	3
Total	**527**	**100**

Source: Trips with missing expense reports as at 31 December 2016.

34. Management informed the Board that in 2016, it had made broadcast and outreach efforts to remind staff to submit travel expense reports. Management also explained that from April 2017 onwards it had developed a monitoring and recovery mechanism. However, during its final audit in April 2017, the Board noted that no monitoring and recovery mechanism had been developed.

35. The Board is of the view that delays in the submission of travel expense reports and recovery of travel advances are contrary to the Secretariat administrative instruction on travel and may lead to the failure to recover the advances.

36. **UN-Habitat agreed with the Board's recommendation that the organization (a) strengthen monitoring to ensure that staff members comply with the Secretariat administrative instruction on travel by submitting expense reports within 14 days after returning from travel; and (b) institute a mechanism to monitor and recover outstanding advances.**

5. Annual leave management

Inadequate management of employees annual leave

37. Pursuant to rules 5.1 (a) and (c), respectively, of the Staff Regulations of the United Nations and Staff Rules, staff members who hold a temporary appointment shall accrue annual leave at the rate of 1.5 days per month; staff members who hold a fixed-term appointment shall accrue annual leave at the rate of 2.5 days per month. At the end of every month, staff members are required to ensure that their leave requests for the previous month have been submitted using the employee self-service module in Umoja and to certify their monthly time statements and annual statement issued on 29 April of each year.

38. The Board reviewed leave records for 317 UN-Habitat staff members to assess the level of compliance with the requirement for the staff to certify the monthly and annual time statements. It noted that 239 (75 per cent) of the staff members reviewed had not certified their annual time statements for the 2015/2016 leave cycle that were issued in April 2016, while 257 (81 per cent) staff members had not certified their time statements of September 2016. Moreover, the Board noted that four of the staff members had negative leave balances. Management informed the Board that the negative balances were due to errors in recording, whereby staff members had not requested advance leave but the leave had been recorded in their accounts.

39. The Board is of the view that the deficiency in management of employees annual leave is due mainly to inadequate monitoring of leave records by time managers. The failure of staff members to certify monthly time statements and the annual statement as well as inadequate monitoring of the same by time managers may affect leave records and the annual leave liability balance in the financial statements.

40. **UN-Habitat agreed with the Board's recommendation that the organization (a) strengthen leave monitoring mechanisms to ensure that staff members record and certify their leave balances in Umoja in a timely manner; and (b) review and verify the accuracy of leave balances of all staff members.**

6. Results-based management

Inadequate implementation of the results- based management process

41. Item 2.2.5 of the UN-Habitat handbook on results-based management requires the preparation of an annual workplan to provide a detailed output delivery plan and set out what will be accomplished, the expected output, who is responsible, the resources available and the proposed date of activities. The handbook provides guidance on project monitoring and reporting and considers project implementation to be the most critical stage in the project management cycle.[1] Moreover, chapter 2 of the UN-Habitat Project Manual (2010) requires the certifying officer to certify any legal commitment to incur expenditure.

42. The Board reviewed the results-based management process at the six country offices to evaluate the level of compliance with the results-based management framework and noted the following:

(a) *Lebanon country office*: the Lebanon country office had seven ongoing projects, with a budget totalling $6.44 million, but it did not prepare the implementation reports for the first, second and third quarters of three projects.

[1] At that stage, planned benefits are delivered, therefore monitoring is crucial for ensuring the maximum impact of the project.

Moreover, the quarterly implementation reports of March, June and September for another two projects contained inconsistencies in the reported outcome and output. In addition, the information in the quarterly implementation reports differed from the information in the annual workplans, which made it difficult to assess progress achieved against the intended results. While management explained that one of the projects had a different way of reporting, which was done periodically online through an existing joint reporting platform adopted by all agencies working on the project, no evidence was provided to substantiate its explanation. Furthermore, management could not provide reasons for non-preparation of quarterly reports and inconsistencies noted in the quarterly reports;

(b) *Sudan country office*: the Sudan country office had six ongoing projects, with a total budget of $16.4 million. The Board noted that two of the projects, with a total budget totalling $1.66 million, had no logical framework (Logframe) matrix to facilitate project monitoring by showing what were the expected results and how they were to be achieved. Moreover, although management explained that three of the projects did not require the certification or signature of the programme officer, the Board noted that in accordance with chapter 2 of the Project Manual, the projects were supposed to be certified by the programme officer. However, as at November 2016, the financial narrative reports of the projects, with cumulative expenditure amounting to $1.25 million, had not been certified by the programme management officer for the quarters ended March, June and September 2016. The Board was informed that while the project document did not include Logframe, it followed the donor's project document template. Specific expected results, outcomes, outputs and activities, as well as the risk analysis matrix, were inserted in the Project Accrual and Accountability System for review and approval by the Project Advisory Group. Nevertheless, no evidence was provided to substantiate the explanations provided by management;

(c) *Philippines country office*: The Philippines country office had one ongoing multi-year project, with a budget totalling $1.79 million. While the country office developed the annual workplan for the project for the period 2013-2015, it had not prepared the annual workplan for 2016. The Board was informed that the annual workplan was managed from headquarters and the country office was only responsible for providing input to be used in the preparation of the consolidated plan. The management of UN-Habitat also stated that after the Project Accrual and Accountability System became operational, the Project Division would be able to monitor and certify interim progress reports with clear dates of approval. Moreover, projects would have annual workplans to control project implementation. Management also explained that the secretariat of the Project Advisory Group was revising the project development template to ensure that there was a clear annual workplan.

43. However, the Board considers that the country office needs to prepare an annual workplan for 2016 to be used as input for the preparation of the consolidated plan and enable comparison of the prepared annual workplan with actual implementation. The Board is of the view that the proposed measures need to be taken as a matter of urgency to ensure proper management of projects.

44. **The Board recommends that UN-Habitat (a) prepare annual workplans and use the logical framework effectively in the process of project monitoring to show what results are accomplished and how they are achieved; (b) certify its interim reports, both financial and progress reports, and clearly indicate their approval dates.**

7. Project management

Discrepancies in project information between the Project Accrual and Accountability System and project documents

45. Guideline 6.1 of the Project Accrual and Accountability System and paragraph 36 (c) of the UN-Habitat Project-based Management Policy of 2012 require the project leader to update the Project Accrual and Accountability System regularly with regard to progress in activities, delivery of output and the expected accomplishments of each project. In the case of expected accomplishments, the project leader is required to update the information once every six months in line with the mandate of reporting to the country permanent representatives and United Nations Headquarters.

46. The Board noted cases of inaccurate project information in the reports retrieved from the Project Accrual and Accountability System at the Somalia and Nepal country offices, as explained below:

(a) *Somalia country office*: the budget information for seven of 22 projects reviewed by the Board contained material inconsistencies. For example, the seven projects reported a total budget totalling $9.29 million in the Project Accrual and Accountability System, while the total of budgets from the project documents amounted to $16.19, indicating a variance of $6.9 million;

(b) *Nepal country office*: one project (shelter recovery and reconstruction coordination support for the earthquake-affected population in Nepal) of 11 projects reviewed by the Board reported a budget totalling $190,817 in the Project Accrual and Accountability System, which was different from the amount of $417,482.93 reported in the project document. Moreover, the budgets for all 11 ongoing projects in the System were not updated despite having their budgets revised. Another project (shelter provisions for the most vulnerable before and during the monsoon, Nepal — extension 1), with a budget amounting to $40,205, was reported as an ongoing project in the System, but it does not exist at the country office.

47. The management of UN-Habitat attributed inconsistences in the project information to the migration from the Integrated Management Information System to Umoja, whereby synchronization between Umoja and the Project Accrual and Accountability System was lost. However, the Board considers that the issue of discrepancies in project information is caused mainly by the failure to update information in the System regularly. Management needs to have a mechanism in place to ensure regular data verification and updating of project information in the System to have accurate information in the financial statements.

48. **The Board recommends that UN-Habitat conduct regular updates of project information in the Project Accrual and Accountability System to maintain correct and consistent project records.**

Slow pace in the utilization of annual budgeted funds

49. The Board's review of budget documents, annual workplans and financial reports at the six country offices visited revealed issues relating to the implementation of project activities and utilization of project funds at the Lebanon and Nepal country offices, which are in need of management intervention.

50. The Lebanon and Nepal country offices had 18 ongoing projects with an annual budget totalling $7.33 million. However, as at December 2016, only $2.57 million (35 per cent of the annual budget) had been spent on project activities. The Board noted that the budget utilization rate for nine of the projects ranged from zero to 44 per cent as at December 2016. The Board is of the view that a utilization

rate below 50 per cent implies that some of the planned project activities were not implemented as at the year end.

51. The management of UN-Habitat explained that low project delivery at the Lebanon country office was due to uncontrollable factors for both new and extension grant approvals, which delayed project implementation. Moreover, procurement processes for five of the projects (budget: $500,000) were at various stages and the respective obligations were expected to be met before the end of the year, which would effectively reduce unutilized funds.

52. Regarding the Nepal country office, the Board was informed that the low utilization rate was due essentially to the time lag between the actual expenditure incurred in the field offices and the update made in the Umoja system, which took time because the expenditure was incurred through the United Nations Development Programme (UNDP). Despite the explanation by management, the Board noted that the actual expenditure incurred at field offices was considered and reflected in the schedule. Yet project utilization rates remained below 50 per cent.

53. The Board considers that the low delivery rate of projects is also caused by inadequate supervision and the inefficiency of some implementing partners. For example, the Centre for Integrated Urban Development and the World Vision Advocacy Forum delayed submission of their reports for five and seven months, respectively. That deficiency inhibits UN-Habitat from providing the intended service to beneficiaries on time and increases the possibility of time extension, which may create challenges, such as the expiration of the donor funding period.

54. **The Board recommends that UN-Habitat (a) ensure that the effects of grant approval and implementing partners contributing to low project delivery are taken into consideration in the preparation of the annual workplans; and (b) strengthen supervision and monitoring by linking activity time frames with financial resources to ensure project completion within the planned time and budget.**

Inadequate financial closure of projects

55. Chapter 6 of the UN-Habitat Project Manual (2010) requires that all projects be financially closed 12 months following their operational closure. The project administrator, in consultation with the United Nations Office at Nairobi, is required to check and ensure that all financial obligations are cleared, and final project revision is approved so that there are no remaining liabilities and claims after the financial closure.

56. The Board noted cases where expenditure was incurred on financially closed projects and operationally closed projects, which were to be financially closed at the Somalia and Philippines country offices, as explained below.

57. *Somalia country office*: 7 of 12 projects reviewed by the Board were reported as financially closed in 2014, but expenditure amounting to $340,731 was charged to those projects in the Project Accrual and Accountability System in 2015.

58. *Philippines country office*: two projects, with a budget totalling $535,113 were operationally closed on 31 July 2014 and 31 December 2014, respectively, but had not been financially closed as at December 2016. One of the projects had unutilized funds amounting to $12,254, which were yet to be refunded to the donor in contravention of item K of the grant agreement, which requires the refund of the unspent balance at the end of the project.

59. The management of UN-Habitat stated that the expenditure in 2015 related to commitments made in 2014 but liquidated in 2015 mainly because the Philippines

country office had no access to the Umoja system and thus had to send all documents to the regional office for financial closure of the projects. The Board is concerned that the closure arrangements for the projects in question contravene the UN-Habitat Project Manual (2010), which requires the country office to ensure that all pending financial obligations are met and there are no remaining liabilities and claims after the financial closure.

60. Delays in financial closure increase the risk of charging unrelated expenditure to closed projects and misuse of unspent balances, adversely affecting relations with donors as a result of delays in accounting for balances due to them.

61. **UN-Habitat agreed with the Board's recommendation that the organization expedite and improve communications and ensure that all projects eligible for closure are closed in compliance with established policy, all liabilities are paid within the time frame and all unutilized funds are handled in accordance with the donor agreement.**

8. Implementing partners

Delay in submission of the final financial reports and financial statements by implementing partners

62. During its visits to the six country offices, the Board noted that 12 implementing partners at the Philippines and Nepal country offices delayed the submission of their final financial reports and audited financial statements for periods ranging from two to nine months from the agreed submission date, contrary to the cooperation agreements between UN-Habitat and the implementing partners.

63. At the Philippines country office, management attributed the delay to staff's limited knowledge of Umoja during the migration process, the fact that the Umoja blackout caused delays in fund transfers to implementing partners and delays in the payment and receipt of the funds by the partners after elections. At the Nepal country office, management explained that the delays were due mainly to the earthquake that occurred on 25 April 2015 and the national festivals of Dashain and Tihar (September/October 2015).

64. The Board considers that the Umoja blackout was well communicated in advance and management should have applied alternative mechanisms for transferring funds to implementing partners, for example, using the service of other agencies of the United Nations system, such as UNDP, which are not involved in Umoja. Management also should have planned to complete fund transfers and receipts of financial reports and audited financial statements from implementing partners ahead of election activities. In addition, the earthquake that occurred in 2015 could not be the main cause of the delays, because some of the project's reports relating to 2014 were also delayed. The Board is of the view that non-compliance with the agreed terms and conditions of the cooperation agreement may result in delays in project implementation and delivery of the project output.

65. **The Board recommends that UN-Habitat enhance monitoring to ensure that implementing partners comply with the agreed terms and conditions in the cooperation agreement and submit their final financial reports and audited financial statements on time.**

9. Budget management

Overspends above budget, without approval

66. Chapter 1 of the UN-Habitat Project Manual (2010) requires the project manager to closely monitor the budget performance on a regular basis in order to

ensure that the budget is still valid and there are no overspends. It also emphasizes that overspends at the object class level must not occur without specific authority to do so and this authority must be confirmed in writing.

67. The Board reviewed project implementation at the six country offices visited and noted that five projects (two in the Sudan, three in Somalia) had budget overspends of $1.02 million without a written authority, contrary to the provision of the Project Manual. Another five projects at the Somalia country office had cumulative expenditure of $10.47 million, while the respective cumulative budget was only $10.31 million, resulting in excess cumulative expenditure over budget amounting to $160,301.

68. The management of UN-Habitat attributed the overspending to factors such as Umoja shortcomings, whereby the class items in Umoja did not always match the budget items, such that some expenditure was posted to incorrect classes. According to management, that fact had already been communicated to the headquarters through the United Nations Office at Nairobi in order to enhance or correct the system. Management also stated that, with regard to the Sudan programme, work breakdown structure elements at the output level had been created in order to mitigate and monitor the risk of overspending and report correctly to the donors.

69. The Board is of the view that overspending of the budget lines constitutes non-compliance with the budget controls instituted by UN-Habitat and weakens the purpose of the budget as a financial management tool.

70. **The Board recommends that UN-Habitat strengthen budget monitoring at the Somalia and the Sudan country offices to avoid overspending and to ensure compliance with the requirements of the Project Manual in controlling the budget.**

10. Financial management

71. Contribution agreements between donors and UN-Habitat include requirements such as the need to specify project start date, to start a project soon after signing a contract and to specify the organization receiving donations to repay any amounts paid in excess of the final amount or when the agreement is terminated. However, the Board noted cases where UN-Habitat has not been fulfilling the terms and conditions of the contribution agreements, such as repayment of any amounts paid in excess of the final amount. As a result of such non-compliance, donors have not been releasing some subsequent instalments, or UN-Habitat has failed to realize the advance received as revenue for the period, leading to unutilized balances in the financial statements, as shown in table II.4 below.

(a) *Failure to comply with the terms and conditions of the contract agreements*: a funding agreement with a United Nations Environment Programme (UNEP) Global Environment Facility secretariat amounting to $944,472 required UN-Habitat to use the earlier advanced amount and submit a utilization report as a precondition for UNEP to release additional funds. As at January 2017, a total of $289,999 had been released, but the amount of $64,473, which was also due, had not been released because UN-Habitat failed to fulfil the conditions stipulated in the contract. Another donor advanced a sum of $600,000 to UN-Habitat in 2013, which needed to be accounted for. However, after the failure to account for that instalment, a subsequent instalment totalling $420,000 was not released;

(b) *Non-compliance with grant conditions*: for the period ended 31 December 2016, UN-Habitat received a conditional grant totalling $52.13 million from a donor for the implementation of six projects. Of the total, only $17.16 million was realized as revenue during the year, leaving the liability of $34.97 million, which was not realized because the organization had not implemented the project and submitted a financial report on utilization of the funds. In addition, 6 of 32 grants in the amount of $2.10 million, which were supposed to have been closed from June 2014 to March 2016, remained unchanged for the last two consecutive years because UN-Habitat had not fulfilled the conditions in order to realize revenue and close the projects funded by those grants. The grants, which were without movements for the last two consecutive years, are as listed in table II.3 below.

Table II.3
Utilized balance from financial year 2015 to 2016
(United States dollars)

Grant key	*Balance in 2015 financial statement*	*Balance in 2016 financial statement*	*Operational closure*
R1-32QXB-000011	(328 879.82)	(328 879.82)	June 2014
R1-32QXB-000115	(241 806.73)	(241 806.73)	July 2017
S1-32QXB-000015	(113 350.75)	(113 350.75)	April 2015
S1-32QXB-000075	(220 099.06)	(220 099.06)	February 2014
S1-32QXB-000078	(934 529.48)	(934 529.48)	March 2016
S1-32QXB-000100	(260 002.96)	(260 002.96)	March 2016
Total		**(2 098 668.80)**	

Source: Balances of conditional liability.

72. The Board is of the view that non-compliance with the agreed terms and conditions in the contribution agreements affects the reputation of UN-Habitat in the donor community, increases the possibility of non-recoverability of receivables and impairs the willingness of donors to provide support for projects implemented by UN-Habitat. The Board also considers that underutilization and non-utilization of the conditional grants highlight improper use of the funds under the agreements.

73. **The Board recommends that UN-Habitat comply with all agreed terms and conditions in contract agreements to avoid misunderstandings with donors.**

74. **UN-Habitat agreed with the Board's recommendation that the organization strengthen monitoring of the implementation projects funded by conditional agreements in order to ensure that revenue is realized after fulfilling the conditions and to reduce the amount of liability in the financial statements.**

C. Disclosures by management

75. UN-Habitat made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud.

1. Write-off of cash, receivables and property

76. UN-Habitat informed the Board that, in accordance with financial rules 106.8 and 106.9, respectively, losses of cash and receivables, and losses of property, plant and equipment, amounting to $550.10 were written off in 2016 (see annex II to chapter II).

2. Ex gratia payments

77. Management confirmed that UN-Habitat did not make any ex gratia payments in 2016.

3. Cases of fraud and presumptive fraud

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

79. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries of OIOS. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

80. In 2016, the Board did not identify any cases of fraud and management did not report any cases of fraud and presumptive fraud to the Board.

D. Acknowledgement

81. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff members of the United Nations Human Settlements Programme.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India
Chair of the Board of Auditors

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

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

30 June 2017

Annex I

Status of implementation of recommendations up to the year ended 31 December 2015

No.	Audit report year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented
1.	2010-2011 A/67/5/Add.8, chap. II, para. 24	Review the costs and benefits of introducing procedures to mitigate exchange rate risks and losses. In coordination with the United Nations Office at Nairobi, and subject to guidance from United Nations Headquarters, this could include commercially available solutions.	Under Umoja, the United Nations has a house bank set up that has the overall effect of reducing the overall effect of foreign exchange fluctuations. UN-Habitat no longer participates in the euro cash pool. Furthermore, UN-Habitat has been focusing on the prompt identification and application of unapplied deposits to minimize the effect of foreign exchange fluctuations whenever deposits are received in non-United States dollar currencies.	The Board will continue to monitor the effect of non-United States dollar revenue after the introduction of Umoja.		X	
2.	2010-2011 A/67/5/Add.8, chap. II, para. 36	Set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly.	There is a corporate initiative under way to fund after service health insurance, which is one type of post-retirement benefit. There is an awareness of the levels of liabilities and measures are being taken to fund them.	The Board will continue to monitor the funding initiatives established by the United Nations.		X	
3.	2012/2013 A/69/5/Add.9, chap. II, para. 39	UN-Habitat agreed with the Board's recommendation that it (a) set a timeline to implement the resolution of its Governing Council in identifying a suitable partner to run the Experimental Reimbursable Seeding Operations trust fund and draw up comprehensive terms of reference for adequate operations and risk management; (b) set up and document a clear monitoring and assurance framework for the use and accountability of Experimental Reimbursable Seeding Operations funds; and (c) closely follow up the repayment from each borrower and ensure that they adhere to the repayment schedule.	(a) UN-Habitat updated its Committee of Permanent Representatives on 23 November 2012 on the status of implementation of its Governing Council resolution 23/10, reporting that it had been unable to find a suitable partner or structure to which to transfer the Experimental Reimbursable Seeding Operations portfolio. As a result, and considering the small size of the portfolio, UN-Habitat will administer the operation of the portfolio in-house; (b) as part of that process, UN-Habitat undertook field mission visits in February-March 2015 to conduct surveys of individual beneficiaries of Seeding Operations funded projects in Nepal, Nicaragua and Uganda in order to ascertain whether individual loans had been used by end-users for the intended purposes of the respective	Management has started implementation of the recommendation by updating countries' permanent representatives. Therefore, it is awaiting the Governing Council conclusion on it. While UN-Habitat promised to provide an update on the findings, no update was provided as at April 2016.		X	

No.	Audit report year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification		
					Implemented	Under implementation	Not implemented
			projects. The results gathered were satisfactory and demonstrate that the funds were being used for the intended purposes. One last mission to the Occupied Palestinian Territory is due to take place in May 2015; (c) UN-Habitat has also closely monitored the loan repayment, which has been on schedule with no defaults to date. UN-Habitat will provide an update on the findings of the surveys of the project beneficiaries and the status of the loan repayment to the United Nations Board of Auditors.				
4.	2014 A/70/5/Add.9, chap. II, para. 44	Consider the possibility of speeding up the process of fixing electronic barcodes on all assets under its control to ensure the completeness of the property, plant and equipment register.	All field offices that buy and receive items are required to have barcode printers.	As a memo was circulated in May 2016 in respect of buying barcode printers, the Board considers the recommendation to be under implementation.		X	
5.	2015 A/71/5/Add.9, chap. II, para. 12	Develop an IPSAS benefits realization plan in coordination with the United Nations Secretariat to ensure effective monitoring and realization of the intended benefits.	UN-Habitat agreed with the Board's recommendation to develop an IPSAS benefits realization plan.	The plan was prepared by management.	X		
6.	2015 A/71/5/Add.9, chap. II, para. 18	Explore opportunities with existing and potential donors by actively raising awareness so as to reverse the declining trends in its resources.	UN-Habitat agreed to explore opportunities with existing and potential donors by actively raising awareness so as to reverse the declining trends in its resources.	Meetings with partners during Habitat III conferences and bilateral meetings between donors and executive management have reversed the declining trends in UN-Habitat resources.	X		
7.	2015 A/71/5/Add.9, chap. II, para. 25	(a) Follow up with the housing foundation to recover the outstanding loan amount; and (b) enhance the screening and monitoring mechanisms for the loan portfolio.	UN-Habitat informed the Board that of the $1 million Experimental Reimbursable Seeding Operations loan to the housing foundation, $250,000 had already been recovered and UN-Habitat was following up to recover another $150,000. The remaining balance of $600,000 would not be recovered and therefore was considered to be a loss or a bad debt.	Follow-up on recovery of $150,000 is under way; proceeds may be realized after the liquidation process.		X	

No.	Audit report year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification		
					Implemented	Under implementation	Not implemented
8.	2015 A/71/5/Add.9, chap. II, para. 31	Improve its process of financial statements preparation to comply with the applicable financial reporting framework and ensure that material line items on the face of financial statements are supported by corresponding notes.	UN-Habitat explained that the presentation of the financial statements was in line with other entities and agreed with the Board's recommendation to improve its process of preparation of the financial statements.	Notes were elaborated in more detail after adoption of Business Objects Planning and Consolidation.	X		
9.	2015 A/71/5/Add.9, chap. II, para. 36	Update the Project Manual to conform to the requirements of the newly adopted IPSAS financial reporting framework, of results-based management and of the Umoja enterprise resource planning solution.	UN-Habitat agreed with the Board's recommendation to update the Project Manual to conform to the requirements of the newly adopted IPSAS, results-based management and Umoja.	Management started updating the Manual in 2016 but has not concluded its work.		X	
10.	2015 A/71/5/Add.9, chap. II, para. 43	(a) Ensure that a formal application change control procedure in accordance with ISO 27002 is prepared; (b) review configuration of access in the Project Accrual and Accountability System and ensure that it is in accordance with the defined role matrix; and (c) define and document a formal access request and approval procedure to ensure that access is granted according to the defined role matrix.	There was a system developer who assigned himself roles in different groups to be able to test and assist staff. Currently, management is working with the United Nations Office at Nairobi on a new workflow to integrate the system developers as check-in and check-out focal points to overcome this challenge.	Two online forms were developed, one for change management and another for users' access. For the check-out procedure, UN-Habitat is working with the United Nations Office at Nairobi to streamline the check-out and ensure that this is reflected in the systems.		X	
11.	2015 A/71/5/Add.9, chap. II, para. 49	Ensure that funds requests and disbursement processes to country offices are streamlined such that disbursements are made within the agreed timelines to facilitate timely implementation of implementing partner projects.	UN-Habitat agreed to ensure that funds requests and disbursement processes to country offices were streamlined such that disbursements were made within the agreed timelines.	The test was carried out in the selected country visited and no further delays were noted.	X		

No.	Audit report year and reference	Board's recommendations	UN-Habitat responses	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented
12.	2015 A/71/5/Add.9, chap. II, para. 54	(a) Identify the risks that might affect project implementation in advance of the execution phase to minimize the negative effects of delaying the intended benefits for the societies involved; and (b) plan and manage the recruitment process in the field office to ensure that there is timely and adequate staffing for improved project performance.	Management assured the Board that the ongoing implementation of an enterprise risk management framework would include the identification, assessment and monitoring of projects to redress the noted anomaly.	The enterprise resource management approved in April 2015 has not been effectively implemented in most of the countries visited.		X	
13.	2015 A/71/5/Add.9, chap. II, para. 60	(a) Prepare project annual work plans in accordance with the requirements of the Monitoring and Evaluation Guide; and (b) establish baselines and targets for all expected outputs, outcomes and indicators in the project annual workplans.	UN-Habitat agreed with the Board's recommendation to (a) prepare project annual workplans; and (b) establish baselines and targets for all expected outputs, outcomes and indicators in the project annual workplans.	In the countries visited, the anomaly continues to be observed. Management needs to communicate with country offices to remind them.		X	
Total				**13**	**4**	**9**	
Percentage				**100**	**31**	**69**	

Annex II

Write-offs

Summary of assets written off

(United States dollars)

Category (assets, inventory, cash)	*Current year*	*Previous year*	*Increase/(decrease)*
Cash	550	71.66	Increase
Assets	624 440	–	Increase
Total	**624 990**	**71.66**	Increase

Individual cases of write-off

No.	*Item*	*Location*	*Category*	*Reason for write-off*	*Approving authority*	*Date write-off approved*	*Actual date of write-off*	*Amount written off (United States dollars)*
1.	Travel advances	Nairobi	Cash	Uncollected	Director, Division of Administrative Services, United Nations Office at Nairobi	3 February 2017	31 March 2017	5.04
2.	Travel advances	Nairobi	Cash	Uncollected	Director, Division of Administrative Services, United Nations Office at Nairobi	3 February 2017	31 March 2017	525.00
3.	Travel advances	Nairobi	Cash	Uncollected	Director, Division of Administrative Services, United Nations Office at Nairobi	3 February 2017	31 March 2017	20.06
	Total							**550.10**

Chapter III
Certification of the financial statements

Letter dated 31 March 2017 from the Chief Finance Officer of the United Nations Office at Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2016 have been prepared in accordance with rule 106.1 of the Financial Regulations and Rules of the United Nations and rule 306.10 of the supplement to the Financial Regulations and Rules of the United Nations (ST/SGB/2015/4).

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

The certification function defined in financial rules 105.5 and 105.7 to 105.9 of the Financial Regulations and Rules of the United Nations is assigned to the United Nations Human Settlements Programme. Responsibility for the accounts and the performance of the approving function, as defined in article VI and financial rule 105.6 of the Financial Regulations and Rules of the United Nations, is assigned to the United Nations Office at Nairobi.

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2016 are correct.

(*Signed*) Keval **Vora**
Chief Finance Officer
United Nations Office at Nairobi

Chapter IV
Financial overview for the year ended 31 December 2016

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report and the financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2016. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, these financial statements were transmitted to the Board of Auditors on 31 March 2017.

2. During the financial year 2015, the United Nations Human Settlements Programme transitioned into the new enterprise resource planning system based on the Systems Applications and Products in Data Processing (SAP) platform. The new system, Umoja, is now the central administrative solution in the areas of budget execution, procurement, logistics, grant management, asset management and financial accounting, and includes an array of self-service functionalities, allowing for a more modern, efficient and transparent way of managing the organization's resources. Umoja also facilitates reporting on the financial position and performance of the organization based on the requirements of the International Public Sector Accounting Standards (IPSAS).

3. Regular budget funding, insofar as it relates to UN-Habitat, is included in Volume I, a related party (A/72/5 (Vol. I)), but for completeness has also been included in these financial statements.

4. The financial statements and schedules, as well as the notes thereto, are an integral part of the financial report.

B. Sustainability of the International Public Sector Accounting Standards

5. This is the third year for which the financial statements of UN-Habitat have been prepared in accordance with IPSAS. To support continued IPSAS compliance, the organization has deployed an IPSAS sustainability plan with ongoing work on five major components, which have been identified as the core pillars for IPSAS sustainability, namely:

(a) Management of the benefits of IPSAS: this entails tracking and compiling IPSAS benefits and examining ways of using IPSAS-triggered information to better manage the organization;

(b) Strengthening of internal controls: this includes the deployment and ongoing management of the framework that will support a statement on internal controls;

(c) Management of the IPSAS regulatory framework: this includes active participation in the work of the IPSAS Board to formulate new International Public Sector Accounting Standards, or change existing standards, and the related update of the United Nations Policy Framework for IPSAS, financial rules and guidance, as well as the related changes to systems and processes;

(d) Maintenance of the integrity of Umoja as the backbone for IPSAS-compliant accounting and reporting: work in this area includes ensuring IPSAS-compliant processes for new programmes and activities and automating the production of financial statements through the use of Umoja;

(e) Continued IPSAS training and the deployment of a skills strategy that will support a strengthened finance function.

C. Financial overview

6. Statements I to IV show the consolidated figure for all activities of UN-Habitat, comprising the Foundation General Purpose Fund, the regular budget, earmarked funds that support the programme of work of UN-Habitat and end-of service and retirement benefits for the year ended 31 December 2016. Statement V reports on all segments except the programme support and end-of-service and post-retirement benefits.

7. Comparison between the year ended 31 December 2015 and the current reporting date is provided.

Financial performance

General overview

8. Table IV.1 presented below shows a snapshot of the performance of UN-Habitat in all the segments in 2016. A total surplus of $40.1 million was realized in 2016 as a result of total net revenue of $226.6 million (gross: $240.4 million) received, against which total net expenditure of $186.4 million (gross: $200.3 million) was reported. Gross revenue of $240.4 million includes a core component of $29.9 million (12 per cent), earmarked revenue of $209.8 million (87 per cent) and end-of-service and post-retirement benefits income of $0.7 million (1 per cent). Gross expenditure of $200.3 million comprises $32.0 million (16 per cent) of core expenses, $166.1 million (83 per cent) of earmarked expenses and $2.2 million (1 per cent) of end-of-service and post-retirement benefits expenses.

Table IV.1
Summary financial performance for the period ended 31 December 2016 by segment
(Millions of United States dollars)

	Revenue	*Expenses*	*Surplus/(deficit)*
Foundation non-earmarked	4.8	8.9	(4.1)
Regular budget	14.1	14.1	–
Programme support	11.0	9.0	2.0
Subtotal core funds	**29.9**	**32.0**	**(2.1)**
Foundation Special Purpose	53.5	56.1	(2.6)
Technical cooperation	156.3	110.0	46.3
Subtotal earmarked funds	**209.8**	**166.1**	**43.7**
End-of-service and post-retirement benefits	0.7	2.2	(1.5)
Subtotal other	**0.7**	**2.2**	**(1.5)**
Total all funds before elimination	**240.4**	**200.3**	**40.1**
Intersegment elimination	(13.8)	(13.8)	–
Total all funds after elimination	**226.6**	**186.5**	**40.1**

Revenue

9. Figure IV.1 shows the distribution of contributions by category. UN-Habitat receives its contributions from five main categories: assessed contributions; voluntary contributions; other transfers and allocations; investment revenue; and other revenue.

10. UN-Habitat saw an increase in revenue in 2016 when consolidated across all funds. Total revenue for 2016 amounted to $226.6 million (2015: $166.9 million), which is an increase of $59.7 million (36 per cent) compared with the revenue in 2015. The main source of revenue continues to be voluntary contributions from Member States, other government entities and other entities, which amounted to $191.3 million (2015: $132.1 million) and accounted for 84 per cent (2015: 79 per cent) of total revenue. The remaining 16 per cent (2015: 21 per cent) of the revenue was generated by the assessed contributions in the amount of $14.1 million (2015: $16.9 million), other transfers and allocations in the amount of $19.2 million (2015: $16.9 million), investment revenue in the amount of $1.5 million (2015: $0.9 million) and other revenue in the amount of $0.5 million.

Figure IV.1
Comparative revenue distribution by revenue category
(Millions of United States dollars)

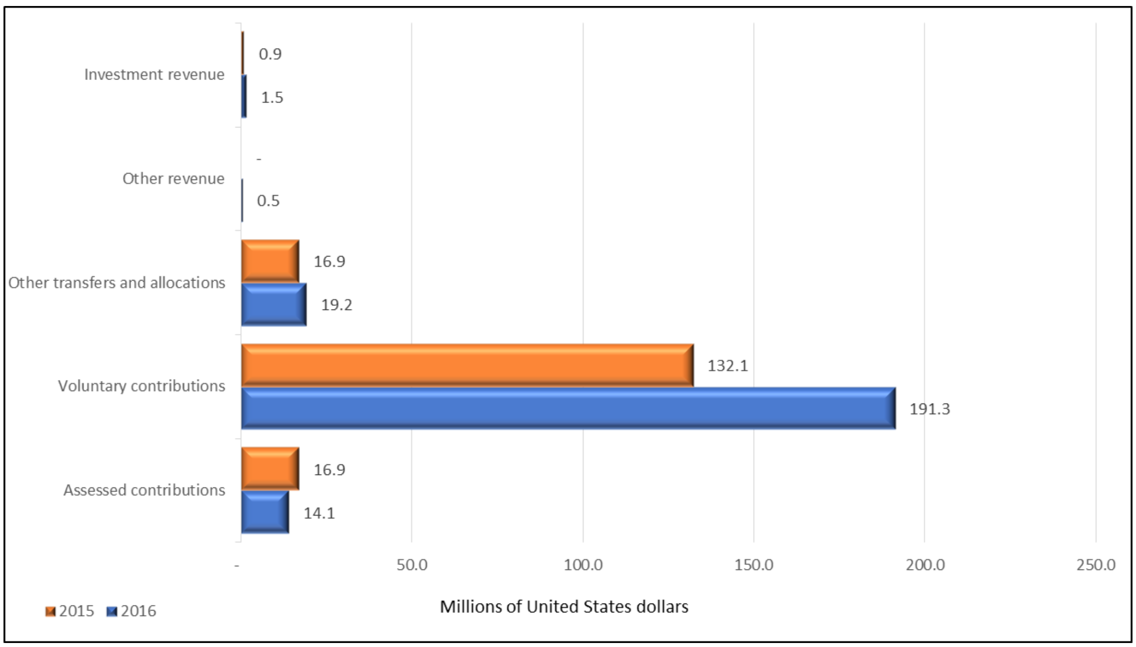
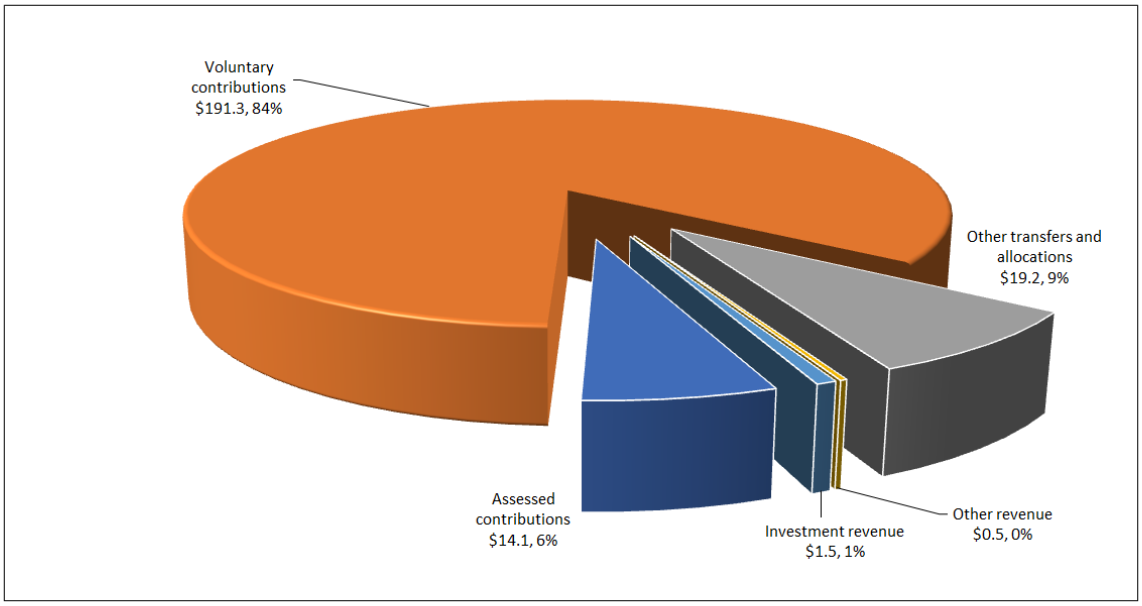


Figure IV.2
2016 revenue distribution by category
(Millions of United States dollars)



11. Revenue for non-earmarked Foundation General Purpose amounted to $4.8 million (2015: $5.3 million), which was a decrease of $0.5 million (10 per cent) in 2016 compared with 2015. This figure comprises voluntary contributions in the amount of $2.3 million (2015: $2.8 million), cost recovery in the amount of $2.5 million (2015: 2.8 million) and other revenue in the amount of $0.5 million in 2015. Overhead income of $11.0 million was received in 2016 from the implementation of the portfolio, compared with $11.3 million in 2015. Regular budget revenue was $14.1 million (2015: $16.9 million). This was a reduction of $2.9 million (17 per cent) compared with 2015 owing to extraordinary expenditure related to the United Nations Conference on Housing and Sustainable Urban Development (Habitat III). Revenue from Foundation Special Purpose earmarked funds totalled $53.5 million (2015: $29.6 million), which was an increase of $23.9 million (80 per cent) compared with 2015. Revenue from technical cooperation earmarked funds amounted to $156.3 million (2015: $117.6 million), which was an increase of $38.7 million (33 per cent) compared with 2015. Other revenue sources contributed a total of $0.7 million (2015: $0.005 million).

12. The technical cooperation segment continues to be the main funding source of UN-Habitat, followed by Foundation Special Purpose. Both are earmarked sources of income and registered growth in the year against declines in regular budget and Foundation non-earmarked sources of funding.

Figure IV.3
Revenue distribution by source of funding before elimination
(Millions of United States dollars)

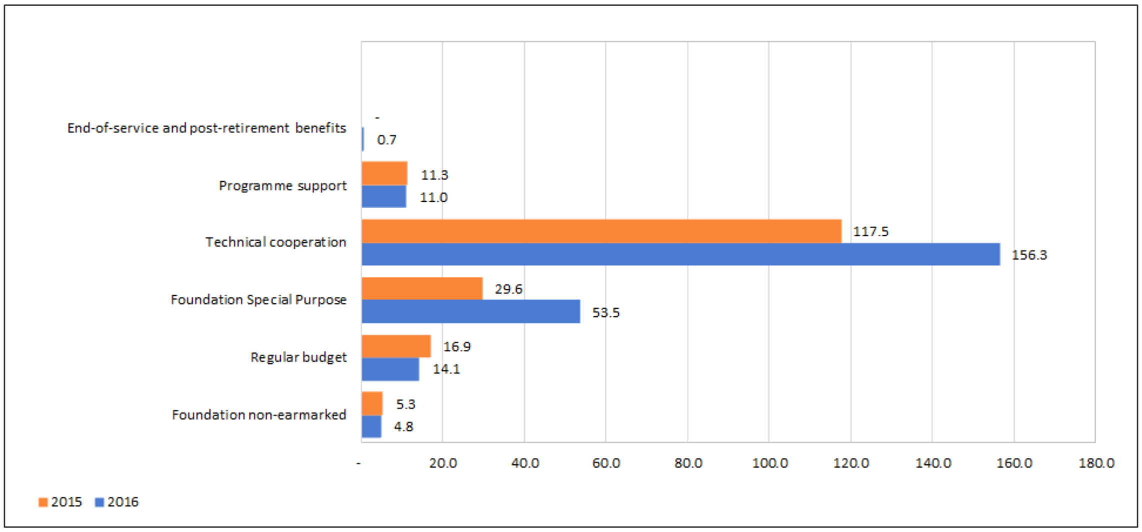
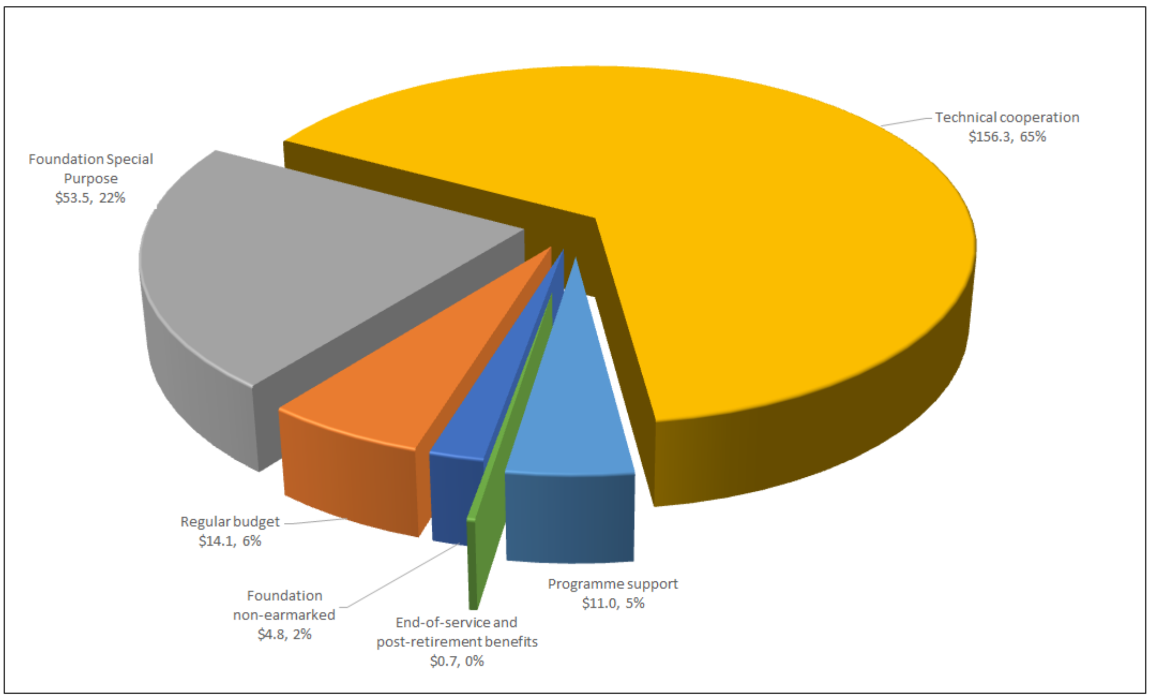


Figure IV.4
Revenue distribution by source of funding
(Millions of United States dollars)



Expenditure

13. Total expenses increased by $19.5 million to a total of $186.4 million (2015: $166.9 million) in 2016. The major categories of expenses included employee benefit expenses of $48.2 million (2015: $52.8 million), non-employee compensation costs of $32.9 million (2015: $32.9 million), grants and transfers amounting to $56.9 million (2015: $40.9 million) and other operating expenses of

$36.9 million (2015: $27.0 million). These expenses are largely related to project delivery.

14. Remaining expenses totalling $11.5 million (2015: $13.5 million) related to supplies and consumables in the amount of $1.1 million (2015: $1.6 million), depreciation and amortization in the amount of $0.6 million (2015: $0.7 million), travel expenses in the amount of $8.7 million (2015: $9.9 million) and other expenses in the amount of $1.1 million (2015: $1.3 million).

Figure IV.5
Expenditure distribution by category
(Millions of United States dollars)

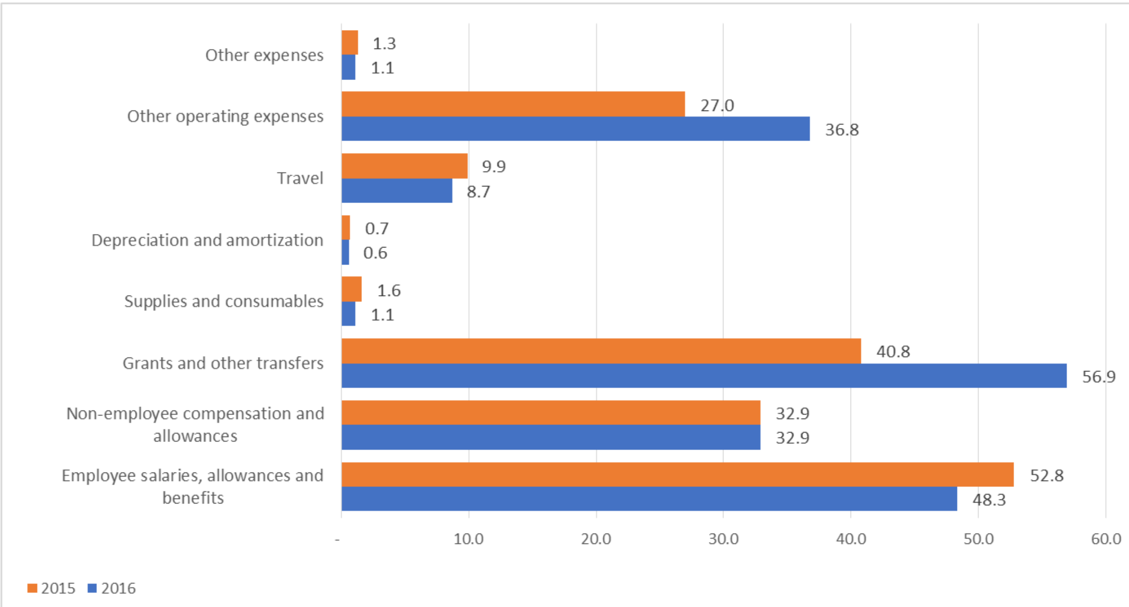
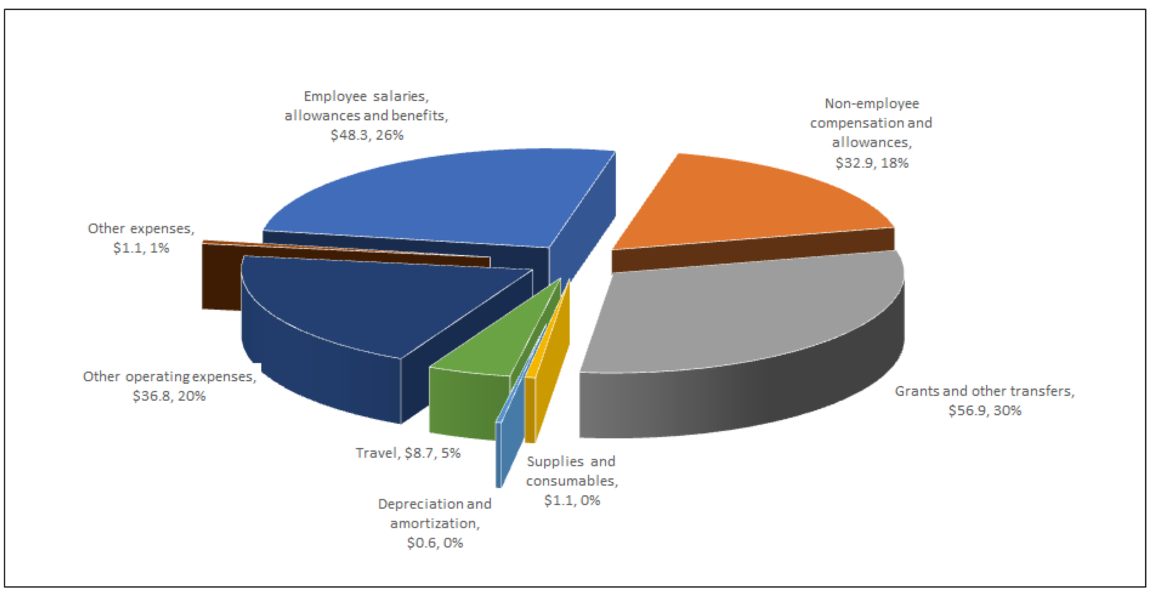


Figure IV.6
Expenditure distribution by category
(Millions of United States dollars)



15. Further analysis of the expenditure shows that a total of $8.9 million (2015: $11.7 million) related to Foundation non-earmarked funding, while $14.1 million (2015: $16.9 million) related to the regular budget. For the earmarked funds, $56.1 million (2015: $45.5 million) related to Foundation General Purpose funding, while technical cooperation expenditure amounted to $110.0 million (2015: $93.5 million). Other expenses related to end-of-service and post-retirement benefits amounted to $2.2 million (2015: $2.7 million).

16. Expenditure related to programme support amounted to $9.0 million (2015: $10.5 million).

17. Figure IV.7 shows expenditure distribution between the six reporting segments. Figure IV.8 shows the percentage distribution between segments.

Figure IV.7
Expenditure distribution between segments before elimination
(Millions of United States dollars)

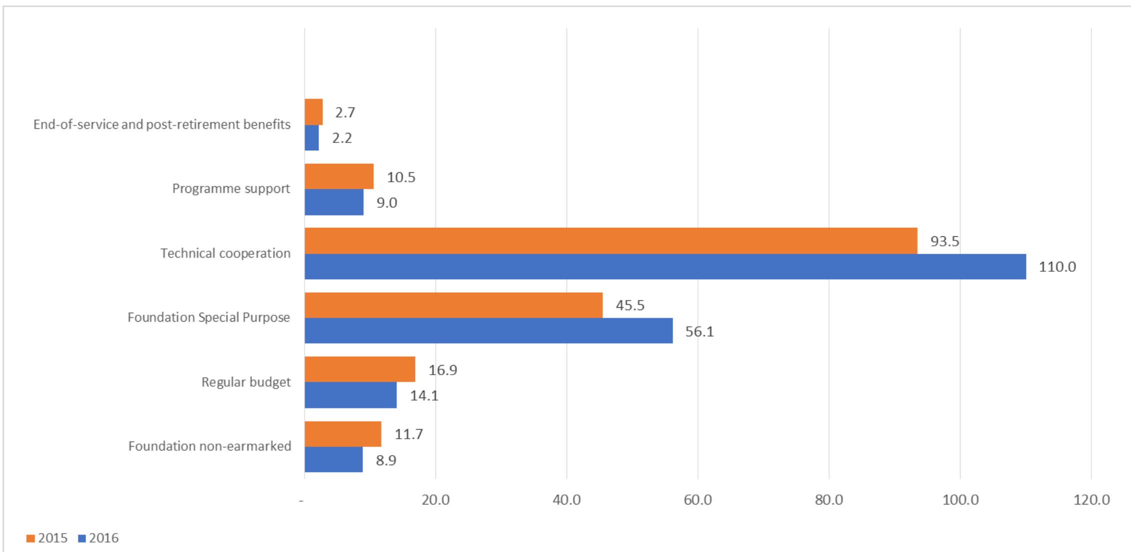
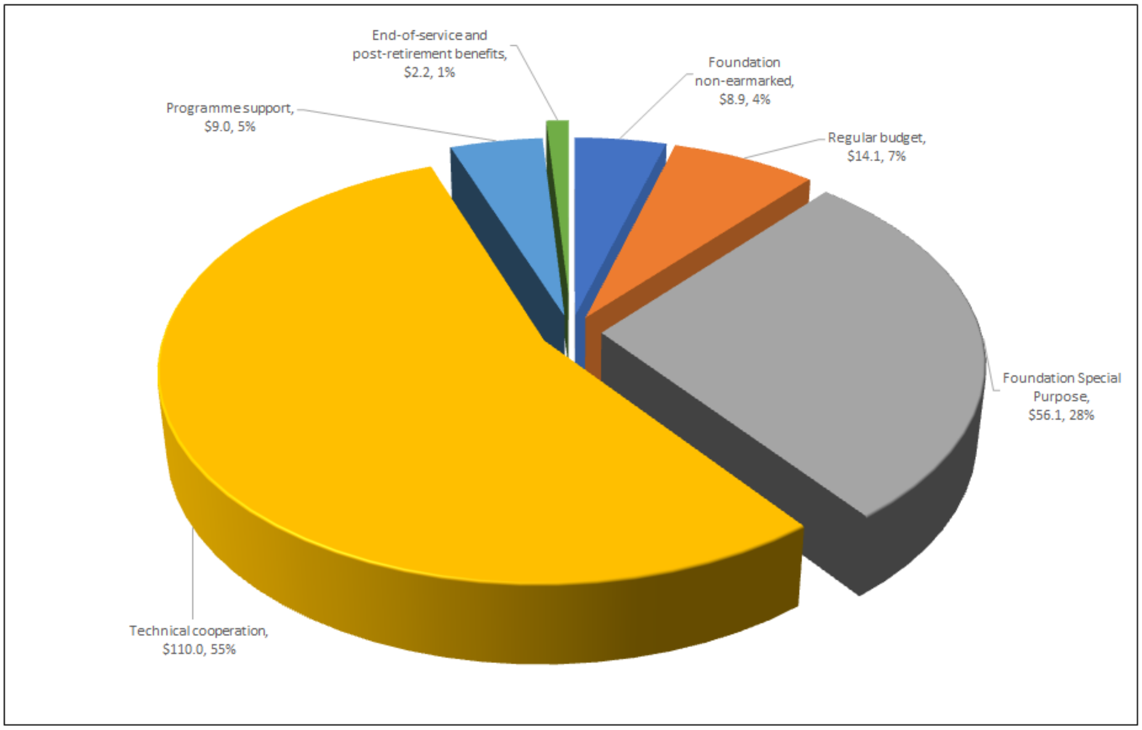


Figure IV.8
Expenditure distribution between segments before elimination
(Millions of United States dollars)



Financial position

Assets

18. At the end of 2016, UN-Habitat assets totalled $444.3 million (2015: $416.6 million). Current assets represented $362.1 million (2015: $337.8 million), while non-current assets totalled $82.2 million (2015: 78.9 million).

19. Voluntary contributions receivable amounted to $186.5 million (2015: $159.6 million), while cash and investments amounted to $200.9 million (2015: $202.2 million). The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects.

20. Property of the organization at year-end had a net book value of $15.6 million (2015: $12.2 million).

21. Cash advances to implementing partners that had not been expensed at year-end totalled $15.5 million (2015: $17.9 million).

Liabilities

22. Total current and non-current liabilities stood at $94.4 million (2015: $106.3 million) at year-end, resulting in net assets of $349.9 million (2015: $310.3 million) and reflecting further strengthening of the financial position of UN-Habitat.

23. Table IV.2 summarizes other key indicators for UN-Habitat for the year ended 31 December 2016 compared with the year ended 31 December 2015.

Table IV.2
Other key indicators
(Millions of United States dollars)

	2016	*2015*[a]	*Increase/(decrease)*	*Per cent change*
Cash and cash equivalents	55.5	36.8	18.7	50.8
Short-term investments	98.2	99.7	(1.5)	(1.5)
Long-term investments	47.3	65.8	(18.5)	(28.1)
Total cash and investments	**201.0**	**202.3**	**(1.3)**	**(0.6)**
Contributions receivable	186.7	160.0	26.7	16.7
Other receivables	0.6	0.9	(0.3)	(38.2)
Total receivables	**187.3**	**160.9**	**26.4**	**16.4**
Advance transfers	15.5	17.9	(2.4)	(13.4)
Other assets	24.9	23.2	1.7	7.3
Accounts payable and accrued liabilities	17.9	23.1	(5.2)	(22.5)
Employee benefits liabilities	41.5	38.5	3.0	7.8
Other liabilities	34.9	44.5	(9.6)	(21.6)

[a] Comparatives have been restated to conform to current presentation.

D. End-of-service and post-retirement accrued liabilities

24. The UN-Habitat statements reflect the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UN-Habitat makes monthly provisions for repatriation benefits at 8 per cent of net salary.

25. The 31 December 2016 accrued balances have been adjusted to reflect the estimated liabilities as at 31 December 2016, as reflected in the 2016 actuarial study carried out by a consulting firm engaged by the United Nations Secretariat on behalf of UN-Habitat. As a result of fully charging these liabilities as at 31 December 2016, an amount of $33.6 million of cumulative unfunded expenditure is included in the cumulative surplus/(deficit) amount (see note 5, end-of-service and post-retirement benefits segment).

Chapter V

Financial statements and related explanatory notes for the year ended 31 December 2016

United Nations Human Settlements Programme

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Notes	*31 December 2016*	*31 December 2015*[a]
Assets			
Current assets			
Cash and cash equivalents	7	55 540	36 835
Investments	8	98 158	99 659
Voluntary contributions receivable	9	167 577	159 534
Other receivables	10	277	547
Advance transfers	11	15 541	17 928
Other assets	12	24 999	23 258
Total current assets		**362 092**	**337 761**
Non-current assets			
Investments	8	47 265	65 750
Voluntary contributions receivable	9	19 074	462
Property, plant and equipment	14	15 561	12 246
Intangible assets	15	23	28
Other receivables	10	298	387
Total non-current assets		**82 221**	**78 873**
Total assets		**444 313**	**416 634**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	17 894	23 065
Advance receipts		–	224
Employee benefits liabilities	17	2 922	3 114
Other liabilities	19	34 967	44 517
Total current liabilities		**55 783**	**70 920**
Non-current liabilities			
Employee benefits liabilities	17	38 629	35 355
Total non-current liabilities		**38 629**	**35 355**
Total liabilities		**94 412**	**106 275**
Net of total assets and total liabilities	**349 901**	**310 359**	
Accumulated surpluses/(deficits),unrestricted	20	327 024	287 482
Reserves	20	22 877	22 877
Total net assets		**349 901**	**310 359**

[a] Comparatives have been restated to conform to current presentation.

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

United Nations Human Settlements Programme

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015*[a]
Revenue			
Assessed contributions	21	14 100	16 935
Voluntary contributions	21	191 286	132 124
Other transfers and allocations	21	19 239	16 911
Other revenue	22	458	5
Investment revenue	24	1 520	915
Total revenue		**226 603**	**166 890**
Expenses			
Employee salaries allowances and benefits	23	48 260	52 814
Non-employee compensation and allowances	23	32 902	32 867
Grants and other transfers	23	56 898	40 866
Supplies and consumables	23	1 060	1 596
Depreciation	14	626	684
Amortization	15	5	4
Travel	23	8 681	9 870
Other operating expenses	23	36 931	27 026
Other expenses	23	1 070	1 265
Total expenses		**186 433**	**166 992**
Surplus/(deficit) for the year		**40 170**	**(102)**

[a] Comparatives have been restated to conform to current presentation.

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

United Nations Human Settlements Programme

III. Statement of changes in net assets for the year ended 31 December 2016

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) — unrestricted	*Reserves*	*Total*
Net assets, 1 January 2016	287 482	22 877	310 359
Adjustment to net assets opening	–	–	–
Restated net asset opening	**287 482**	**22 877**	**310 359**
Changes in net assets			
Other adjustments to net assets	729	–	729
Actuarial gains/(losses)	(1 357)	–	(1 357)
Surplus/(deficit) for the year	40 170	–	40 170
Total, 31 December 2016	**327 024**	**22 877**	**349 901**

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

United Nations Human Settlements Programme

IV. Statement of cash flows for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	*31 December 2016*	*31 December 2015*[a]
Cash flow from operating activities			
Surplus/(deficit) for the year		**40 170**	**(102)**
Non-cash movements			
Depreciation and amortization	14, 15	631	688
Actuarial gain/loss on employee benefits liabilities	17	(1 357)	555
Transfers and donated property, plant and equipment, and intangibles	14	(50)	(203)
Net (gain)/loss on disposal of property plant and equipment		–	13
Changes in assets			
(Increase)/decrease in assessed contributions receivable			
(Increase)/decrease in voluntary contributions receivable	9	(26 655)	25 883
(Increase)/decrease in other receivables	10	359	138
(Increase)/decrease in advance transfers	11	2 387	(4 555)
(Increase)/decrease in other assets	12	(1 741)	24 196
Changes in liabilities			
Increase/(decrease) in accounts payable, other	16	(5 171)	1 093
Increase/(decrease) in advance receipts		(224)	–
Increase/(decrease) in employee benefits payable		3 082	2 676
Increase/(decrease) in other liabilities		(9 550)	(9 461)
Investment revenue presented as investing activities		(1 520)	(915)
Net cash flows from/(used in) operating activities		**361**	**40 006**
Cash flow from investing activities			
Pro rata share of net increases in the cash pool		19 986	(26 846)
Investment revenue presented as investing activities	25	1 520	915
Acquisitions of property plant and equipment	14	(3 891)	(10 625)
Acquisitions of intangibles	15	–	(32)
Net cash flows from/(used in) investing activities		**17 615**	**(36 588)**
Cash flow from financing activities			
Adjustments to net assets		729	(13 321)
Net cash flows from/(used in) financing activities		**729**	**(13 321)**
Net increase/(decrease) in cash and cash equivalents		**18 705**	**(9 903)**
Cash and cash equivalents, beginning of year		36 835	46 738
Cash and cash equivalents, end of year	**7**	**55 540**	**36 835**

[a] Comparatives have been restated to conform to current presentation.

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

United Nations Human Settlements Programme

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2016

(Thousands of United States dollars)

	Publicly available budget[a]				
Budget part	*Original biennial*	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)[b]*
Foundation General Purpose					
Urban legislation, land and governance	3 113	1 557	234	179	23.5
Urban planning and design	4 237	2 118	972	978	(0.6)
Urban economy	3 349	1 674	217	198	8.8
Urban basic services	3 890	1 945	499	501	(0.4)
Housing and slum upgrading	3 638	1 819	59	43	27.1
Risk reduction and rehabilitation	4 426	2 213	875	448	48.8
Research and capacity development	4 453	2 227	701	723	(3.1)
Subtotal	**27 106**	**13 553**	**3 556**	**3 069**	**13.7**
Executive direction	13 776	6 888	4 597	4 355	5.3
Programme support	4 736	2 368	1 981	1 851	6.6
Total Foundation General Purpose	**45 618**	**22 809**	**10 134**	**9 276**	**8.5**
Foundation Special Purpose	101 297	50 648	58 109	50 446	13.2
Regular budget					
Sections 15 and 23	23 408	11 704	10 358	10 286	0.7
Development account	3 572	1 786	2 418	1 458	39.7
Habitat III	1 378	1 911	1 307	1 244	4.8
Total regular budget	**28 358**	**15 401**	**14 083**	**12 988**	**7.8**
Technical cooperation	312 909	156 455	101 828	83 232	18.3
Grand total	**488 182**	**245 313**	**184 154**	**155 943**	**15.3**

[a] Budget relates to the current year proportion of publicly available budgets which are approved for a two-year period.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 6.

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

United Nations Human Settlements Programme

Notes to the financial statements

Note 1
Reporting entity

The United Nations Human Settlements Programme and its activities

1. On 16 December 1974, the General Assembly adopted its resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation.

2. On 19 December 1977, the General Assembly adopted its resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

3. On 21 December 2001, the General Assembly adopted its resolution 56/206, by which, with effect from 1 January 2002, it transformed the United Nations Centre for Human Settlements, including the United Nations Habitat and Human Settlements Foundation, into the United Nations Human Settlements Programme (UN-Habitat) and the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme. By the same resolution, the Assembly confirmed that the Executive Director of the United Nations Human Settlements Programme should be responsible for the management of the United Nations Habitat and Human Settlements Foundation and UN-Habitat would become an autonomous body and a separate reporting entity within the United Nations.

4. UN-Habitat is a separate financial reporting entity of the United Nations system owing to the uniqueness of the governance and budgetary process. Its financial statements comprise activities managed through various funds, including general and related funds, technical cooperation activities, general trust funds and other activities.

5. UN-Habitat is supported by a United Nations regular budget allocation and voluntary contributions from Governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources. UN-Habitat headquarters is located on United Nations Avenue in Nairobi, at the United Nations Office at Nairobi complex.

6. UN-Habitat undertook a major reform in 2011 to sharpen the programmatic focus of its mandate to address current strategic urbanization challenges and achieve more efficient and effective service delivery, with the goal of maintaining its role as the lead programme of the United Nations for providing guidance and technical support on sustainable urbanization and shelter, both globally and at the regional and country levels.

7. The main strategic objectives of UN-Habitat are delivered through seven subprograms and various policies:

(a) Urban legislation, land and governance, which provides policy and operational support to Governments and cities with respect to governance, legislation and land;

(b) Urban planning and design, which provides city and national Governments with a set of tested approaches, guidelines and tools to support the management of growth and improved sustainability, efficiency and equity of cities through planning and design at different scales;

(c) Urban economy, which promotes urban strategies and policies that strengthen the capacity of cities to realize their potential as engines of economic development and enhance their contribution to employment and wealth creation;

(d) Urban basic services, which focuses on strengthening policies and institutional frameworks for expanding access to urban basic services, specifically targeted at the urban poor;

(e) Housing and slum upgrading, which advocates a twin-track approach to improve the supply and affordability of new housing alongside the implementation of citywide and national slum-upgrading programmes to improve housing conditions and quality of life for the urban poor;

(f) Risk reduction and rehabilitation, which aims at reducing urban risk and responding to urban crises and supports crisis-affected cities in terms of disaster prevention and response;

(g) Research and capacity development, which monitors and reports results of global monitoring and assessment on urbanization statistics and indicators to Governments and Habitat Agenda partners through its flagship reports.

The objectives of UN-Habitat are as follows:

(a) To improve the shelter conditions of the world's poor and to ensure the development of sustainable human settlements;

(b) To monitor and assess progress towards the attainment of the Habitat Agenda goals and the targets of the Millennium Declaration and the Johannesburg Plan of Implementation on slums, safe drinking water and sanitation;

(c) To strengthen the formulation and implementation of urban and housing policies, strategies and programmes and to develop related capacities, primarily at the national and local levels;

(d) To facilitate the mobilization of investments from international and domestic sources in support of adequate shelter, related infrastructure development programmes and housing finance institutions and mechanisms, particularly in developing countries and in countries with economies in transition.

Note 2
Basis of preparation and authorization for issue

Basis of preparation

8. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS). They have been prepared on a going-concern basis and the accounting policies have been applied consistently in their preparation and presentation. In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the United Nations Human Settlements Programme, and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

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

(d) Statement IV: statement of cash flows;

(e) Statement V: statement of comparison of budget and actual amounts;

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

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

9. This is the third set of financial statements prepared in compliance with IPSAS, which includes the application of certain transitional provisions as identified below.

10. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Authorization for issue

11. These financial statements are certified by the Chief Financial Officer of the United Nations Office at Nairobi and approved by the Executive Director of the United Nations Human Settlements Programme. In accordance with the Financial Regulations and Rules of the United Nations, these financial statements as at 31 December 2016 are to be transmitted to the Board of Auditors by 31 March 2017.

Measurement basis

12. The financial statements are prepared using the historic cost convention except for certain assets as stated in the notes to the financial statements. Real estate assets are recorded at depreciated replacement cost and financial assets are recorded at fair value through surplus or deficit.

Functional and presentation currency

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

14. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange as at the date of the transaction. The operational rate of exchange approximates the spot rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies, those other than the functional currency, are translated at the operational rate of exchange year-end rate. Non-monetary foreign currency items that are measured at fair value are translated at the operational rate of exchange prevailing at the date of the transaction or when the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year end.

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

Materiality and use of judgment and estimates

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

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

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

International Public Sector Accounting Standards transitional provisions

19. IPSAS 17: Property, plant and equipment, allows a transitional period of up to five years for the full recognition of capitalized property, plant and equipment. The organization invoked the transitional provision and has not recognized assets where reliable data is in the process of being collected.

Future accounting pronouncements

20. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the organization's financial statements continues to be monitored:

(a) Public sector-specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of those covered by IPSAS 28: Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures;

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

(c) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(d) Revenue: the aim of the project is to develop new standards-level requirements and guidance on revenue to amend or supersede those currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(e) Consequential amendments arising from chapters 1 to 4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: the project objective is to make revisions to IPSAS standards that reflect concepts from these chapters, in particular the objectives of financial reporting and the qualitative characteristics and constraints of information;

(f) Leases: the objective of the project is to develop revised requirements for lease accounting, covering both lessees and lessors, in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13: Leases. Approval of a new IPSAS on leases is projected for June 2018, with publication in July 2018.

Future requirements of the International Public Sector Accounting Standards Board

21. On 30 January 2015, the IPSAS Board published six new standards: IPSAS 33: First-time adoption of accrual basis IPSASs; IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. Initial application of these standards is required for periods beginning on or after 1 January 2017. IPSAS 33 has no impact on the organization, which adopted IPSAS with effect from 1 January 2014, before the issue of the standard.

22. In July 2016 the IPSAS Board issued IPSAS 39: Employee benefits, repealing IPSAS 25: Employee benefits, to align it with the underlying International Accounting Standard, IAS 19: Employee benefits, and on 31 January 2017, the IPSAS Board published IPSAS 40: Public sector combinations, which prescribes the accounting treatment for public sector combinations and sets out the classification and measurement of public sector combinations, that is, transactions or other events that bring two or more separate operations into a single public sector entity.

23. Their impact on the organization's financial statements for the year ending 31 December 2017 and the comparative period therein has been evaluated to be as follows:

IPSAS	*Anticipated impact in the year of adoption*
IPSAS 34	The requirements for separate financial statements in IPSAS 34 are very similar to the current requirements in IPSAS 6: Consolidated and separate financial statements. However, given that the Financial Regulations and Rules of the United Nations do not require separate financial statements, introduction of IPSAS 34 is not expected to have an impact on the financial statements.
IPSAS 35	IPSAS 35 still requires that control be assessed with regard to benefits and power, but the definition of control has changed, and the standard now provides considerably more guidance on assessing control. The other key change introduced by IPSAS 35 is the elimination of the IPSAS 6 exemption from consolidation of temporarily controlled entities; the preparation of financial statements for periods beginning on or after 1 January 2017 will include the assessment of temporarily controlled entities.
IPSAS 36	A key change introduced by IPSAS 36 is the elimination of the IPSAS 7: Investments in associates, exemption from application of the equity method where joint control or significant influence is temporary; the preparation of financial statements for periods beginning on or after 1 January 2017 will include the assessment of such arrangements. In addition, the scope of IPSAS 36 is limited to entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. The applicability of IPSAS 36 to these financial statements is therefore limited, as interests generally do not involve a quantifiable ownership interest.
IPSAS 37	IPSAS 37 introduces new definitions and has a significant impact on the way in which joint arrangements are classified and accounted for. These financial statements include joint venture arrangements accounted for using the equity method. Where such arrangements are formed under a binding agreement and assessed as being subject to joint control, they meet the IPSAS 37 definition of a joint

IPSAS	*Anticipated impact in the year of adoption*
	arrangement. Where assessed as being a joint venture, IPSAS 37 requires the equity method to be used; this will not represent a change in accounting policy. If there are rights to assets and obligations for liabilities, the interest is classified as a joint operation and the financial statements of the organization will account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSAS applicable to the particular assets, liabilities, revenues and expenses.
IPSAS 38	This standard increases the extent of disclosures required for interest in other entities.
IPSAS 39	At the moment, IPSAS 39 will not have any impact on the organization since the "corridor method" on actuarial gains or losses, which is being eliminated, was never applied from the inception of IPSAS adoption in 2014. The organization does not have any plan assets; therefore, there is no impact from application of the net interest approach prescribed by the standard. Further analysis will be carried out in the future should the organization procure plan assets.
IPSAS 40	There is no impact on the organization from the application of IPSAS 40 at the moment, as there are no public sector combinations yet. Any such impact of IPSAS 40 on the organization's financial statements will be evaluated for application by the organization by 1 January 2018, the effective date of the standard, should such combinations occur.

Note 3
Significant accounting policies

Financial assets: classification

24. The organization classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date (see table below). The classification of financial assets depends primarily on the purpose for which the financial assets are acquired.

Categories of financial assets

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

25. All financial assets are initially measured at fair value. The organization initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which the organization becomes party to the contractual provisions of the instrument.

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

27. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

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

29. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

30. Financial assets are de-recognized when the rights to receive cash flows have expired or have been transferred and the organization has transferred substantially all risks and rewards of the financial asset.

31. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in cash pools

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

33. The organization’s investment in the cash pools is included as part of cash and cash equivalents and short- and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

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

Financial assets: receivables from non-exchange transactions — contributions receivable

35. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the organization by Member States, non-Member States and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables.

36. Voluntary contributions receivable and other accounts receivable are subject to an allowance for doubtful receivables that is calculated at a rate of 25 per cent for outstanding receivables between one and two years, 60 per cent for those between two and three years and 100 per cent for those in excess of three years.

37. For assessed contributions receivable, the allowance is calculated at a rate of 20 per cent for those outstanding between one and two years, 60 per cent for those outstanding between two and three years, 80 per cent for those outstanding between three and four years and 100 per cent for those outstanding over four years.

Financial assets: receivables from exchange transactions — other accounts receivable

38. Other receivables include primarily amounts receivable for goods or services provided to other entities, amounts receivable for operating lease arrangements and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Material balances of other receivables and voluntary contributions receivable are subject to specific review and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Financial assets: loans receivable

39. Loans receivable consist of loans that have been given out to implementing partners under a revolving housing finance loan fund programme called Experimental Reimbursable Seeding Operations and are receivable in accordance with the amortization schedules. These loans are given at below-market rates.

Investments accounted for using the equity method

40. The equity method initially records an interest in a jointly controlled entity at cost, and is adjusted thereafter for the post-acquisition change in the organization's share of net assets. The organization's share of the surplus or deficit of the investee is recognized in the statement of financial performance. The interest is recorded under non-current assets unless there is a net liability position, in which case it is recorded under non-current liabilities.

Other assets

41. Other assets include education grant advances and prepayments, including advances for the United Nations Development Programme Service Clearing Account, that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Advance transfers

42. Advance transfers relate mainly to cash transferred to executing agencies/ implementing partners as an advance in order for them to provide agreed goods or services. Advances issued are initially recognized as assets, and then expenses are recognized when goods are delivered or services are rendered by the executing agencies/implementing partners and confirmed by receipt of certified expense reports, as applicable. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual is needed. Balances due for a refund are transferred to other receivables, where necessary, and are subject to an allowance for doubtful receivables.

Inventories

43. Inventory balances are recognized as current assets and include the categories and subcategories set out in the table below.

Categories	*Subcategories*
Held for sale or external distribution	Books and publications, stamps
Raw materials and works in progress associated with items held for sale or external distribution	Construction materials/supplies, works in progress
Strategic reserves	Fuel reserves, bottled water and rations reserves
Consumables and supplies	Material holdings of consumables and supplies, including spare parts and medicines

44. The cost of inventory in stock is determined using the average price cost basis. The cost of inventories includes the cost of purchase plus other costs incurred in bringing the items to the destination and condition for use. Inventory acquired through non-exchange transactions (i.e., donated goods) is measured at fair value as at the date of acquisition. Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no/nominal charge or for consumption in the production of goods/services are valued at the lower of cost and current replacement cost.

45. The carrying amount of inventories is expensed when inventories are sold, exchanged, distributed externally or consumed by the organization. Net realizable value is the net amount that is expected to be realized from the sale of inventories in the ordinary course of operations. Current replacement cost is the estimated cost that would be incurred to acquire the asset.

46. Holdings of consumables and supplies for internal consumption are capitalized in the statement of financial position only when material. Such inventories are valued by the periodic weighted average or the moving average methods on the basis of records available in the inventory management systems, such as Galileo and Umoja, which are validated through the use of thresholds, cycle counts and enhanced internal controls. Valuations are subject to impairment review, which takes into consideration the variances between moving average price valuation and current replacement cost, as well as slow-moving and obsolete items.

47. Inventories are subject to physical verification on the basis of value and risk as assessed by management. Valuations are net of write-downs from cost to current replacement cost/net realizable value, which are recognized in the statement of financial performance.

Heritage assets

48. Heritage assets are not recognized in the financial statements, but significant heritage assets are disclosed in the notes to the financial statements.

Property, plant and equipment

49. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; communications and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (land, buildings, leasehold

improvements, infrastructure and assets under construction). Recognition of property, plant and equipment is as follows:

(a) All property, plant and equipment other than real estate assets are stated at historical cost, less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price, any costs directly attributable to bringing the asset to its location and condition, and the initial estimate of dismantling and site restoration costs;

(b) Owing to the absence of historical cost information, real estate assets are initially recognized at fair value using a depreciated replacement cost methodology. Baseline costs per baseline quantity have been calculated by collecting construction cost data, utilizing in-house cost data (where it exists), or using external cost estimators for each catalogue of real estate assets. The baseline costs per baseline quantity adjusted for price escalation factor, size factor and location factor are applied to value the real estate asset and determine the replacement cost. Depreciation allowance deductions from the gross replacement cost to account for physical, functional and economic use of the assets have been made to determine the depreciated replacement cost of the assets;

(c) With regard to property, plant and equipment acquired at nil or nominal cost, including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire;

(d) Property, plant and equipment are capitalized when their cost is greater than or equal to the threshold of $5,000, or $100,000 for leasehold improvements and self-constructed assets.

50. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method up to their residual value, except for land and assets under construction, which are not subject to depreciation. Given that not all components of a building have the same useful lives or the same maintenance, upgrade or replacement schedules, significant components of owned buildings are depreciated using the components approach. Depreciation commences in the month in which the organization gains control over an asset in accordance with international commercial terms and no depreciation is charged in the month of retirement or disposal. Given the expected pattern of usage of property, plant and equipment, the residual value is nil unless residual value is likely to be significant. The estimated useful lives of property, plant and equipment classes are set out in the table below.

Estimated useful lives of property, plant and equipment classes

Class	*Subclass*	*Estimated useful life*
Communications and information technology equipment	Information technology equipment	4 years
	Communications and audiovisual equipment	7 years
Vehicles	Light-wheeled vehicles	6 years
	Heavy-wheeled and engineering support vehicles	12 years
	Specialized vehicles, trailers and attachments	6-12 years
	Marine vessels	10 years

Class	*Subclass*	*Estimated useful life*
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years
	Mine detection and clearing equipment	5 years
	Accommodation and refrigeration equipment	6 years
	Water treatment and fuel distribution equipment	7 years
	Transportation equipment	7 years
	Heavy engineering and construction equipment	12 years
	Printing and publishing equipment	20 years
Furniture and fixtures	Library reference material	3 years
	Office equipment	4 years
	Fixtures and fittings	7 years
	Furniture	10 years
Buildings	Temporary and mobile buildings	7 years
	Fixed buildings, depending on type	25, 40 or 50 years
	Major exterior, roofing, interior and services/utilities components, where component approach is utilized	20-50 years
	Finance lease or donated right-to-use buildings	Shorter of term of arrangement or life of building
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation, landscaping	Up to 50 years
Leasehold improvements	Fixtures, fittings and minor construction work	Shorter of lease term or 5 years

51. Where there is a material cost value of fully depreciated assets that are still in use, adjustments to accumulated depreciation and property, plant and equipment are incorporated into the financial statements to reflect a depreciation floor of 10 per cent of historical cost on the basis of an analysis of the classes and useful lives of the fully depreciated assets.

52. The organization elected to use the cost model for measurement of property, plant and equipment after initial recognition instead of the revaluation model. Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the organization and the subsequent cost exceeds the threshold for initial recognition. Repairs and maintenance are expensed in the statement of financial performance in the year in which they are incurred.

53. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying

amount. Those gains or losses are recognized in the statement of financial performance in other revenue or other expenses.

54. Land, buildings and infrastructure assets with a year-end net book value greater than $100,000 are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000. Impairment assessments are conducted when events or changes in circumstance indicate that carrying amounts may not be recoverable.

Intangible assets

55. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment loss. For intangible assets acquired at nil or nominal cost, including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire. The threshold for recognition is $100,000 for internally generated intangible assets and $5,000 per unit for externally acquired intangible assets.

56. Acquired computer software licences are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by the organization are capitalized as an intangible asset. Directly associated costs include software development employee costs, consultant costs and other applicable overhead costs.

57. Intangible assets with definite useful lives are amortized on a straight-line method over their estimated useful lives, starting from the month of acquisition or when the intangible assets become operational.

58. The useful lives of major classes of intangible assets have been estimated as shown in the table below.

Estimates of useful lives of major classes of intangible assets

Class	*Range of estimate of useful life*
Software acquired externally	3-10 years
Software developed internally	3-10 years
Licences and rights	2-6 years (period of licence/right)
Copyrights	3-10 years
Assets under development	Not amortized

59. Annual impairment reviews of intangible assets are conducted where assets are under construction or have an indefinite useful life. Other intangible assets are subject to impairment review only when there are indicators of impairment.

Financial liabilities: classification

60. Financial liabilities are classified as “other financial liabilities”. They include accounts payable, transfers payable, unspent funds held for future refunds, and other liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The organization re-evaluates the classification of financial liabilities at each

reporting date and de-recognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

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

Financial liabilities: transfers payable

62. Transfers payable relate to amounts owed to executing entities/implementing agencies and partners and residual balances due to be returned to donors.

Advance receipts and other liabilities

63. Advance receipts relate to contributions or payments received in advance, assessed or voluntary contributions received for future years and other deferred revenue. Advance receipts are recognized as revenue at the start of the relevant financial year or on the basis of the organization's revenue recognition policies. Other liabilities include liabilities for conditional funding arrangements and other miscellaneous items.

Leases: the organization as lessee

64. Leases of property, plant and equipment where the organization has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the start of the lease at the lower of fair value or the present value of the minimum lease payments. The rental obligation, net of finance charges, is reported as a liability in the statement of financial position. Assets acquired under finance leases are depreciated in accordance with the organization's policy on property, plant and equipment. The interest element of the lease payment is charged to the statement of financial performance as an expense over the lease term based on the effective interest rate method.

65. Leases where all of the risks and rewards of ownership are not substantially transferred to the organization are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Leases: the organization as lessor

66. The organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported in property, plant and equipment. Lease revenue from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

67. The organization occupies land and buildings and uses infrastructure assets, machinery and equipment through donated right-to-use agreements granted primarily by host Governments at nil or nominal cost. Based on the term of the agreement and the clauses on transfer of control and termination contained in the agreement, the donated right-to-use arrangement is accounted for as an operating lease or finance lease.

68. In the case of an operating lease, an expense and corresponding revenue equal to the annual market rent of similar properties is recognized in the financial

statements. In the case of a finance lease (principally with a lease term of more than 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property and the term of the arrangement. If property is transferred with specific conditions, deferred revenue for the amount is recognized equal to the entire fair market value of the property (or share of the property) occupied by the organization, which is progressively recognized as revenue and offsets the corresponding depreciation charge. If property is transferred without any specific condition, revenue for the same amount is recognized immediately upon assuming control of the property. Donated right-to-use land arrangements are accounted for as operating leases where the organization does not have exclusive control over the land and/or title to the land is transferred under restricted deeds.

69. Long-term donated right-to-use building and land arrangements are accounted for as operating leases where the organization does not have exclusive control over the building and title to the land is not granted.

70. Where title to the land is transferred to the organization without restrictions, the land is accounted for as donated property, plant and equipment, and recognized at fair value at the acquisition date.

71. The threshold for the recognition of revenue and expense is a yearly rental value equivalent to $5,000 for donated right-to-use premises and $5,000 for machinery and equipment.

Employee benefits

72. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.

73. The organization recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

Short-term employee benefits

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

Post-employment benefits

75. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined-benefit plans,

in addition to the pension provided through the United Nations Joint Staff Pension Fund.

Defined-benefit plans

76. The following benefits are accounted for as defined-benefit plans: after-service health insurance; repatriation benefits (post-employment benefits); and accumulated annual leave that is commuted to cash upon separation from the organization (other long-term benefits). Defined-benefit plans are those where the organization's obligation is to provide agreed benefits and therefore the organization bears the actuarial risks. The liability for defined-benefit plans is measured at the present value of the defined-benefit obligation. Changes in the liability for defined-benefit plans, including actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The organization has elected to recognize changes in the liability for defined-benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, the organization did not hold any plan assets as defined by IPSAS 25: Employee benefits.

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

78. After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. 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 that date. The after-service health insurance liability represents the present value of the share of the organization's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is to consider contributions by all plan participants in determining the organization's residual liability. 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.

79. Repatriation benefits: 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. A liability is recognized from when the staff member joins the organization and is measured as the present value of the estimated liability for settling these entitlements.

80. Annual leave: the liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in-first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period

in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at the end of service as the true liability of the organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the organization at the end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly to post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

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

82. The Pension Fund 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 participating organizations. The organization and the Fund, in line with the other participating organizations, are not in a position to identify the organization's proportionate share of the defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, the organization has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS 25: Employee benefits. The organization's contributions to the Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

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

Other long-term employee benefits

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

85. Appendix D benefits: appendix D to the Staff Rules of the United Nations governs compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations.

Provisions

86. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the organization has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation as at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities

87. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or because the amount of the obligations cannot be reliably measured. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

Contingent assets

88. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization.

Commitments

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

Non-exchange revenue: assessed contributions

90. Assessed contributions for the organization comprise the UN-Habitat regular budget allocation. Assessed contributions are assessed and approved for a budget period of one or more years. A one-year proportion of the assessed contributions is recognized as revenue at the beginning of that year. Assessed contributions include the amounts assessed on Member States to finance the activities of the organization in accordance with the agreed scale of assessments. Revenue from assessed contributions from Member States is presented in the statement of financial performance.

Non-exchange revenue: voluntary contributions

91. Voluntary contributions and other transfers that are supported by legally enforceable agreements are recognized as revenue at the time at which the agreement becomes binding, which is the point when the organization is deemed to acquire control of the asset. However, where cash is received subject to specific conditions or when contributions are explicitly given for a specific operation to commence in a future financial year, recognition is deferred until those conditions have been satisfied. Revenue will be recognized upfront for all conditional arrangements up to the threshold of $50,000.

92. Voluntary pledges and other promised donations are recognized as revenue when the arrangement becomes binding. Pledges and promised donations, as well as agreements not yet formalized by acceptance, are disclosed as contingent assets. For unconditional multi-year agreements, the full amount is recognized as revenue when the agreement becomes binding.

93. Unused funds returned to the donor are netted against revenue.

94. Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the organization to administer projects or other programmes on their behalf.

95. A direct cost recovery is charged to trust fund and other "extrabudgetary" activities (largely projects) to ensure that the additional costs of supporting activities financed from extrabudgetary contributions are not borne by assessed funds and/or other core resources that are central to the budget process at the United Nations Secretariat. The direct cost recovery is eliminated for the purposes of the preparation of financial statements, as disclosed in note 5 on segment reporting. The direct cost-recovery charge agreed with the donor as part of the budget of a project is included as part of voluntary contributions. It is expressed as a percentage of direct costs (actual expenditure and unliquidated obligations).

96. In-kind contributions of goods above the recognition threshold of $5,000 are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the organization and the fair value of those assets can be measured reliably. Contributions in kind are initially measured at their fair value as at the date of receipt determined by reference to observable market values or by independent appraisals. The organization has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of services above a threshold of $5,000 in the notes to the financial statements.

Exchange revenue

97. Exchange transactions are those in which the organization sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. 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, as follows:

(a) Revenue from sales of publications, books and stamps by the United Nations Gift Centre is recognized when the sale occurs and risks and rewards have been transferred;

(b) Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to Governments, United Nations entities and other partners is recognized when the service is performed;

(c) Revenue from jointly financed activities represents amounts charged to other United Nations organizations for their share of joint costs paid for by the United Nations;

(d) Exchange revenue also includes income from the rental of premises, the sale of used or surplus property, services provided to visitors in relation to guided tours, and income from net gains resulting from currency exchange adjustments.

Investment revenue

98. Investment revenue includes interest income and the organization's net share of cash pool investment income and transaction costs associated with the operation of investments.

99. Net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between sales proceeds and book value. Transaction costs that are directly attributable to investment activities are netted against revenue, and the net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. Cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances.

Expenses

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

101. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

102. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects. Supplies and consumables relate to the cost of consumables and expenses for supplies. For outright grants, an expense is recognized at the point at which the organization has a binding obligation to pay.

103. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are implemented by executing entities/implementing partners to service a target population that typically includes Governments, non-governmental organizations and agencies of the United Nations system. Transfers to implementing partners are initially recorded as advances, and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point at which the organization has a binding

obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

104. Other operating expenses include acquisition of goods and intangible assets under capitalization thresholds, maintenance, utilities, contracted services, training, security services, shared services, rent, insurance and allowance for doubtful accounts. Other expenses relate to in-kind contributions, hospitality and official functions, foreign exchange losses and donations or transfers of assets.

Multi-partner trust funds

105. Multi-partner trust fund activities are pooled resources from multiple financial partners that are allocated to multiple implementing entities to support specific national, regional or global development priorities. They are assessed to determine the existence of control and whether the organization is considered to be the principal of the programme or activity. Where control exists and the organization is exposed to the risks and rewards associated with the multi-partner trust fund activities, such programmes or activities are considered to be the organization's operations and are therefore reported in full in the financial statements.

Note 4
Prior-period reclassifications

106. With the implementation of the business planning and consolidation tool for the production of financial statements throughout the United Nations Secretariat, financial statement classifications have been harmonized, and the effect on the organization's balances as reported as at 31 December 2015 and the impact of reclassification changes are summarized in the present note.

107. The effect of the reclassification is contained in the statement of financial position and performance and does not have an impact on the final balances reported as at the end of 31 December 2015 for assets, liabilities, net assets and period surplus/deficit.

108. Individual notes provide breakdowns of the reclassifications at detail level.

(Thousands of United States dollars)

	Reported 31 December 2015	*Reclassifications*	*Restated 31 December 2015*
Extract from the statement of financial position			
Assets			
Current assets			
Cash and cash equivalents	36 835	–	36 835
Investments	99 659	–	99 659
Voluntary contributions receivable	159 534	–	159 534
Other accounts receivable	54	493	547
Loans receivable	493	(493)	-
Advance transfers	31 073	(13 145)	17 928
Other assets	10 113	13 145	23 258
Total current assets	**337 761**	**–**	**337 761**

	Reported 31 December 2015	*Reclassifications*	*Restated 31 December 2015*
Non-current assets			
Total non-current assets	**78 873**	**–**	**78 873**
Total assets	**416 634**	**–**	**416 634**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	20 605	2 460	23 065
Advance receipts	-	224	224
Employee benefits liabilities	3 178	(64)	3 114
Other liabilities	47 137	(2 620)	44 517
Total current liabilities	**70 920**	**–**	**70 920**
Non-current liabilities			
Total non-current liabilities	**35 355**	**–**	**35 355**
Total liabilities	**106 275**	**–**	**106 275**
Net assets			
Total net assets	**310 359**	**–**	**310 359**
Total liabilities and net assets	**416 634**	**–**	**416 634**
Extract from the statement of financial performance			
Total revenue	**166 960**	**(70)**	**166 890**
Total expense	**(167 062)**	**70**	**(166 992)**
Surplus/(deficit) for the period	**(102)**	**–**	**(102)**

Note 5
Segment reporting

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

110. Segment reporting information is provided on the basis of six segments:

(a) Foundation non-earmarked;

(b) Regular budget;

(c) Foundation Special Purpose;

(d) Technical cooperation;

(e) Programme support;

(f) End-of-service and post-retirement benefits.

111. Both the statement of financial position and the statement of financial performance are as shown below.

All funds —- Statement of financial position as at 31 December 2016 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*2016 total*	*2015 total*[a]
Assets									
Current assets									
Cash and cash equivalents	1 560	–	14 399	32 707	4 932	1 942	–	**55 540**	**36 835**
Investments	2 751	–	25 418	57 820	8 729	3 440	–	**98 158**	**99 659**
Voluntary contributions receivable	13	–	40 933	126 631	–	–	–	**167 577**	**159 534**
Other receivables	8	–	398	2 184	19	–	(2 332)	**277**	**547**
Advance transfers	373	–	4 536	10 587	45	–	–	**15 541**	**17 928**
Other assets	372	–	6 894	17 601	132	–	–	**24 999**	**23 258**
Total current assets	**5 077**	**–**	**92 578**	**247 530**	**13 857**	**5 382**	**(2 332)**	**362 092**	**337 761**
Non-current assets									
Investments	1 326	–	12 239	27 841	4 203	1 656	–	**47 265**	**65 750**
Voluntary contributions receivable	–	–	13 588	5 486	–	–	–	**19 074**	**462**
Property, plant and equipment	84	–	165	15 312	–	–	–	**15 561**	**12 246**
Intangibles	–	–	–	23	–	–	–	**23**	**28**
Other receivables	–	–	298	–	–	–	–	**298**	**387**
Total non-current assets	**1 410**	**–**	**26 290**	**48 662**	**4 203**	**1 656**	**–**	**82 221**	**78 873**
Total assets	**6 487**	**–**	**118 868**	**296 192**	**18 060**	**7 038**	**(2 332)**	**444 313**	**416 634**
Liabilities									
Current liabilities		–							
Accounts payable and accrued liabilities	160	–	3 644	12 127	1 963	–	–	**17 894**	**23 065**
Advance receipts	–	–	–	–	–	–	–	**–**	**224**
Employee benefits liabilities	239	–	328	249	115	1 991	–	**2 922**	**3 114**
Other liabilities	1	–	5 853	31 445	–	–	(2 332)	**34 967**	**44 517**
Total current liabilities	**400**	**–**	**9 825**	**43 821**	**2 078**	**1 991**	**(2 332)**	**55 783**	**70 920**

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*2016 total*	*2015 total*[a]
Non-current liabilities									
Employee benefits liabilities	–	–	–	–	–	38 629	–	**38 629**	**35 355**
Total non-current liabilities	**–**	**–**	**–**	**–**	**–**	**38 629**	**–**	**38 629**	**35 355**
Total liabilities	**400**	**–**	**9 825**	**43 821**	**2 078**	**40 620**	**(2 332)**	**94 412**	**106 275**
Net of total assets and total liabilities	**6 087**	**–**	**109 043**	**252 371**	**15 982**	**(33 582)**	**–**	**349 901**	**310 359**
Net assets									
Accumulated surpluses/(deficits), unrestricted	1 525	–	105 020	241 011	13 050	(33 582)	–	**327 024**	**287 482**
Reserves	4 562	–	4 023	11 360	2 932	–	–	**22 877**	**22 877**
Total net assets	**6 087**	**–**	**109 043**	**252 371**	**15 982**	**(33 582)**	**–**	**349 901**	**310 359**

[a] Comparatives have been restated to conform to current presentation.

All funds — Statement of financial performance for the period ended 31 December 2016 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	*Regular budget*	*Foundation Special Purpose*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*2016 total*	*2015 total*[a]
Revenue									
Assessed contributions	–	14 100	–	–	–	–	–	14 100	16 935
Voluntary contributions	2 279	–	49 088	139 919	–	–	–	191 286	132 124
Other transfers and allocations	–	–	3 688	15 551	–	–	–	19 239	16 911
Other revenue	2 469	–	193	1	10 886	673	(13 764)	458	5
Investment revenue	37	–	513	809	114	47	–	1 520	915
Total revenue	**4 785**	**14 100**	**53 482**	**156 280**	**11 000**	**720**	**(13 764)**	**226 603**	**166 890**
Expenses									
Employee salaries, allowances and benefits	7 984	11 670	11 761	11 343	6 225	2 187	(2 910)	48 260	52 814
Non-employee compensation and allowances	331	609	7 384	24 514	64	–	–	32 902	32 867
Grants and other transfers	15	321	17 052	39 510	–	–	–	56 898	40 866
Supplies and consumables	(5)	46	177	835	7	–	–	1 060	1 596
Depreciation	23	–	37	566	–	–	–	626	684
Amortization	–	–	–	5	–	–	–	5	4
Travel	276	997	4 965	2 329	114	–	–	8 681	9 870
Other operating expenses	228	457	13 974	30 605	2 517	4	(10 854)	36 931	27 026
Other expenses	(1)	–	716	316	39	–	–	1 070	1 265
Total expenses	**8 851**	**14 100**	**56 066**	**110 023**	**8 966**	**2 191**	**(13 764)**	**186 433**	**166 992**
Surplus/(deficit) for the period	**(4 066)**	**–**	**(2 584)**	**46 257**	**2 034**	**(1 471)**	**–**	**40 170**	**(102)**

[a] Comparatives have been restated to conform to current presentation.

Note 6
Comparison to budget

112. The organization prepares budgets on a modified cash basis, as opposed to the IPSAS full accrual basis, as presented in the statement of financial performance, which reflects expenses by nature. The statement of comparison of budget and actual amounts (statement V) presents the difference between budget amounts and actual expenditure on a comparable basis.

113. Approved budgets are those that permit expenses to be incurred and are approved by the Governing Council. For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through Governing Council resolutions.

114. The original budget amounts are the 2016 proportions of the appropriations approved by the Governing Council for the biennium 2016-2017. The final budget reflects the original budget appropriation with any amendments by the Executive Director. Differences between original and final budget amounts are considered in the table below.

115. Material differences between the final budget appropriation and actual expenditure on a modified accrual basis are deemed to be those greater than 10 per cent.

Differences between actual and final annual budget amounts

Budget area	*Material differences greater than 10 per cent*
Urban legislation, land and governance	Expenditure 24 per cent less than final appropriation
Housing and slum upgrading	Expenditure 27 per cent less than final appropriation
Risk reduction and rehabilitation	Expenditure 49 per cent less than final appropriation
Foundation Special Purpose	Expenditure 13 per cent less than final appropriation
Development account	Expenditure 40 per cent less than final appropriation
Technical cooperation	Expenditure 18 per cent less than final appropriation

116. UN-Habitat achieved a budget execution level of 85 per cent in the reporting period, which represents an aggregate difference of 15 per cent between total actual expenditure and the total final annual budget. The major differences are explained in the following paragraphs.

Foundation General Purpose

117. Actual expenditure for urban legislation, land and governance is lower owing to the actual costs of some personnel being less than the standard cost used for their budget provision.

118. Actual expenditure for housing and slum upgrading is lower owing to the actual costs of some personnel being less than the standard cost used for their budget provision.

119. Actual expenditure for risk reduction and rehabilitation is lower owing to personnel costs being originally budgeted in Foundation General Purpose but eventually cost-recovered through payroll.

120. Actual expenditure in Foundation Special Purpose is lower owing to low budget utilization as a result of overbudgeting.

121. Actual expenditure under development account is lower owing to low execution. The budget will be rolled over to 2017 when higher implementation targets have been planned.

122. Actual expenditure under technical cooperation is lower owing to some overstated budget.

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

123. The reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is shown in the table below.

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

(Thousands of United States dollars)

Reconciliation	*Operating*	*Investing*	*Financing*	*Total 2016*
Actual amounts on a comparable basis (statement V)	(155 943)	–	–	(155 943)
Basis differences[a]	(66 588)	(2 371)	–	(68 959)
Entity differences[b]	(2 191)	–	–	(2 191)
Presentation differences[c]	225 083	19 986	729	245 798
Actual amount in statement of cash flows (statement IV)	**361**	**17 615**	**729**	**18 705**

[a] Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results with the statement of cash flows, the non-cash elements such as unliquidated obligations, payments against prior-year obligations, property, plant and equipment, and outstanding assessed contributions are included as basis differences.

[b] Entity differences represent cash flows of fund groups other than the organization that are reported in the financial statements. The financial statements include results for all fund groups.

[c] Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which are related primarily to the latter not recording income and the net changes in cash pool balances.

Note 7
Cash and cash equivalents

(Thousands of United States dollars)

	Foundation non-earmarked	*Technical cooperation*	*Others*	*Total as at 31 December 2016*	*Total as at 31 December 2015*
Cash pools (note 25)	1 553	32 658	21 228	55 439	36 753
Other cash and cash equivalents	7	49	45	101	82
Total	**1 560**	**32 707**	**21 273**	**55 540**	**36 835**

124. Cash and cash equivalents include trust fund monies which are for the specific purposes of the respective trust funds.

Note 8
Investments

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*
Current		
Mark to market main pool cost	97 603	99 346
Accrued interest receivable	555	313
Main pool (note 25)	**98 158**	**99 659**
Non-current		
Main pool (note 25)	47 265	65 750
Total	**145 423**	**165 409**

125. Investments include amounts in relation to trust funds.

Note 9
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Current voluntary contributions receivable		
Member States	46 512	47 400
Other governmental organizations	54 973	52 898
United Nations organizations	30 981	25 742
Private donors	48 575	36 787
Total current voluntary contributions receivable before allowance	**181 041**	**162 827**
Non-current voluntary contributions receivable		
Member States	9 056	–
Other governmental organizations	761	462
United Nations organizations	1 230	–
Private donors	8 027	–
Total non-current voluntary contributions receivable before allowance	**19 074**	**462**
Allowance for doubtful receivables (current)	(13 464)	(3 293)
Total allowance for doubtful receivables	**(13 464)**	**(3 293)**
Net voluntary contributions receivable (current)	**167 577**	**159 534**
Net voluntary contributions receivable (non-current)	**19 074**	**462**
Net voluntary contributions receivable	**186 651**	**159 996**

[a] Comparatives have been restated to conform to current presentation.

Note 10
Other receivables

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Other receivables (current)		
Receivables from other United Nations entities	45	50
Other accounts receivable	25	9
Loans receivable	825	1 093
Subtotal	**895**	**1 152**
Allowance for doubtful receivables — loans	(600)	(600)
Allowance for doubtful receivables — other	(18)	(5)
Total other receivables (current)	**277**	**547**
Other receivables (non-current)		
Loans receivable	298	387
Total other receivables (non-current)	**298**	**387**
Net other receivables	**575**	**934**

[a] Comparatives have been restated to conform to current presentation.

Note 11
Advance transfers

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Advances to implementing partners	15 541	17 928
Total advance transfers	**15 541**	**17 928**

[a] Comparatives have been restated to conform to current presentation.

Note 12
Other assets

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Advances to UNDP and other agencies of the United Nations system[b]	20 287	21 702
Advances to vendor	1 502	126
Advances to staff	1 400	1 156
Advances to other personnel	1 036	246
Deferred charges	43	27
Other assets — other	731	1
Other assets (current)	**24 999**	**23 258**
Total other assets	**24 999**	**23 258**

[a] Comparatives have been restated to conform to current presentation.
[b] Includes UNDP service clearing account and advances to other entities to provide administrative services.

Note 13
Heritage assets

126. Certain assets are categorized as heritage assets because of their cultural, educational or historical significance. The organization's heritage assets were acquired over many years by various means, including purchase, donation and bequest. These heritage assets do not generate any future economic benefits or service potential; accordingly, the organization elected not to recognize heritage assets on the statement of financial position.

127. As at the reporting date, the organization did not have significant heritage assets to report.

Note 14
Property, plant and equipment

128. In accordance with IPSAS 17: Property, plant and equipment, opening balances of property, plant and equipment are initially recognized at cost or fair value as at 1 January 2014 and measured at cost thereafter. The opening balance for buildings was obtained on 1 January 2014 on the basis of depreciated replacement cost, and was validated by external professionals. Machinery and equipment are valued using the cost method.

129. During the year, the organization did not write down property, plant and equipment owing to accidents, malfunctions and other losses. As at the reporting date, the organization did not identify any additional impairment. Assets under construction represent projects of a capital nature begun by the organization on behalf of end user communities that had not yet been finalized and handed over as at 31 December 2016.

Property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Assets under construction*[a]	*Machinery and equipment*	*Vehicles*	*Communications and information technology equipment*	*Furniture and fixtures*	*Total*
Cost as at 31 December 2015	**82**	**9 711**	**470**	**6 609**	**777**	**135**	**17 784**
Adjustments to opening balances[b]	–	–	–	15	(15)	–	–
Cost as at 1 January 2016	**82**	**9 711**	**470**	**6 624**	**762**	**135**	**17 784**
Additions	–	3 565	562	364	25	–	4 516
Disposals	–	–	(603)	(464)	(30)	–	(1 097)
Other changes	–	–	6	46	22	13	87
Cost as at 31 December 2016	**82**	**13 276**	**435**	**6 570**	**779**	**148**	**21 290**
Accumulated depreciation and impairment as at 31 December 2015	**72**	**–**	**291**	**4 696**	**381**	**98**	**5 538**
Adjustments to opening balances[b]	–	–	–	3	(3)	–	–
Accumulated depreciation and impairment as at 1 January 2016	**72**	**–**	**291**	**4 699**	**378**	**98**	**5 538**
Depreciation	1	–	48	466	97	14	626
Disposals	–	–	(52)	(398)	(22)	–	(472)

	Buildings	*Assets under construction*[a]	*Machinery and equipment*	*Vehicles*	*Communications and information technology equipment*	*Furniture and fixtures*	*Total*
Other changes	–	–	–	18	17	2	37
Accumulated depreciation and impairment as at 31 December 2016	**73**	**–**	**287**	**4 785**	**470**	**114**	**5 729**
Net carrying amount as at 31 December 2016	**9**	**13 276**	**148**	**1 785**	**309**	**34**	**15 561**

[a] Assets under construction are meant for distribution to project beneficiaries upon completion.
[b] Asset transferred from the communications and information technology equipment asset class to vehicles to accurately reflect its nature.

Note 15
Intangible assets

130. All intangible assets acquired before 1 January 2014, except for the capitalized costs associated with the Umoja project, are subject to the IPSAS transition exemption and are therefore not recognized.

Intangible assets

(Thousands of United States dollars)

	Software acquired externally
Cost as at 31 December 2015	**32**
Adjustments to opening balances	–
Cost as at 1 January 2016	**32**
Additions	–
Disposals	–
Impairment losses (assets still not retired)	–
Other changes	–
Cost as at 31 December 2016	**32**
Accumulated amortization and impairment as at 31 December 2015	**4**
Adjustments to opening balances	–
Accumulated amortization and impairment as at 1 January 2016	**4**
Amortization	5
Disposals	–
Other changes	–
Accumulated amortization and impairment as at 31 December 2016	**9**
Net carrying amount as at 31 December 2016	**23**

Note 16
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Vendor payables (accounts payable)	2 329	2 324
Payables to other United Nations entities	8 029	2 065
Accruals for goods and services	3 255	13 500
Accounts payable — other	4 281	5 176
Total accounts payable and accrued liabilities	**17 894**	**23 065**

[a] Comparatives have been restated to conform to current presentation.

Note 17
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Year ended 31 December 2016*	*Year ended 31 December 2015*[a]
After-service health insurance	430	28 107	28 537	25 226
Annual leave	510	4 767	5 277	5 297
Repatriation benefits	686	5 755	6 441	7 329
Subtotal defined-benefit liabilities	**1 626**	**38 629**	**40 255**	**37 852**
Accrued salaries and allowances	1 296	–	1 296	617
Total employee benefits liabilities	**2 922**	**38 629**	**41 551**	**38 469**

[a] Comparatives have been restated to conform to current presentation.

131. The liabilities arising from end-of-service/post-employment benefits and the workers' compensation programme under appendix D to the Staff Rules of the United Nations are determined by independent actuaries and are established in accordance with the Staff Regulations of the United Nations and Staff Rules. Actuarial valuation is usually undertaken every two years. The most recent full actuarial valuation was conducted as at 31 December 2015.

Actuarial valuation: assumptions

132. The organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at 31 December 2016 and 31 December 2015 are as follows.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*	*Appendix D/workers' compensation*[a]
Discount rates, 31 December 2015	3.49	3.67	3.73	
Discount rates, 31 December 2016	3.44	3.55	3.61	
Inflation, 31 December 2015	4.00-6.4	2.25	–	2.25
Inflation, 31 December 2016	4.00-6.0	2.25	–	2.25

[a] For the appendix D/workers' compensation valuation, the actuaries applied the year-end Citigroup Pension Discount Curve discount rate applicable to the year in which the cash flows take place.

133. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (the eurozone corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high grade corporate bonds rates). The slightly lower discount rates were assumed for the 31 December 2016 valuation owing to a slight variation in the inflation rates from 31 December 2015.

134. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the after-service health insurance plan cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2016 were updated to include escalation rates for future years. As at 31 December 2016, these escalation rates were a flat health-care yearly escalation rate of 4.0 per cent (2015: 4.0 per cent) for non-United States medical plans, health-care escalation rates of 6.0 per cent (2015: 6.4 per cent) for all other medical plans, except 5.7 per cent (2015: 5.7 per cent) for the United States Medicare plan, and 4.9 per cent (2015: 4.9 per cent) for the United States dental plan, grading down to 4.5 per cent (2015: 4.5 per cent) over 10 years.

135. With regard to the valuation of repatriation benefits as at 31 December 2016, inflation in travel costs was assumed to be 2.25 per cent (2015: 2.25 per cent), on the basis of the projected United States inflation rate over the next 10 years.

136. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1-3 years, 10.9 days; 4 8 years, 1 day; and more than 8 years, 0.5 days up to the maximum of 60 days. The assumption is consistent with the 2015 valuation. The attribution method continues to be used for annual leave actuarial valuation.

137. For defined-benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. Appendix D/workers' compensation uses mortality assumptions based on World Health Organization statistical tables.

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

Reconciliation of opening to closing total defined-benefit liability

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined-benefit liability as at 1 January 2016	25 234	6 592	5 297	37 123
Current service cost	1 328	455	314	2 097
Interest cost	1 105	224	185	1 514
Actual benefits paid	(379)	(887)	(570)	(1 836)
Total costs recognized in the statement of financial performance in 2016	**2 054**	**(208)**	**(71)**	**1 775**
Subtotal	**27 288**	**6 384**	**5 226**	**38 898**
Actuarial (gains)/losses	1 249	57	51	1 357
Net defined liability as at 31 December 2016	**28 537**	**6 441**	**5 277**	**40 255**

Discount rate sensitivity analysis

138. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bond markets varied over the reporting period and the volatility has an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below.

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(5 086)	(548)	(441)
As percentage of end-of-year liability	(18)	(9)	(8)
Decrease of discount rate by 1 per cent	6 704	621	512
As percentage of end-of-year liability	23%	10%	10%

Medical cost sensitivity analysis

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

Medical cost sensitivity analysis: 1 per cent movement in the assumed medical cost trend rates

(Thousands of United States dollars and percentage)

2016	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	23.94%	6 831	(18.33%)	(5 230)
Effect on the aggregate of the current service cost and interest cost	2.92%	834	(2.15%)	(613)
Total effect		**7 665**		**(5 843)**

2015[a]	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	23.56%	5 946	(18.09%)	(4 564)
Effect on the aggregate of the current service cost and interest cost	2.47%	705	(1.82%)	(520)
Total effect		**6 651**		**(5 084)**

[a] Comparatives have been restated to conform to current presentation.

Other defined-benefit plan information

140. Benefits paid for 2016 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefit payments (net of participants' contributions in these schemes) are shown in the table below.

Estimated defined-benefit payments net of participants' contributions

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2017 defined-benefit payments net of participants' contributions	448	710	528	1 686
Estimated 2016 defined-benefit payments net of participants' contributions	379	887	570	1 836

Historical information: total liability for after-service health insurance, repatriation benefits and annual leave as at 31 December 2016

(Thousands of United States dollars)

	2015	*2014*	*2013*	*2012*	*2011*
Present value of the defined-benefit obligations	37 123	34 953	24 688	25 969	23 407

Accrued salaries and allowances

141. Accrued salaries and allowances comprise $0.66 million related to home leave benefits. The remaining balance of $0.64 million relates to accrued payables for salary and other benefits.

United Nations Joint Staff Pension Fund

142. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Pension Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

143. The organization's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.90 per cent for participants and 15.80 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are 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 Fund as at the valuation date. 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.

144. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2017.

145. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

146. After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

147. During 2016, the organization's contributions paid to the Pension Fund were fully settled.

148. The United Nations Board of Auditors carries out an annual audit of the United Nations Joint Staff Pension Fund and reports to the United Nations Joint Staff Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed at www.unjspf.org.

Fund for compensation payments maintained with Volume I: appendix D/ workers' compensation

149. The fund for compensation payments relates to the payment of compensation with regard to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under appendix D to the Staff Rules. The fund allows the organization to continue to fulfil its obligation to make compensation payments for death, injury or illness. The fund derives its

revenue from a charge of 1.0 per cent of net base remuneration, including post adjustment for eligible personnel. It covers appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payment for injury or illness as well as medical expenses.

Impact of the General Assembly resolutions on staff benefits

150. On 23 December 2015, the General Assembly adopted its resolution 70/244, in which it approved certain changes to conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes that have an impact on the calculation of other long-term and end-of-service employee benefits liabilities are as shown in the table below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65; for those who joined before 1 January 2014, it is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. Once implemented on 1 January 2018, the change is expected to affect future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017. The dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations of the United Nations and Staff Rules. A revised staff assessment scale and pensionable remuneration scale was implemented together with the unified salary structure. The implementation of the unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation, provided they have been in service for at least one year at a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. Once implemented, this change is expected to have an impact on future calculations of employee benefits liabilities.

The impact of the changes will be fully reflected in the actuarial valuation to be conducted in 2017.

Note 18
Provisions

151. As at the reporting date, the organization had no legal claims that required the recognition of provisions.

Note 19
Other liabilities

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Liabilities for conditional arrangements	34 966	44 516
Other/miscellaneous liabilities	1	1
Total other liabilities (current)	**34 967**	**44 517**
Total other liabilities (non-current)	**–**	**–**
Total other liabilities	**34 967**	**44 517**

[a] Comparatives have been restated to conform to current presentation.

Note 20
Net assets

Accumulated surpluses/deficits

152. The unrestricted accumulated surplus includes the accumulated deficit for employee benefits liabilities and the net positions of after-service health insurance, repatriation benefit and annual leave liabilities.

153. The table below shows the status of the organization's net assets balances and movements.

Net assets balances and movements[a]

(Thousands of United States dollars)

	As at 31 December 2015	*Surplus/(deficit)*	*Transfers to/ (from) reserves*	*Other*[b]	*Total as at 31 December 2016*
Unrestricted cumulative surplus					
Foundation non-earmarked	5 592	(4 066)	–	–	1 526
Foundation Special Purpose	107 604	(2 584)	–	–	105 020
Technical cooperation	195 053	46 257	–	(299)	241 011
Programme support	10 716	2 034	–	299	13 049
End-of-service liabilities	(31 483)	(1 471)	–	(628)	(33 582)
Subtotal unrestricted fund	**287 482**	**40 170**	**–**	**(628)**	**327 024**
Reserves					
Foundation non-earmarked	4 562	–	–	–	4 562
Foundation Special Purpose	4 023	–	–	–	4 023
Technical cooperation	11 360	–	–	–	11 360
Programme support	2 932	–	–	–	2 932

	As at 31 December 2015	Surplus/(deficit)	Transfers to/ (from) reserves	Other[b]	Total as at 31 December 2016
End-of-service liabilities	–	–	–	–	–
Subtotal reserves	**22 877**	–	–	–	**22 877**
Total net assets					
Foundation non-earmarked	10 153	(4 066)	–	–	6 087
Foundation Special Purpose	111 627	(2 584)	–	–	109 043
Technical cooperation	206 413	46 257	–	(299)	252 371
Programme support	13 649	2 034	–	299	15 982
End-of-service liabilities	(31 483)	(1 471)	–	(628)	(33 582)
Total reserves and fund balances	**310 359**	**40 170**	–	**(628)**	**349 901**

[a] Net assets movements, including fund balances, are based on IPSAS.
[b] Comprises actuarial losses of $1.3 million offset by prior-period repatriation fund contributions of $0.7 million recorded in 2016, in addition to compensating transfers from one segment to another.

Note 21
Revenue from non-exchange transactions

Assessed contributions

154. Each biennium, the organization receives an allocation from the regular budget, which is included in assessed contributions. These are reported under Volume I, and are included in these financial statements for completeness. For the reporting period, the organization received $14.1 million.

Voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2016	Total as at 31 December 2015[a]
Assessed contributions		
Allocations from regular budget	14 100	16 935
Total assessed contributions	**14 100**	**16 935**
Voluntary contributions		
Voluntary contributions — in cash	192 859	132 222
Voluntary contributions — land and premises	938	871
Voluntary in-kind contributions of plant, equipment, intangible assets and other goods	8	203
Total voluntary contributions received	**193 805**	**133 296**
Refunds to donors	(2 519)	(1 172)
Net voluntary contributions received	**191 286**	**132 124**

[a] Comparatives have been restated to conform to current presentation.

Other transfers and allocations

155. Revenue from non-exchange transactions includes transfers and allocations.

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Other transfers and allocations		
Inter-organizational arrangements	19 239	15 911
Allocations received from United Nations internal funds	–	1 000
Total other transfers and allocations	**19 239**	**16 911**

[a] Comparatives have been restated to conform to current presentation.

Services in kind

156. In-kind contributions of services received during the year are not recognized as revenue and therefore are not included in the above in-kind contributions revenue. Services in kind confirmed during the year are shown in the table below.

Services in kind

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*
Technical assistance/expert services	111	262
Administrative support	68	–
Total	**179**	**262**

Note 22
Other revenue

157. Revenue from miscellaneous revenue sources amounts to $0.46 million.

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Other/miscellaneous revenue	458	5
Total other exchange revenue	**458**	**5**

[a] Comparatives have been restated to conform to current presentation.

Note 23
Expenses

Employee salaries, allowances and benefits

158. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments; allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances, as set out in the table below.

Employee salaries, allowances and benefits

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Salary and wages	38 526	41 619
Pension and insurance benefits	8 673	7 011
Other benefits	1 061	4 184
Total employee salaries, allowances and benefits	**48 260**	**52 814**

[a] Comparatives have been restated to conform to current presentation.

Non-employee compensation and allowances

159. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Non-employee compensation and allowances

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Consultants, contractors and volunteers	32 902	32 867
Total non-employee compensation and allowances	**32 902**	**32 867**

[a] Comparatives have been restated to conform to current presentation.

Grants and other transfers

160. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities, as set out in the table below.

Grants and other transfers

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Grants to end beneficiaries	22 024	18 658
Transfers to implementing partners	34 874	22 208
Total grants and other transfers	**56 898**	**40 866**

[a] Comparatives have been restated to conform to current presentation.

Supplies and consumables

161. Supplies and consumables include consumables, fuel and lubricants, and spare parts as set out in the table below.

Supplies and consumables

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Fuel and lubricants	169	87
Spare parts	320	783
Consumables	571	726
Total supplies and consumables	**1 060**	**1 596**

[a] Comparatives have been restated to conform to current presentation.

Travel

162. Travel includes staff and representatives' travel as set out in the table below.

Travel

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Staff travel	5 898	7 191
Representatives' travel	2 783	2 679
Total travel	**8 681**	**9 870**

[a] Comparatives have been restated to conform to current presentation.

Other operating expenses

163. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, allowance for bad debt and write-off expenses as set out in the table below.

Other operating expenses

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Air transport	304	125
Ground transport	1 073	739
Communications and information technology	2 888	2 094
Other contracted services	11 197	6 092
Acquisitions of goods	1 442	2 652
Acquisitions of intangible assets	13	53
Rent — offices and premises	1 709	2 386
Rental — equipment	530	77
Maintenance and repair	590	2 671
Bad debt/doubtful debt expense	10 182	3 939
Net foreign exchange losses	5 847	3 906
Other/miscellaneous operating expenses	1 156	2 292
Total other operating expenses	**36 931**	**27 026**

[a] Comparatives have been restated to conform to current presentation.

Other expenses

164. Other expenses relate to hospitality and official functions, contributions in kind and donation/transfer of assets.

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Contributions in kind	938	871
Other/miscellaneous expenses	132	394
Total other expenses	**1 070**	**1 265**

[a] Comparatives have been restated to conform to current presentation.

Note 24
Financial instruments and financial risk management

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31December2015*[a]
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, cash pools	97 603	99 346
Short-term investments, other	555	313
Total short-term investments	**98 158**	**99 659**
Long-term investments, cash pools	47 265	65 750
Long-term investments, other	–	–
Total long-term investments	**47 265**	**65 750**
Total fair value through the surplus or deficit	**145 423**	**165 409**
Loans and receivables		
Cash and cash equivalents, cash pools	55 439	36 753
Cash and cash equivalents, other	101	82
Voluntary contributions	186 651	159 996
Other receivables	575	934
Total loans and receivables	**242 766**	**197 765**
Total carrying amount of financial assets	**388 189**	**363 174**
Of which relates to financial assets held in cash pool	200 862	202 162
Financial liabilities		
Accounts payable and accrued liabilities	17 894	23 065
Other liabilities (excluding conditional liabilities)	1	1
Total carrying amount of financial liabilities	**17 895**	**23 066**
Summary of net income from cash pools		
Investment revenue	1 757	1 222

	Total as at 31 December 2016	*Total as at 31December2015*[a]
Financial exchange gains/(losses)	(254)	(346)
Net income from cash pools	**1 503**	**876**
Other investment revenue	17	39
Total net income from financial instruments	**1 520**	**915**

[a] Comparatives have been restated to conform to current presentation.

Financial risk management: overview

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

166. The present note and note 25, Financial instruments: cash pools, present information on the organization's exposure to the aforementioned risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

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

Financial risk management: credit risk

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

Credit risk management

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

Credit risk: contributions receivable and other receivables

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

Credit risk: allowance for doubtful receivables

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

Movement in allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2016	**3 898**
Additional allowance for doubtful receivables	10 184
Receivables written off during the period as uncollectable	–
Unused amounts reversed	–
As at 31 December 2016	**14 082**

172. As the organization does not have assessed contributions receivable, there is no ageing of assessed contributions receivable and associated allowance.

173. The ageing of receivables other than assessed contributions, including associated allowance percentages, is set out in the table below.

Ageing of receivables other than assessed contributions

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Less than one year	163 628	600
One to two years	26 076	6 519
Two to three years	11 604	6 963
Over three years	–	–
Total	**201 308**	**14 082**

Credit risk: cash and cash equivalents

174. The organization had cash and cash equivalents of $55.5 million as at 31 December 2016, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at “A-” and above, based on the Fitch viability rating.

Financial risk management: liquidity risk

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

176. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions, which are a largely stable annual cash flow. Exceptions to

incurring expenses prior to the receipt of funds are permitted only if specified risk management criteria are adhered to with regard to the amounts receivable.

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

Liquidity risk: financial liabilities

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

Maturities for financial liabilities as at 31 December 2016

(Thousands of United States dollars)

	< 3 months	*3 to 12 months*	*>1 year*	*Total*
Accounts payable and accrued liabilities	14 640	3 255	–	17 895

Financial risk management: market risk

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

Market risk: interest rate risk

180. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the duration of the fixed rate security, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 25, Financial instruments: main pools.

Market risk: currency risk

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

182. The organization's financial assets and liabilities are denominated primarily in United States dollars. Non-United States dollar financial assets relate primarily to

investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The organization maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars. The organization mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to foreign currency needs for operational purposes.

183. The most significant exposure to currency risk relates to cash-pool cash and cash equivalents. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Swiss francs, together with over 30 other currencies, as shown in the table below.

Currency exposure of the cash pools as at 31 December 2016

(Thousands of United States dollars)

	United States dollars	*Euros*	*Swiss francs*	*Others*	*Total*
Main cash pool	200 862	–	–	–	200 862

Currency risk: sensitivity analysis

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

Effect on net assets, surplus or deficit

(Thousands of United States dollars)

	Effect on net assets/surplus or deficit as at 31 December 2016		*Effect on net assets/surplus or deficit as at 31 December 2015*	
	Strengthening	*Weakening*	*Strengthening*	*Weakening*
Euro (10 per cent movement)	1 297	(1 297)	1 532	(1 532)
Swiss franc (10 per cent movement)	8 445	(8 445)	10 677	(10 677)

Other market risk

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

Accounting classifications and fair value

186. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits with original maturities of less than three months, receivables and payables, the carrying value is a fair approximation of fair value.

Fair value hierarchy

187. The table below analyses financial instruments carried at fair value by the fair value hierarchy levels. The levels are defined as follows:

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

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

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

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

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

190. There were no level 3 financial assets, nor any liabilities carried at fair value, nor any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy

(Thousands of United States dollars)

	As at 31December 2016			*As at 31December 2015*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporate	15 572	–	15 572	3 806	–	3 806
Bonds — non–United States agencies	42 488	–	42 488	55 700	–	55 700
Bonds — non–United States sovereigns	2 787	–	2 787	3 168	–	3 168
Bonds — supranational	4 759	–	4 759	3 555	–	3 555
Bonds — United States treasuries	13 096	–	13 096	27 765	–	27 765
Main pool — commercial papers	3 332	–	3 332	24 129	–	24 129
Main pool — term deposits	–	63 389	63 389	–	47 286	47 286
Main pool total	**82 034**	**63 389**	**145 423**	**118 123**	**47 286**	**165 409**

Note 25
Financial instruments: cash pools

191. In addition to directly held cash and cash equivalents and investments, the organization participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

192. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and the ability to spread yield curve exposures

across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

193. As at 31 December 2016, the organization participated in the main pool that held total assets of $9,033.6 million (2015: $7,783.9 million), of which $200.9 million was due to the organization (2015: $202.2 million), and its share of revenue from the main pool was $1.5 million (2015: $0.9 million).

Summary of assets and liabilities of the main pool as at 31 December 2016

(Thousands of United States dollars)

	Main pool
Fair value through surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through surplus or deficit investments	**6 515 334**
Loans and receivables	
Cash and cash equivalents	2 493 332
Accrued investment revenue	24 961
Total loans and receivables	**2 518 293**
Total carrying amount of financial assets	**9 033 627**
Cash pool liabilities	
Payable to UN-Habitat	200 862
Payable to other cash pool participants	8 832 765
Total liabilities	**9 033 627**
Net assets	–

Summary of revenue and expenses of the main pool for the year ended 31 December 2016

(Thousands of United States dollars)

	Main pool
Investment revenue	73 903
Unrealized gains/(losses)	(13 474)
Investment revenue from main pool	**60 429**
Foreign exchange gains/(losses)	(5 105)
Bank fees	(646)
Operating expenses from main pool	**(5 751)**
Revenue and expenses from main pool	**54 678**

Summary of assets and liabilities of the cash pools as at 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Fair value through the surplus or deficit			
Short-term investments	3 888 712	10 941	3 899 653
Long-term investments	2 617 626	–	2 617 626
Total fair value through surplus or deficit investments	**6 506 338**	**10 941**	**6 517 279**
Loans and receivables			
Cash and cash equivalents	1 265 068	32 637	1 297 705
Accrued investment revenue	12 462	3	12 465
Total loans and receivables	**1 277 530**	**32 640**	**1 310 170**
Total carrying amount of financial assets	**7 783 868**	**43 581**	**7 827 449**
Cash pool liabilities			
Payable to UN-Habitat	654 673	4 773	202 162
Payable to other cash pool participants	7 129 195	38 808	7 625 287
Total liabilities	**7 783 868**	**43 581**	**7 827 449**
Net assets	**–**	**–**	**–**

Summary of revenue and expenses of the main pool for the year ended 31 December 2015

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total*
Investment revenue	51 944	48	51 992
Unrealized losses	(10 824)	(4)	(10 828)
Investment revenue from cash pools	**41 120**	**44**	**41 164**
Foreign exchange losses	(11 720)	(15 300)	(27 020)
Bank fees	(525)	–	(525)
Operating expenses from cash pools	**(12 245)**	**(15 300)**	**(27 545)**
Revenue and expenses from cash pools	**28 875**	**(15 256)**	**13 619**

Financial risk management

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

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

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

Financial risk management: credit risk

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

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

199. The credit ratings used for the cash pools are those determined by major credit-rating agencies; Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Investments of the cash pool by credit ratings

(Percentage)

Main pool	*Ratings as at 31 December 2016*					*Ratings as at 31 December 2015*		
Bonds (long-term ratings)								
	AAA	**AA+/AA/AA-**	**BBB**	**NR**		**AAA**	**AA+/AA/AA-**	**NR**
S&P	33.6	55.1	5.6	5.7	S&P	37.7	54.2	8.1
Fitch	62.4	28.3		9.3	Fitch	61.9	26.5	11.6
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**	
Moody's	50.3	49.7			Moody's	65.8	34.2	
Commercial papers (short-term ratings)								
	A-1					**A-1+/A-1**		
S&P	100.0				S&P	100.0		
	F1					**F1+**		
Fitch	100.0				Fitch	100.0		
	P-1					**P-1**		
Moody's	100.0				Moody's	100.0		
Reverse repurchase agreement (short-term ratings)								
	A-1+					**A-1+**		
S&P	100.0				S&P	100.0		
	F1+					**F1+**		
Fitch	100.0				Fitch	100.0		
	P-1					**P-1**		
Moody's	100.0				Moody's	100.0		
Term deposits (Fitch viability ratings)								
	aaa	**aa/aa-**	**a+/a**			**aaa**	**aa/aa-**	**a+/a**
Fitch	–	48.1	51.9		Fitch	–	53.6	46.4

Abbreviation: NR, not rated.

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

Financial risk management: liquidity risk

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

Financial risk management: interest rate risk

202. The main pool comprises the organization's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2015: five years). The average duration of the main pool was 0.71 years (2015: 0.86 years), which is considered to be an indicator of low risk.

Main pool interest rate risk sensitivity analysis

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

Main pool interest rate risk sensitivity analysis as at 31 December 2016

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	**124.35**	**93.26**	**62.17**	**31.08**	**–**	**(31.08)**	**(62.14)**	**(93.21)**	**(124.27)**

Main pool interest rate risk sensitivity analysis as at 31 December 2015

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	**128.99**	**96.74**	**64.48**	**32.24**	**–**	**(32.23)**	**(64.46)**	**(96.69)**	**(128.91)**

Other market price risk

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

Accounting classifications and fair value hierarchy

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

206. The levels are defined as follows:

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

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

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

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

208. The fair value of financial instruments that are not traded in active markets (e.g., term deposits with banks) is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

209. The following fair value hierarchy presents the main pool assets that are measured at fair value as at the reporting date. There were no level 3 financial assets, nor any liabilities carried at fair value, nor any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: main pool

(Thousands of United States dollars)

	As at 31 December 2016			*As at 31 December 2015*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds — corporate	697 676	–	697 676	149 682	–	149 682
Bonds — non-United States agencies	1 903 557	–	1 903 557	2 190 965	–	2 190 965
Bonds — non-United States sovereigns	124 854	–	124 854	124 612	–	124 612
Bonds — supranational	213 224	–	213 224	139 828	–	139 828
Bonds — United States treasuries	586 739	–	586 739	1 092 139	–	1 092 139
Main pool — commercial papers	149 285	–	149 284	949 112	–	949 112
Main pool — term deposits	–	2 840 000	2 840 000	–	1 860 000	1 860 000
Main pool total	**3 675 335**	**2 840 000**	**6 515 335**	**4 646 338**	**1 860 000**	**6 506 338**

Note 26
Related parties

Key management personnel

210. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the organization. For the United Nations Human Settlements Programme, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

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

212. The organization's key management personnel were paid $0.6 million over the financial year; such payments are in accordance with the Staff Regulations of the United Nations and Staff Rules, the published salary scales of the United Nations and other publicly available documents.

Compensation of key management personnel

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total as at 31 December 2016*	*Total as at 31 December 2015*
Number of positions (full-time equivalents)	2	–	2	2
Aggregate remuneration:				
Salary and post adjustment	469		469	470
Other compensation/entitlements	118	–	118	132
Total remuneration for the year	**587**	–	**587**	**602**

213. Non-monetary and indirect benefits paid to key management personnel were not material.

214. No close family member of key management personnel was employed by the organization at the management level. Advances made to key management personnel are those made against entitlements in accordance with the Staff Regulations of the United Nations and Staff Rules; such advances against entitlements are widely available to all staff of the organization.

Related entity transactions

215. In the ordinary course of business, to achieve economies in executing transactions, financial transactions of the organization are often executed by one financial reporting entity on behalf of another. Before the introduction of the Umoja system, these had to be manually followed up and settled. In Umoja, settlement occurs when the service provider is paid.

Note 27
Leases and commitments

Finance leases

216. The organization has no finance leases.

Operating leases

217. The organization enters into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $1.7 million. Other expenses include $0.9 million towards donated right-to-use arrangements, for which corresponding revenue is recognized in the statement of financial performance and presented in voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Future minimum operating lease obligations

(Thousands of United States dollars)

Obligations for operating leases	*Minimum lease payments as at 31 December 2016*	*Minimum lease payments as at 31 December 2015*[a]
Due in less than 1 year	2 243	1 883
Due in 1 to 5 years	5 722	6 109
Due later than 5 years	30	56
Total minimum operating lease obligations	**7 995**	**8 048**

[a] Comparatives have been restated to conform to current presentation.

218. These contractual leases are typically between one and seven years, with some leases allowing extension clauses and/or permitting early termination within 30, 60 or 90 days. The amounts present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements. No agreements contain purchase options.

Leasing arrangements where the organization is the lessor

219. The organization has no leases as a lessor.

Contractual commitments

220. The commitments for property, plant and equipment; intangible assets; implementing partners; and goods and services contracted but not delivered as at the reporting date are set out in the table below.

Contractual commitments by category

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*[a]
Goods and services	29 294	16 670
Implementing partners	34 691	47 392
Total	**63 985**	**64 062**

[a] Comparatives have been restated to conform to current presentation.

Note 28
Contingent liabilities and contingent assets

Contingent liabilities

221. The organization is subject to a variety of claims that arise from time to time in the ordinary course of its operations. These claims are segregated into two main

categories: commercial and administrative law claims. As at the reporting date, the organization had no reportable cases.

222. Owing to the uncertainty of the outcome of these claims, no provision or expense has been recorded, as the occurrence, amount and timing of the outflows are not certain. Consistent with IPSAS, contingent liabilities are disclosed for pending claims when the probability of outcome cannot be determined and the amount of loss cannot be reasonably estimated.

Contingent assets

223. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, the organization discloses contingent assets when an event gives rise to a probable inflow of economic benefits or service potential to the organization and there is sufficient information to assess the probability of that inflow. As at 31 December 2016, there were no material contingent assets arising from the organization's legal actions or interests in joint ventures that were likely to result in a significant economic inflow.

Note 29
Grants and other transfers

224. The following are the regions in which the funds given to implementing partners have been spent.

Grants and other transfers by region

(Thousands of United States dollars)

Region	*Total 2016*	*Total 2015*	*Total 2015/2016*
Africa	5 992	4 942	10 934
Arab States	15 429	2 225	17 654
Asia and the Pacific	4 253	7 684	11 937
Global	9 638	3 897	13 535
Latin America and the Caribbean	(438)	3 460	3 022
Total	**34 874**	**22 208**	**57 082**

225. This amount is part of the $56.9 million shown in the statement of financial performance as expenditure under grants and other transfers. The difference of $22.0 million was for end beneficiaries.

Note 30
Events after the reporting date

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

Note 31
Cost recovery

227. Cost recovery is a mechanism used by UN-Habitat to ensure that core resources are not used to subsidize earmarked project activities. It encompasses the enforcement of direct charging to project activities of all costs that are directly attributable to the projects and the recoupment of core funds from projects in cases

where direct charging was not possible owing to pre-financing or other approved temporary cost-sharing arrangements. While other regimes use cost recovery funds to directly reduce the expenditure to which they relate, it is the policy of the United Nations to record cost recovered amounts as revenue. Cost recovery does not represent additional revenue for UN-Habitat, as it is merely a form of internal revenue movement between core funding and project funding. For the current reporting period, $2.3 million has been recorded in two UN-Habitat segments and duly eliminated in the statement of financial performance to avoid overstating revenues and expenses.

Cost recovery

(Thousands of United States dollars)

	Total as at 31 December 2016	*Total as at 31 December 2015*
Total cost recovery	**2 396**	**2 447**

17-10237 (E) 090817