A/74/5/Add.3

United Nations

## United Nations Children's Fund

# Financial report and audited financial statements

## for the year ended 31 December 2018

## and

# Report of the Board of Auditors

General Assembly
Official Records
Seventy-fourth Session
Supplement No. 5C

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United Nations • New York, 2019

*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 1020-2439

[24 July 2019]

# Contents

# Letters of transmittal

## Letter dated 31 May 2019 from the Executive Director of the United Nations Children's Fund addressed to the Executive Secretary of the Board of Auditors

Pursuant to United Nations Children's Fund financial regulation 13.3, enclosed are the financial report and statements for 2018. These statements have been prepared and signed by the Comptroller.

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

(*Signed*) Henrietta H. **Fore**
Executive Director

## Letter dated 24 July 2019 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 financial statements of the United Nations Children’s Fund (UNICEF) for the year ended 31 December 2018, which were submitted by the Executive Director of UNICEF. These statements have been examined by the Board of Auditors.

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

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

# Chapter I

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

### Opinion

We have audited the financial statements of the United Nations Children's Fund (UNICEF), which comprise the statement of financial position (statement I) as at 31 December 2018 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 to actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNICEF as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNICEF 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 of UNICEF is responsible for the other information, which comprises the financial overview for the year ended 31 December 2018, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

In preparing the financial statements, the Executive Director is responsible for assessing the ability of UNICEF to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless the Executive Director intends either to liquidate UNICEF 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 UNICEF.

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UNICEF;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Director;

(d) Draw conclusions as to the appropriateness of the Executive Director'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 UNICEF 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 UNICEF to cease to continue as a going concern;

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

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

**Report on other legal and regulatory requirements**

Furthermore, in our opinion, the transactions of UNICEF 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 UNICEF 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 UNICEF.

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

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
(Lead Auditor)

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

24 July 2019

# Chapter II
# Long-form report of the Board of Auditors


*Summary*

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Children's Fund (UNICEF) for the year ended 31 December 2018. The audit was carried out through field visits to the Lebanon, State of Palestine, Ecuador and Panama country offices and the Jordan and Panama regional offices, as well as through a review of the Fund's financial transactions and operations at Geneva, Copenhagen, Budapest and its headquarters in New York.

**Audit opinion**

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

**Overall conclusion**

UNICEF reported a net surplus of $722.68 million for the year 2018 (2017: $788.59 million). The change in the net surplus was attributable mainly to a foreign exchange loss of $4.6 million in 2018 (gain of $60 million in 2017). In 2018, an increase of 5.55 per cent was noticed in total assets compared with the previous year, while a decrease of 9.50 per cent was observed in total liabilities. The ratio of total assets to total liabilities was 3.46, which is higher than the ratio of 2.96 in 2017. The current ratio was 5.45, which showed high liquidity and that UNICEF was in a comfortable position to meet its short-term commitments.

In recent years, UNICEF has taken steps to strengthen financial and managerial control over its operations. However, the Board noticed some areas for improvement in the functioning of UNICEF, namely, financial management, travel management, programme management, management of cash transfers, private sector fundraising activities, procurement, contract and supply chain management and the Global Shared Services Centre. The Board has made suitable recommendations to strengthen the functioning of UNICEF in these areas.

**Key audit findings**

*Programme management*

UNICEF prepared its Strategic Plan 2018–2021, which described the results to be achieved by UNICEF and key partners by 2021 in the context of the 2030 Agenda for Sustainable Development and included a single results framework architecture, comprising five goal areas. The approved integrated budget and the integrated results and resources framework provided details of the allocation of resources for the goal areas for the entire period of the Strategic Plan 2018–2021. However, there was no yearly estimation or planning for resources to be used for the individual goal areas. The actual expenses under each goal area were collected and reported yearly.

The country programme planning process was to be carried out under the twin umbrella of the United Nations Development Assistance Framework and UNICEF Strategic Plan priorities, at the global level, and the national plans and national priorities, at the country level, and needed a robust mechanism for alignment of the national and global priorities at the planning and monitoring level. The individual country programme documents included a results and resources framework, which was to provide linkages between the programme components and outcome areas of the

Strategic Plan. Deficiencies in the mapping of programme areas at the country level to the goal areas at the Strategic Plan level were noticed. Moreover, actual expenditure and its results were framed against Strategic Plan goal areas at year-end using this mapping, which resulted in the risk of errors in reporting expenditure against the specific goal areas of the Strategic Plan.

Of the total of 32 output indicators of goal area 1, “Every child survives and thrives”, four indicators belonging to core programmatic activities were not fully achieved, achievement was equal to or just above the 2018 milestones for 12 indicators, mainly relating to health policies and plans, and for 13 indicators, mainly belonging to advocacy-related activities, a better level of achievement was reported than the milestones of the Strategic Plan 2018–2021.

*Implementing partnership management*

UNICEF globally met the harmonized approach to cash transfers policy objective of the completion of the minimum required level of assurance activities. However, there were shortfalls in terms of programmatic visits and spot checks in individual country offices, as noticed by the Board in its audit in the Middle East and North Africa and the Latin America and the Caribbean regions.

Significant deficiencies were noticed in Funding Authorization and Certificate of Expenditures forms at the Lebanon country office, the Middle East and North Africa Regional Office, the State of Palestine country office and the Panama country office relating to, inter alia, important details on the approval of programmes and the related due diligence process not being captured, which reflected weaknesses in the internal controls over the cash transfer process.

The status of follow-up action taken by the Lebanon country office was not available for 207 recommendations pertaining to spot checks. The findings and recommendations had raised significant weaknesses and risks related to the assurance environment, internal controls, inventory and asset management, procurement and project management.

Partnership review committees were to make informed, objective and transparent recommendations on whether proposed partnerships with civil society organizations were in the best interests of UNICEF and would achieve results for children. Significant weaknesses in the documentation of the process by which the partnership review committees approved the implementing partners were noticed in the Lebanon and State of Palestine country offices.

*Private sector fundraising*

The Board noticed major gaps in the achievement of revenue targets in the year 2018 across different channels of revenue, including pledges, corporate streams, legacies, major donors and foundations. The performance among National Committees and country offices varied across channels. There were also gaps in the generation of regular resources compared with the targets fixed in that respect.

National Committees could not achieve the revenue targets set for the year 2018. The actual revenue generation was $1.45 billion against a target of $1.79 billion, resulting in a shortfall of $0.34 billion. The setting of targets for contribution rates of below 75 per cent for 20 National Committees during the period of the Joint Strategic Plan was not in line with the provisions of the UNICEF financial regulations and rules. The reserve policies of 17 National Committees were not reviewed, with 8 National Committees holding excess non-statutory reserves in comparison to their benchmarks.

*Global Shared Services Centre*

The Global Shared Services Centre started to provide all of its planned services and functions from 1 January 2017, that is, 37 months after the approval of the project, and was considered fully stabilized by 31 December 2017, that is, 49 months after the approval of the project, against the original business case proposal for the implementation of the project of 18 months. The major reasons contributing to the extended implementation period were changes in the scope of the work, organizational structure, staff requirements and resource provisioning after the business case was approved.

It was estimated that the establishment of the Centre would result in savings of $22.3 million annually to UNICEF globally. However, the savings were not calculated using actual numbers of transactions across all business processes being carried out by the Centre. Moreover, details of actual gains in the number of hours of work and details capturing changes towards mission-focused activities after the establishment of the Centre were not available, which made it difficult to provide a comprehensive analysis of the benefits resulting from the establishment of the Centre.

There was no comprehensive document that defined the roles, functions and responsibilities of the Centre and its relation to other UNICEF offices. The details were captured in an express and implied manner across a large number and variety of documents.

The achievement of service-level agreement targets was the key performance indicator of the Centre in the processing of transactions received from field offices. There were issues of the non-achievement of service-level agreement targets, instances of deficient return and rejected cases. Moreover, the average processing time for several processes was significantly lower than the service-level agreement target.

The Centre was responsible for maintaining an up-to-date, accurate and complete database in respect of customers, banks and vendors, including staff. There were instances of missing, invalid and incomplete records in respect of important databases for vendors and banks.

*Internal control on travel*

Of a total of 4,881 open travel authorizations, 1,998 (41 per cent) were open for more than 15 days, involving a total trip cost of $4.68 million. The delays in trip closure ranged between 16 and 2,214 days. In 1,472 of the 1,998 cases open for more than 15 days, the certification status was shown as “not certified by user”. There were instances of more than three uncertified travel advances remaining open for individuals, indicating persisting issues with controls in the Virtual Integrated System of Information (VISION) to prevent travellers from being able to open additional trips if they had three open travel authorizations. The Board is of the view that the present system of recording travel costs and daily subsistence allowance as expenditure at the same time as travel authorization is deficient in exercising proper accounting controls over travel advances and leads to the weak monitoring of long-pending travel advances.

**Main recommendations**

On the basis of its findings, the Board recommends that:

*Programme management*

(a) **UNICEF review the feasibility of improving the mapping of country-level targets to the strategic plan targets in the programme information database coding structure;**

*Implementing partnership management*

(b) **The Lebanon country office take prompt action on the findings and recommendations resulting from spot checks and appropriately document the details of remedial action taken, and that UNICEF review the status of pending recommendations in other country and regional offices and, if required, take the measures necessary to fill the gaps;**

(c) **Urgent action be taken by the Lebanon country office, the State of Palestine country office, the Middle East and North Africa Regional Office and the Panama country office to strengthen the controls over the completeness of mandatory details in the Funding Authorization and Certificate of Expenditures forms, which should be ensured before cash transfers are approved;**

(d) **The Lebanon and State of Palestine country offices ensure that the prescribed requirements for partnership review committee forms be followed and a complete trail of action taken on recommendations of the partnership review committee be documented and maintained;**

(e) **The Panama and Ecuador country offices carry out a formal process for the open selection of civil society organizations as a priority and document the rationale for selection in all cases where the direct selection method is preferred, and that UNICEF review the status of the selection methodology adopted across country offices and take similar corrective action in cases where the open selection process is not followed;**

*Private sector fundraising*

(f) **UNICEF take the steps necessary to identify the underperforming National Committees and country offices and identify measures to further strengthen strategies to address the issues having an impact on their performance to help to achieve the targets for the current strategic plan period;**

(g) **UNICEF lay down a clear plan and engage with the National Committees to ensure that the contribution rates remain in line with the provision of the UNICEF financial regulations and rules and the cooperation agreement, and constructively engage with the National Committees to have a reserve policy that is aligned with the maintenance of benchmark requirements for reserve levels;**

*Global Shared Services Centre*

(h) **UNICEF review and strengthen the methodology to calculate savings achieved to give a complete picture of all of the efficiencies achieved, including post reductions, across the organization as a result of the establishment of the Global Shared Services Centre;**

(i) **UNICEF consider issuing comprehensive documents defining the roles and responsibilities of the Global Shared Services Centre and the relationship of the Centre with other UNICEF offices in all of its areas of functioning, and mitigate the existing gaps in the internal instructions and procedures for all areas of functioning of the Centre;**

(j) **UNICEF review the service-level agreement targets for business processes and take into consideration the average time taken for processing as an important input in the exercise, and strive to fix a tolerance limit, beyond which individual reasons for not meeting the service-level agreement targets should be clearly documented;**

(k) **Data in all master tables be reviewed regularly for completeness, accuracy and quality, and that a clear definition of mandatory fields be established for all master tables;**

*Travel management*

(l) **UNICEF review the present system of expensing full travel costs and daily subsistence allowance as soon as travel is authorized and consider the feasibility of classifying travel advances as staff advances at the time of release of payment, which can be expensed at the time of trip certification and closure.**

**Key facts**

| | |
|---|---|
| **$6.68 billion** | Revenue and other gains |
| **$5.97 billion** | Expenses |
| **$0.72 billion** | Surplus for the year |
| **$10.51 billion** | Assets |
| **$3.04 billion** | Liabilities |
| **$7.47 billion** | Accumulated surpluses and reserves |

## A. Mandate, scope and methodology

1. The United Nations Children's Fund (UNICEF) was established to provide long-term humanitarian and developmental assistance to children and mothers in developing countries. It is mandated by the General Assembly to advocate the protection of children's rights, to help meet the basic needs of children and to expand the opportunities for children to enable them to reach their full potential.

2. The Board audited the financial statements and reviewed the operations of UNICEF for the year ended 31 December 2018 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article XIV of the UNICEF financial regulations and rules, as well as with the International Standards on Auditing.

3. The audit was conducted primarily to enable the Board of Auditors to form an opinion as to whether the financial statements fairly presented the financial position of UNICEF as at 31 December 2018 and its financial performance and cash flows for the financial period that ended on that date and are in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the Executive Board of UNICEF. The audit included a general review of the financial systems and internal controls and an examination of the accounting records and other supporting evidence to the extent that the Board of Auditors considered necessary to form an opinion on the financial statements. The audit was carried out through field visits to four UNICEF country

offices and two regional offices,[1] as well as through a review of the Fund's financial transactions and operations at its headquarters in New York and in Geneva, Copenhagen and Budapest.

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

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

## B. Audit findings and recommendations

### 1. Follow-up of previous recommendations

6. There were 66 outstanding recommendations up to the period ending 31 December 2017, of which 34 (52 per cent) have been implemented and 32 (48 per cent) are under implementation (see annex). Of those 66 recommendations, 6 pertain to reports of the Board that are more than two years old, details of which are presented in table II.1.

Table II.1
**Status of implementation of recommendations**

| *Report and audit year* | *Recommendations pending as at 31 December 2017* | *Implemented* | *Under implementation* | *Not implemented* | *Overtaken by events* | *Recommendations pending as at 31 December 2018* |
|---|---|---|---|---|---|---|
| A/69/5/Add.3, chap. II (2013) | 1 | – | 1 | – | – | 1 |
| A/70/5/Add.3, chap. II (2014) | 1 | 1 | – | – | – | – |
| A/71/5/Add.3, chap. II (2015) | 4 | 2 | 2 | – | – | 2 |
| A/72/5/Add.3, chap. II (2016) | 24 | 11 | 13 | – | – | 13 |
| A/73/5/Add.3, chap. II (2017) | 36 | 20 | 16 | – | – | 16 |
| **Total** | **66** | **34** | **32** | **–** | **–** | **32** |

7. There are two significant areas in which recommendations are being reiterated by the Board in the present report, on the following issues:

(a) Improving internal controls over travel management;

(b) Contribution rates of National Committees.

### 2. Financial overview

8. Revenue for 2018 was $6,675.76 million, an increase of $99.01 million compared with 2017 (2017: $6,576.74 million, restated figure). The increase in revenue was attributable mainly to the increase in voluntary contributions by $64.25 million and the increase in investment revenue by $28.96 million compared with 2017. Expenses also increased, from $5,863.43 million in 2017 to $5,969.76 million in 2018. The increase in expenses was attributable mainly to an increase in cash assistance of $38.52 million and an increase in employee benefits of $106.02 million compared with 2017. In addition, a foreign exchange loss of $4.6 million in 2018 (gain of $60 million in 2017)

[1] Lebanon and State of Palestine country offices and Middle East and North Africa Regional Office in Jordan; and Ecuador and Panama country offices and Latin America and Caribbean Regional Office in Panama.

also contributed to the net surplus of $722.68 million in 2018 (2017: $788.59 million) reported by UNICEF.

9. The ratio of total assets to total liabilities was 3.46, which indicated strong solvency. The current ratio was 5.45, which showed high liquidity, indicating that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2018. All ratios have shown an increase compared with the previous year and UNICEF remains in a very comfortable and solvent position. The financial ratios of UNICEF over the past four years are set out in table II.2.

Table II.2
**Financial ratios**

| *Description of ratio* | *2018* | *2017* | *Restated 2016* | *2015* |
|---|---|---|---|---|
| **Total assets: total liabilities**[a] | | | | |
| Assets: liabilities | 3.46 | 2.96 | 3.38 | 2.11 |
| **Current ratio**[b] | | | | |
| Current assets: current liabilities | 5.45 | 4.58 | 5.13 | 2.80 |
| **Quick ratio**[c] | | | | |
| (Cash + short-term investments + accounts receivable): current liabilities | 4.29 | 3.55 | 3.96 | 2.04 |
| **Cash ratio**[d] | | | | |
| (Cash + short-term investments): current liabilities | 2.90 | 2.56 | 2.78 | 1.40 |

*Source*: UNICEF 2018 and 2017 financial statements.

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

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

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

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

10. As at 31 December 2018, UNICEF had total assets of $10.51 billion (2017: $9.95 billion), consisting mainly of investments of $4.11 billion (2017: $4.22 billion), contributions receivable of $3.33 billion (2017: $2.71 billion) and cash and cash equivalents of $1.00 billion (2017: $0.88 billion). The total liabilities of UNICEF stood at $3.04 billion as at 31 December 2018, with employee benefits liabilities at $1.53 billion, representing 50.41 per cent of the total liabilities. Long-term employee benefits liabilities were $1.41 billion, which was 95.82 per cent of the non-current liabilities of $1.47 billion as at 31 December 2018.

## 3. Financial management

*Comparison of budget to actual amounts*

11. The budget is a key tool for effective financial management and control, and thus is a vital component of the financial oversight process. Statement V, Comparison of budget to actual amounts for the year ended 31 December (see chap. V) provides a comparison of budget and actual amounts and includes details of the original budget, the final budget and actual expenditure during the year.

12. IPSAS 24: Presentation of budget information in financial statements, provides that the entity shall present an explanation of changes between the original and final

budget. However, the Board noticed that an explanation of such differences was not included in the financial statements by UNICEF.

13. The Board noticed that information regarding the estimated and actual revenue was not provided in the financial statements. The Board was informed that since UNICEF was completely funded by voluntary contributions, the information on revenue was not included in statement V.

14. The Board noted that UNICEF had prepared a strategic plan (identifying the targeted results) and integrated budget (estimating the resources needed to achieve the targeted results), and had also estimated the annual allocation of resources. The Board also noted that the IPSAS accounting policy of UNICEF mentioned that the reporting of revenue provided a glance at the extent of variances in expenditures that could be attributed to variances in revenue results. Considering the usefulness of a comparison between estimated and actual revenue and the availability of the information, the Board is of the view that the disclosure of revenue estimates and actual receipts during the year, at least in the notes to the financial statements, would add value to the information provided through the financial statements to all stakeholders and would also aid in achieving transparency with regard to UNICEF operations.

15. **The Board recommends that UNICEF disclose information regarding target and actual revenue in the notes to the financial statements.**

16. **The Board recommends that UNICEF expand on the explanation of the difference between the original and final budget by budget categories as part of the disclosure associated with statement V of the annual financial statements.**

17. UNICEF agreed with the recommendation to expand the explanation of the difference between the original budget and the final budget in the notes to the financial statements.

*Disclosure required for risks associated with the defined-benefit plan*

18. IPSAS 39: Employee benefits, provides that an entity shall disclose information about description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. The standard also provides that if the disclosures provided in accordance with it and other IPSAS are insufficient to meet the objectives, the entity shall disclose additional information necessary to meet those objectives. An entity may present an analysis of the present value of the defined-benefit obligation that distinguishes the nature, characteristics and risks of the obligation, and such disclosure could distinguish between amounts owing to active members and pensioners.

19. The Board noted that additional disclosure requirements relating to the description of risks were included in note 4 to the financial statements following a recommendation by the Board during the audit. The Board also noticed that disclosure regarding the division of liability between active and retired staff was not included in the financial statements.

20. UNICEF stated that for reporting purposes, the more material distinction is that which exists between the after-service health insurance liability for staff and that related to locally recruited staff (the after-service health insurance component of the Medical Insurance Plan). It further stated that it did not have information available from the actuary to show the division between active and retired staff. UNICEF mentioned, however, that it would liaise with the Insurance and Disbursement Service of the United Nations Secretariat, which coordinates the joint actuarial valuation, to ensure that in 2019, when the full valuation is performed, the information is disclosed in the financial statements.

21. **The Board recommends that UNICEF move towards disclosure of the division between active and retired staff for the after-service health insurance liability on completion of the full actuarial valuation.**

22. UNICEF agreed with the recommendation.

*Other accounting issues*

23. During the course of test checks of individual transactions, the Board noticed the following issues in the accounting of transactions, which were indicative of areas for improvement in related internal controls:

(a) IPSAS 23: Revenue from non-exchange transactions, provides that an entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. UNICEF considers its voluntary contribution agreements enforceable, and an asset is recognized upon receipt of a signed agreement, when there is a probable inflow of resources and when the value of the asset can be measured reliably. However, in one case, UNICEF had not recognized revenue of $7.55 million in the year 2018, even though the agreement was signed in December 2018. UNICEF acknowledged the error and stated that a review had been carried out and that it was noted as an isolated incident;

(b) IPSAS 31: Intangible assets, provides that the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use, in other words when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. UNICEF acquired software licences relating to the SAP HANA runtime for applications and SAP Business Warehouse in July 2017 at a value of $2.41 million. The Board was informed that the licences were not ready for use at the time of purchase, in 2017, but were only brought into use when implementation of the SAP HANA project began, in early 2018; therefore, the licences were capitalized with an amortization start date of 1 January 2018 and amortization of $0.48 million was provided for the year 2018. The Board noticed, however, that the "go live" date of the software licences was in August 2018 and, accordingly, the licences should have been capitalized in August 2018. This resulted in the provision of excess amortization amounting to $281,067 for the year 2018. UNICEF stated that it would continue to include this in the summary of unadjusted differences and evaluate the overall impact as part of the materiality framework annually until 2023 for this item;

(c) UNICEF entered into an agreement for voluntary contributions amounting to $32.01 million for the implementation of relief and humanitarian aid. The agreement provided that a portion not exceeding 7 per cent of the actual contribution amount may be used for indirect project support costs incurred by UNICEF. However, UNICEF had charged a recovery rate of 5 per cent instead of the rate of 7 per cent provided in the agreement. This resulted in the undercharging of indirect programme support costs in the amount of $0.43 million during the year 2018. UNICEF acknowledged that the cost recovery rate posted should have been 7 per cent and stated that it had put in place a system to ensure that any discrepancies between cost recovery rates are advised on accordingly. Rates included in the signed agreements will be identified and communicated by the relevant stakeholders.

*Outstanding advances of salary and education grant*

24. UNICEF guidelines on salary advances lay down conditions for such advances and provide that every type of salary advance should be recovered within a period of 12 months in general. In the case of retired or separated employees, any outstanding

part of an advance is to be recovered in full against the final entitlements. Furthermore, with regard to the education grant, the staff member must submit the final claim within two months of the completion of the academic year, failing which recovery from the staff member's emoluments will start from the third month.

25. The Board noticed that outstanding advances of the education grant amounted to $31.01 million and outstanding salary advances amounted to $3.5 million at the end of 2018. Of those outstanding advances, $0.4 million in education grants and $0.7 million in salary advances was outstanding for more than one year, with the oldest cases going back to 2011. The Board also noticed that $0.2 million in education grants and $0.6 million in salary advances were outstanding in the case of those staff members who had left UNICEF. The Board noted that there was a risk of granting new advances before the recovery of outstanding advances, as there were instances of multiple advances belonging to different years against the same staff members, which indicated a need for improvements in the internal control system in place.

26. UNICEF indicated that an amount of $1.87 million in education grants and $0.7 million in salary advances had been cleared subsequently. It also stated that there had been improvements in the recovery of ageing balances compared with the previous year, and that the Global Shared Services Centre did not process salary, education grant or other types of advances if the existing balance was still outstanding, the only exception being in the case of medical emergency. Education grants followed the cycle of the school year and would be expensed as the school year drew to a close, in June.

27. **The Board recommends that outstanding cases of advances be reviewed and an action plan for the timely settlement of outstanding advances be developed and implemented.**

28. UNICEF agreed to develop an action plan for the resolution of the old balances.

*Travel management*

29. Travel expenses in UNICEF during 2018 were reported as $157.50 million, constituting approximately 19 per cent of other expenses and 2.64 per cent of the total expenses of UNICEF ($5.97 billion).

30. UNICEF procedures on travel provide that staff members with three or more uncertified travel advances older than 15 calendar days from the date of completion of the mission will be blocked from generating a new travel advance in the Virtual Integrated System of Information (VISION). Staff members who fail to certify travel within the time allotted are subject to payroll deductions for unsettled balances. The rules also provide that if the reimbursement of travel expenses due to the organization is not made within 30 days of completion of the travel certification, the travel administrator or travel focal point should notify the traveller that the amount due to the organization will be deducted from the staff member's salary. The Board has commented on open travel authorizations, and recommended in its previous report (A/73/5/Add.3, chap. II) that UNICEF review and ensure compliance with the internal control mechanism in travel management and related processes.

31. UNICEF informed the Board that trip closure is the responsibility of the traveller, whose management lies within the concerned office to ensure compliance. There was a 42 per cent decrease in open travel authorizations in 2017 compared with 2016, the number of open travel authorizations had reduced by 41 per cent in 2018 compared with 2016, and a bold initiative had been undertaken to enforce the prompt closure of open trips within 15 days of completion of the mission.

32. The Board reviewed the status of open trips reported in inSight and noted that of a total of 4,881 open travel authorizations, 1,998 (41 per cent) were open for more

than 15 days, involving a total trip cost of $4.68 million. The delay in trip closure ranged from 16 to 2,214 days. Furthermore, in 1,472 of the 1,998 cases open for more than 15 days, the certification status was shown as "not certified by user".

33. The Board also noticed that in one case, a traveller had six uncertified travel advances; in two cases, travellers had five uncertified travel advances; in seven cases, travellers had four uncertified travel advances; and in 45 cases, travellers had three uncertified travel advances. The Board noted that the enhanced capacity of VISION should have prevented travellers from being able to open additional trips if they had three open travel authorizations.

34. UNICEF stated that after performing a comprehensive analysis, a gap was identified in the "copy trip" functionality that allowed users to bypass the travel advance hard-stop feature. It also stated that, as of April 2019, the system flaw, or gap, had been remedied and changes to the system would be moved into the VISION production environment by the end of April to prevent travellers from being able to create additional trips beyond the allowable number.

35. The Board noted that open trips remained an area of concern despite claims by UNICEF of it taking comprehensive steps to ensure timely submissions and the adoption of deterrent policies to prevent defaults. In this context, the Board is of the view that the present system of recording travel costs and daily subsistence allowance as expenses as soon as travel is authorized is deficient in exercising proper accounting controls over travel advances and leads to weak monitoring of long-pending travel advances. The travel advance may be considered as a staff advance at the time of release of payment which may be expensed upon certification of travel by the user in the VISION system. It would also lead to a better presentation of the status of travel advances in the financial statements.

36. UNICEF stated that there had been an improvement in the closure of open trips compared with prior years as the actions taken had had an impact. UNICEF also stated that it believed that the actions already described, including the stringent measures taken in the past two months to address the issue of open travel authorizations, should be given time to see the results of the measures. UNICEF was moving proactively towards the simplification of the travel process; going back to charging travel costs to staff advances would increase the workload and reverse efficiency and simplification gains. It further stated that the validation for the hard-stop feature had been fully developed and tested, was ready for implementation in the VISION production environment and would be implemented by the end of May 2019.

37. **The Board recommends that UNICEF review the present system of expensing full travel costs and daily subsistence allowance as soon as travel is authorized and consider the feasibility of classifying travel advances as staff advances at the time of release of payment, which can be expensed at the time of trip certification and closure.**

*Open goods receipt and invoice receipt items*

38. UNICEF internal guidance provides that general ledger account No. 2001110 presents the value of goods and services received in cases in which the corresponding invoice has not yet been posted in VISION. The entries in this general ledger account represent the accrued liability for goods and services received by UNICEF. Open items in this account pertain to cases where goods have been received but invoices are pending, invoices have been received but goods are pending, or the quantities in both the receipts do not match. VISION was to automatically clear open items in this account when the quantity in the goods receipt matched that in the invoice receipt.

39. The Board noted that the concerned offices were to review all open items in the general ledger account and take the action necessary to clear them. Furthermore, the offices were to ensure that the date of receipt in VISION matched the date that the goods or services were actually received and, where the item was more than two months old, they were to determine the reason why invoices had not been posted. The offices were to take corrective action for remaining items where the invoice recorded different quantities than the goods received.

40. The Board noticed that there was a total of 6,069 open goods receipt and invoice receipt items, valued at $102.54 million, as at 31 December 2018. A total of 1,333 open goods receipt and invoice receipt items were more than 60 days old, valued at $7.9 million. They consisted of 249 items, valued at $0.43 million, which had remained open for more than 365 days (with the oldest pertaining to the year 2015); 555 items, valued at $2.38 million, which had been open for more than 120 days; and 529 items, valued at $5.06 million, which had been open for more than 60 days. The Board was informed that reasons for these items remaining open included quantity mismatch, quantities to be reconciled by the Supply Division and invoice awaited, among others.

41. UNICEF stated that significant progress had been made since the previous year regarding the timeliness of review and action to close items. The proportion of items aged more than one year against all items aged more than 120 days had also decreased significantly, from approximately 45 per cent at the end of 2017 to 31 per cent at the end of 2018. Furthermore, enhancements to the systematic matching process had resulted in the risk of overpayment being minimized, which had also helped to decrease the number of open items. UNICEF informed the Board that offices currently received a detailed schedule of open items on a monthly basis, with items of higher priority already identified in the schedule to facilitate their centralized review and necessary action. It was also highlighted that at times, there were legitimate reasons for goods receipts remaining open for 6 to 12 months and the invoice should not be paid in such cases.

42. While the Board noted the action being taken by UNICEF to clear the open items, it is of the view that open goods receipt and invoice receipt items that are the result of a mismatch of quantities and the delay in the receipt of invoices, along with long-pending items, indicate a need for improvement in this area of the internal control and monitoring system.

43. **The Board recommends that UNICEF continue its efforts to clear the open goods receipt and invoice receipt items through regular monitoring and follow-up action, with a special emphasis on the items pending for more than two months and the cases of quantity mismatch.**

44. UNICEF agreed to continue to follow up on old open items with the goal of further reducing their numbers and age, where appropriate.

### 4. Programme management

45. The UNICEF financial regulations and rules provide that UNICEF shall have a medium-term strategic plan that provides for the apportionment and utilization of the existing and anticipated resources of UNICEF over the plan period. In 2009, the Executive Board of UNICEF decided to present a single, integrated budget that would include all UNICEF budgetary categories, and decided that UNICEF was required to align planned results presented in budgetary documents to the respective strategic plan with clear linkages between planned results and budgetary allocations. In 2012, it was decided that the resource projections and the integrated budget would cover a four-year period and the integrated budget was prepared and approved for the first four-year period, from 2014 to 2017, along with the strategic plan, following a results-based-budgeting approach.

46. Along similar lines, UNICEF prepared its Strategic Plan 2018–2021, which described the results to be achieved by UNICEF and key partners by 2021 in the context of the 2030 Agenda for Sustainable Development and included a single results framework architecture comprising five goal areas. Furthermore, an integrated resource plan was prepared, which provided information on the proposed use of resources by cost classification category, as well as an integrated results and resources framework, which identified how total resources available to the organization would be allocated to these goals and results over the four-year period of the Strategic Plan.

47. The Board noted that despite there being an approved integrated budget and integrated results and resources framework with details of the allocation of resources for the goal areas for the entire period of the Strategic Plan 2018–2021, there was no yearly estimation and planning for resources to be used for the individual goal areas. The actual expenses under each goal area were collected and reported yearly to the Executive Board.

48. UNICEF stated that the results were costed in the country programme documents and at the grant level, and the impact of the resources allocated was measured in the integrated results and resource framework indicators, which were reported in the annual report of the Executive Director. Hence, annualization of resource allocation on the basis of the integrated results and resources framework was not considered a necessary exercise to measure goal area performance or the milestones reached in achieving the targets of the Strategic Plan 2018–2021.

49. The Board noted that while approving the integrated budget for the period 2018–2021, the Executive Board had requested UNICEF to provide actual financial information in the format of the integrated resource plan, assess performance against the integrated budget and provide regular updates on the impact and efficiency of spending, including against the goal areas of the Strategic Plan 2018–2021. The Board also noted that the targets of the Strategic Plan were enshrined through the goal areas, along with a results and resources framework providing for the estimation of resource utilization for the goal areas for the four-year period.

*Alignment at the planning and monitoring levels*

50. The UNICEF financial regulations and rules provide that within the framework of the medium-term strategic plan, multi-year country programme recommendations for activities to be undertaken by UNICEF with host countries would be prepared. Programme recommendations were to be based on estimated future financial resources as projected in the financial plan annexed to the medium-term strategic plan.

51. The Board noted that the country programme documents were to be developed on the basis of national plans and priorities under the leadership of national Governments and in alignment with the United Nations Development Assistance Framework, where applicable, and with the strategic plan of UNICEF. Furthermore, the country programme documents had to provide, among other things, a results and resources framework and information on how the results related to the strategic plan and the organization-wide results framework, to national priorities and to the United Nations Development Assistance Framework. Therefore, the country programme planning process was carried out under the twin umbrella of the United Nations Development Assistance Framework and UNICEF strategic plan priorities, at the global level, and the national plans and national priorities, at the country level, and essentially needed a robust mechanism for alignment at the planning and monitoring level.

52. The Board noticed that in line with the ongoing approved practice, the country-level plans followed national planning timelines, which meant that the period of ongoing country programme documents could be different from the strategic plan period. There were differences between the individual country programme documents

and the Strategic Plan 2018–2021, both in terms of total period and in terms of running period of the plans. The status of different timelines at the global and country levels further increased the need for an efficient framework for alignment between the Strategic Plan and country-level plans.

53. The Board also noticed that UNICEF was using the programme information database coding system as a tool to enable results-based planning, which included the selection of standard indicators in the results assessment module, reporting on results, and the monitoring and reporting of expenditures. The system was aligned to the goal areas of the Strategic Plan, the results framework and the integrated budget for the period 2018–2021. At the country level, the individual country programme documents included a results and resources framework, which was to provide linkages between the programme components and strategic plan outcome areas.

54. The Board reviewed a sample of country programme documents approved during the year 2018 and noticed that outcome areas and individual progress indicators in the country programme documents were defined differently from the outcome areas and indicators defined in the Strategic Plan and its results framework. The Board was informed that the programme outcomes might have wording that deviated from the exact wording in the programme information database classification; however, programme components associated the country programme outcomes and outputs to one or more corresponding goals of the Strategic Plan, as specified in the programme information database coding system, which enabled UNICEF to track the contribution of all expenditures to the Strategic Plan.

55. The Board carried out a test check of this mapping of goal areas of the Strategic Plan in the programme information database to programme components in VISION, and noticed several instances of potential deficiencies in the mapping. For example, the "Health, nutrition, HIV and AIDS" programme component was mapped to the "Every child learns" goal area, while the "Basic education" programme component was mapped to the "Every child survives and thrives" goal area; and "programme effectiveness" and "cross-sectoral" were themselves goal areas under the programme information database, but expenditure on both of them was mapped under the "Every child survives and thrives" goal area. The Board noted, therefore, that the mapping of programme components to the goal areas needed to be more seamless. Furthermore, the actual expenditure and its results were framed against goal areas of the Strategic Plan using the database codes at year-end, which resulted in the risk of errors in reporting expenditure against the specific goal areas.

56. UNICEF stated that programmes of cooperation represented its contribution to national efforts to achieve the 2030 Agenda for Sustainable Development and its child-related Sustainable Development Goals, and also contributed to the achievement of the results in the Strategic Plan 2018–2021. Goal areas and result areas within the country programme documents speak to the organization's accountability towards children and national development priorities first. They are developed and designed in consideration of and as a contribution to the goals of the Strategic Plan second. Programme information database codes not only inform the formulation of country programme documents but also, more specifically, enable offices to establish the association between results in the country programme documents and the Strategic Plan within their enterprise resource management systems.

57. The Board appreciates the views of UNICEF regarding the primacy of nationally-led country programmes, with national priorities at the forefront of country programmes. The country programmes constituted the core of the programmatic activities of UNICEF, with a share of 94.92 per cent of the total utilization of programme resources and 80.29 per cent of the total integrated budget of UNICEF for the Strategic Plan 2018–2021. Therefore, it was important to have a robust and

effective mechanism for mapping the programme components, outcomes and indicators in the country programme documents to those of the Strategic Plan. The Board is of the view that this would also have the potential to strengthen the implementation and monitoring of progress towards the goals of the Strategic Plan without compromising the primacy of national contexts in which it delivers its programmes.

*Monitoring of programme performance*

58. UNICEF uses the results assessment module for the annual reporting and monitoring of programmatic activities by country offices. The programme information database codes were mapped in VISION for expenditure and in the results assessment module for outcome and output indicators.

59. The Board noted that the country offices were required to submit reports in the results assessment module on strategic monitoring questions, comprising questions related to the five goal areas of the UNICEF Strategic Plan 2018–2021, which were used to track and report on progress for specific Strategic Plan indicators and global results. In addition, the country offices were required to report on achievements on targets for standard and additional indicators for all outcomes and outputs as defined in the country programme documents. The Board was informed that strategic monitoring questions were used to track and report on progress for specific UNICEF Strategic Plan indicators and global results, and standard and additional indicators at the outcome and output levels were intended for tracking the targets provided in the country programme documents.

60. During the review of the status of reporting for the year 2018, the Board noticed that the assessment of 94 per cent of outcomes and outputs was completed, and that of 14,852 indicator ratings for different outputs and outcomes that were required to be finalized, only 8,863 indicators, or 60 per cent, had been finalized. The Board also noticed that the country offices were to report on the strategic monitoring questions on an annual basis only, which limited the possibility of mid-course correction if there were challenges in achieving the target outputs.

61. **The Board recommends that UNICEF review the feasibility of improving the mapping of country-level targets to the strategic plan targets in the programme information database coding structure.**

*Programme implementation: health and nutrition*

62. The UNICEF Strategic Plan 2018–2021 describes five goal areas: (a) “Every child survives and thrives”; (b) “Every child learns”; (c) “Every child is protected from violence and exploitation”; (d) “Every child lives in a safe and clean environment”; and (e) “Every child has an equitable chance in life”. The goal areas are interlinked and together contribute to the 2030 Agenda for Sustainable Development. The concrete actions of UNICEF towards achieving the goals defined in the Strategic Plan 2018–2021 are the programmatic interventions of UNICEF, which are delivered through country-specific programmes of cooperation and through multi-country global programmes.

63. The Board reviewed the status of the programmatic interventions of UNICEF in health and nutrition programmes, covered under the “Every child survives and thrives” goal area of the Strategic Plan 2018–2021, under which UNICEF incurred expenditure of $2.1 billion in 2018, with programme supplies and cash transfers together constituting the majority of the expenditure. The outcome of the “Every child survives and thrives” goal area was defined as access for every child to high-impact health, nutrition, early childhood development and HIV interventions, enabling them to survive and thrive. UNICEF had identified various outputs for achieving these

outcomes. The output-level results and indicators captured the range of support that UNICEF provided in various country contexts, including direct service provision, the strengthening of systems, policy processes and normative work, advocacy, and various types of support related to positive changes in social norms.

64. The Board examined the performance of UNICEF against the output indicators of the "Every child survives and thrives" goal area against milestones for 2018, and noted the following out of the total of 32 output indicators:

(a) For four indicators where achievement was below the milestones, three indicators related to core programmatic activities on immunization and one indicator related to nutrition, which required direct interventions by UNICEF;

(b) For 12 indicators, achievement was equal to or just above the 2018 milestones. These included targets relating to health policies and plans;

(c) For 13 indicators, achievement was above the milestones or more than 90 per cent of the target for the year 2021. These indicators were mainly related to advocacy activities;

(d) For the remaining indicators, information on the status of achievement during the year 2018 was not available.

65. The progress of the annual workplan related to health and nutrition of the Programme Division at UNICEF headquarters reflected that 15 of 66 milestones relating to health and 3 of 18 milestones relating to nutrition were constrained. The major reasons indicated were delay in the finalization of programme guidelines or documents, lack of resources and delayed recruitment. In addition, of 518 tasks required to be completed towards the milestones, 77 were dropped during the year 2018 owing to lack of resources, staff constraints and competing priorities.

66. UNICEF stated that the discussion on the results for 2018 of the Strategic Plan was planned for June 2019. The Global Management Team would look into the results for 2018 and discuss strategic adjustment for 2019 and other years.

67. **The Board recommends that UNICEF review reasons for the gaps in the achievement of outputs under the "Every child survives and thrives" goal area of the Strategic Plan 2018–2021 and take suitable measures to address them.**

*Non-availability of programme-related information in field offices*

68. Since health and nutrition is a prime programme focus area of the Lebanon country office, the quality of data sets was a significant requirement for the robust monitoring and measurement of outcomes and achievements to ensure effective planning and course corrections where required. The Board was informed that UNICEF had put in place a near real-time monitoring mechanism to improve the quality of data in the local information system, and that the monitoring mechanism was being expanded. However, the Board noticed that annual workplan targets for some output indicators could not be ascertained, since the monitoring mechanism was not yet effectively implemented and information on the vaccination survey had not been updated since 2016.

69. The Board also noted that the management plan for the period 2018–2021 of the Latin America and the Caribbean Regional Office in Panama envisaged a result matrix containing a set of results and outcomes, key progress indicators with baselines and means of verification. However, no baseline data, targets or goals were set for seven of these indicators. The Board noticed that the unavailability of these data sets had an impact on the evaluation of programme performance.

70. UNICEF stated that it had identified the gap and would complete the requirements soon.

71. **The Board recommends that the Lebanon country office and the Latin America and the Caribbean Regional Office take the measures necessary to complete the required data sets and prepare baselines for better planning, monitoring and implementation of programmatic activities. The Board also recommends that UNICEF carry out a review of the status of availability of baseline data sets in other country and regional offices and, if required, take the measures necessary to fill the gaps.**

### 5. Implementing partnership management

72. Cash transfers represent a large part of the spending of UNICEF and are a key modality of programme implementation to achieve its strategic objectives. The harmonized approach to cash transfers is used for transferring cash to implementing partners. UNICEF adopted the harmonized approach to cash transfers framework in February 2014. The framework is aimed at making cash transfers more efficient by applying a risk-based approach that is adopted by all United Nations agencies that participate in the framework. Activities under the harmonized approach to cash transfers include:

(a) Macroassessments of the public financial management environment within programme countries, which is a desk review of the existing available reports on the public financial management of the country;

(b) Microassessments of the implementing partner to assess the partner's financial management capacity, determining the overall risk rating of the partner and the frequency of assurance activities;

(c) Assurance plans based on the risk rating of the implementing partner in the microassessment. UNICEF country offices conduct spot checks on the partner's reports of utilization of cash; conduct programmatic visits to assess the achievements reported by the partners; and plan a scheduled audit by an external service provider if the partner receives more than $0.50 million per programme cycle.

73. UNICEF expenses on cash assistance during 2018 were $2.26 billion, constituting 38 per cent of the total expenses. Among the regions, the Middle East and North Africa region had the highest direct cash transfer expenses, at $769.02 million, followed by the Eastern and Southern Africa region at $502.27 million, the West and Central Africa region at $426.19 million, the South Asia region at $199.22 million, the Europe and Central Asia region at $193.92 million, the East Asia and the Pacific region at $88.02 million and the Latin America and the Caribbean region at $68.97 million.

*Harmonized approach to cash transfers assurance activities*

74. The UNICEF financial and administrative policy on cash transfers provides that the risk is to be managed by assessing the implementing partner's financial management capacity and maintaining adequate awareness of the implementing partner's internal controls for cash transfers by conducting capacity assessment and assurance activities, such as microassessments, spot checks and scheduled audits.

75. The Board was informed that, globally, UNICEF had met the harmonized approach to cash transfers policy objective of completing assurance activities in accordance with the minimum requirements. During the field audit, the Board noted the status of the shortfall at the respective regional offices (see table II.3).

Table II.3
**Shortfall in harmonized approach to cash transfers assurance activities**

| *Activity* | *Range of shortfall (percentage)* | *Number of countries* | *Names of countries* |
|---|---|---|---|
| **Middle East and North Africa Regional Office (to 31 October 2018)** | | | |
| Programmatic visits | 2–64 | 5 | Djibouti, Egypt, Morocco, Tunisia and State of Palestine |
| Spot checks | 14–78 | 11 | Djibouti, Egypt, Iraq, Lebanon, Libya, Morocco, Sudan, Syrian Arab Republic, Tunisia, Yemen and State of Palestine |
| **Latin America and the Caribbean Regional Office** | | | |
| Programmatic visits | 2–22 | 3 | Argentina, Honduras and Nicaragua |
| Spot checks | 9–86 | 4 | Colombia, Jamaica, Nicaragua and Venezuela (Bolivarian Republic of) |

*Source*: Data provided by respective regional and country offices during the audit.

76. UNICEF stated that the regional offices monitored programmatic visits and spot checks on the harmonized approach to cash transfers and communicated with country offices on quarterly basis. For the Latin America and the Caribbean Regional Office, shortage of personnel, geographic and environmental challenges, internal changes and the presentation of the liquidation form in December were stated to be among the reasons for the gaps, and UNICEF gave assurances that the Office would continue to monitor activities on a quarterly basis and that comprehensive evidence on the matter would be presented on a systematic basis.

77. UNICEF also informed the Board about the final status of shortfalls in harmonized approach to cash transfers assurance activities. According to the information provided, the shortfall in the Middle East and North Africa Regional Office was in Djibouti only for programmatic visits and spot checks. Furthermore, in the Latin America and the Caribbean Regional Office, the shortfall in programmatic visits was in Nicaragua only.

78. The Board noted the efforts made by various offices to complete the harmonized approach to cash transfers assurance activities in line with the targets, especially in the challenging environment in which UNICEF is operating. The Board is of the view that sustained efforts are needed to complete the targeted assurance activities, as these are critical to mitigating the inherent financial, programmatic and reputational risks involved in the cash transfer activities carried out by UNICEF.

79. **The Board recommends that the Middle East and North Africa Regional Office and the Latin America and the Caribbean Regional Office continue to close the gaps in the assurance activities related to the harmonized approach to cash transfers and ensure their timely implementation to achieve the minimum required targets in all the country offices. The Board also recommends that UNICEF review the status of assurance in other country and regional offices and, if required, take the measures necessary to fill the gaps.**

*Follow-up on findings and recommendations resulting from assurance activities*

80. The UNICEF Lebanon country office commissioned external service providers (audit firms) to undertake spot checks. Audit firms enter the findings, recommendations and comments of implementing partners, among other things, in a template after a spot check is conducted and share them with UNICEF for follow-up.

81. The Board noticed that the status of follow-up action taken by the Lebanon country office was not available for 207 findings and recommendations from spot checks. The Board noted that these findings and recommendations raised many significant weaknesses and risks related to the assurance environment, internal controls, inventory and asset management, procurement and project management, among other things. However, in the absence of documentation on follow-up action taken on these findings, the Board could not draw assurance that the necessary mitigation measures had been taken by the office against the identified weaknesses and risks.

82. UNICEF stated that the Lebanon country office was following up on the 2018 findings and recommendations with programme and finance staff through the offline system to record progress. However, for 2019, all assurance activities were being assigned through the e-Tools financial assurance module, and the follow-up would be carried out and tested through the e-Tools portal.

83. **The Board recommends that the Lebanon country office take prompt action on the findings and recommendations resulting from spot checks and appropriately document the details of remedial action taken. The Board also recommends that UNICEF review the status of pending recommendations in other country and regional offices and, if required, take the measures necessary to fill the gaps.**

*Funding Authorization and Certificate of Expenditures forms*

84. The harmonized approach to cash transfers framework prescribes that the standard Funding Authorization and Certificate of Expenditures template should be used by all implementing partners to request cash transfers and report on their use, along with an itemized cost estimate. The framework also provides guidelines for completing a Funding Authorization and Certificate of Expenditures form and requires a review of each form to ensure its completeness and certification and the appropriateness of expenditure. UNICEF has also developed Funding Authorization and Certificate of Expenditures form checklists, which provide detailed requirements for ensuring the completeness of the forms. Furthermore, the UNICEF financial and administrative policy has laid down the responsibilities of Programme Officer or Programme Assistant (certifying), Programme Manager or Programme Officer (approving) and Operations Manager or Finance Officer prior to approval of the forms.

85. The Board noticed significant deficiencies in a test check of approved Funding Authorization and Certificate of Expenditures forms in the Lebanon country office, the Middle East and North Africa Regional Office and the State of Palestine country office. The Board noticed that the deficiencies included the non-completion of mandatory columns under reporting and request authorizations, period of the new request and details of the programme code. The Board also noticed similar issues during a test check in the Panama country office, including Funding Authorization and Certificate of Expenditures forms not capturing important details, including programme, project and workplan codes, implementing partner code, duration of each planned activity, date for the new request and period of the request.

86. The Board is of the view that, in an important document such as the Funding Authorization and Certificate of Expenditures form, which records the approval process for an implementing partner, these discrepancies reflect weaknesses in the internal controls over the cash transfer approval process.

87. UNICEF acknowledged the discrepancies and stated that capacity development of all the concerned officials involved in the Funding Authorization and Certificate of Expenditures approval process would be conducted.

88. **The Board recommends that urgent action be taken by the Lebanon country office, the State of Palestine country office, the Middle East and North Africa Regional Office and the Panama country office to strengthen the controls over the completeness of mandatory details in the Funding Authorization and Certificate of Expenditures forms, which should be ensured before cash transfers are approved.**

89. UNICEF took note of the recommendation and stated that it had been implemented through the "ezHACT" system and that the Funding Authorization and Certificate of Expenditures forms would be directed automatically for approval within ezHACT.

*Documentation of Funding Authorization and Certificate of Expenditures forms in VISION*

90. The UNICEF financial and administrative policy provides that the Operations Manager or Finance Officer reviews the accuracy and completeness of information in the approved Funding Authorization and Certificate of Expenditures payment request and posts it for payment. Similarly, the approved Funding Authorization and Certificate of Expenditures form, confirming the implementation of the activities and the utilization of cash resources, serves as the basis for liquidation.

91. During a test check of documentation available in VISION regarding compliance with direct cash transfer procedures, the Board noticed that funds were released to the implementing partners without the Funding Authorization and Certificate of Expenditures form being uploaded for the request for funds in 92 cases and for reporting expenditure in 49 cases. No form was attached at any stage in 45 cases, and in 40 cases, liquidation was completed without the form being uploaded for reporting by implementing partners.

92. UNICEF stated that the Funding Authorization and Certificate of Expenditures forms were retained at the respective offices, and functionality had been provided to offices to upload supporting documentation at various stages of the processes. Owing to varied situations in the field, such as weak Internet connection and lack of scanning equipment, the upload of supporting documentation was not mandatory. However, offices retained such documentation in the office in line with the UNICEF policy on the retention of recorded information.

93. The Board noted that the payment requests were generated only through VISION after approval of the direct cash transfer transaction, and therefore uploading the Funding Authorization and Certificate of Expenditures form in VISION was important to help to maintain a complete trail of documents.

94. **The Board recommends that UNICEF consider the feasibility of making the upload of the Funding Authorization and Certificate of Expenditures forms in VISION mandatory for the recording of direct cash transfer transactions.**

95. UNICEF accepted the recommendation.

*Partnership review committee*

96. The UNICEF procedure for the transfer of resources from country and regional offices to civil society organizations, in place since 2015, provides that a transparent due diligence process is to be followed, including the establishment of partnership review committees for an independent review to identify the civil society organization that provides the best comparative advantage to achieve specific results in a particular programme area and/or humanitarian action, and to provide a written recommendation on whether the proposed partnership is in the best interests of UNICEF and is best placed for achieving results for children.

97. Accordingly, the approval process includes provisions for review and recommendations on the submission by the partnership review committee, as well as for the recording of necessary adjustments in the submissions by sections concerned in accordance with the recommendations of the committee. The latter provision was operationalized through its inclusion in the partnership review committee submission, review and approval form. Furthermore, the secretary of the partnership review committee is responsible for reviewing and verifying the completeness of the necessary documentation relating to the process.

98. The Board noticed in the Lebanon country office that in 15 of 79 cases, action taken by the sections concerned on some of the recommendations of the partnership review committee was not included in the partnership review committee submission, review and approval form. These recommendations were on, among other things, significant issues relating to conditions, amounts and extent of funding, duration of agreements, monitoring requirements and review of past performance. The Board further noticed that these 15 cases included 11 in which the civil society organization was selected using the direct selection method and, in one case, the method of selection was not even noted on the form, which itself was pointed out by the committee. Moreover, in two cases, action by the sections concerned was not in line with or did not fully comply with the committee recommendations, and no reasons were recorded for these deviations in the submission, review and approval form.

99. The Board also noticed the following discrepancies in the test check of 79 partnership review committee submission, review and approval forms pertaining to 2018:

(a) In 72 cases, the approving authority did not mark whether, upon the review of committee recommendations, the approving authority agreed or disagreed with the recommendations of the committee;

(b) In 23 cases, the approving authority did not indicate whether the submission was approved or not approved;

(c) In 5 cases, the date of approval of submission by the approving authority was not mentioned;

(d) In 1 case, the name of the approving authority was not mentioned.

100. The Board noticed in the State of Palestine country office that in 30 of a total of 36 partnership review committee submission, review and approval forms, the format used was different from the standard template prescribed in the UNICEF procedure for the transfer of resources from country and regional offices to civil society organizations. Furthermore, there was no documentation to indicate whether recommendations or adjustments suggested by the committee had been acted upon by the sections concerned and confirmation given thereon by the secretary of the committee before submission for approval.

101. The Board noted that the partnership review committee submission, review and approval form was an important control mechanism to ensure transparency and due diligence in the approval of partnerships with civil society organizations, and that the deficiencies indicated weaknesses in the control system over the approval process of the implementing partners.

102. UNICEF stated that the respective programme document managers had followed up on the recommendations and suggestions of the partnership review committee and reported the outcomes, on the basis of which the committee reviewed the actions and decided to endorse the document for approval. It also stated that all forms had been updated in line with the new global procedures and guidelines, with the commitment by the Chair and secretary of the committee to oversee the use of all

new forms, including the form for the recording of actions taken. Similarly, checklists were now systematically used to ensure complete documentation from committee reviews.

103. **The Board recommends that the Lebanon and State of Palestine country offices ensure that the prescribed requirements for partnership review committee forms be followed and a complete trail of action taken on recommendations of the partnership review committee be documented and maintained.**

104. UNICEF stated that the actions recommended had been systematically implemented.

*Delay in expression of interest for the selection of civil society organizations*

105. In the report of the global civil society organization partnership quality review of UNICEF conducted by the Field Results Group in September 2017, the increased use of open selection was recommended to solicit interest among a wider range of organizations for potentially greater comparative advantage and value for money. It was also mentioned that where direct selection was chosen, the procedure with regard to civil society organizations required offices to take particular care to "document the rationale", explaining specific reasons why the selection approach had been chosen.

106. The Board noticed that the Panama and Ecuador country offices engaged civil society organizations as partners only through the direct selection method during the year 2018. The Board was informed by the Panama country office that the matter of initiating the open selection process for civil society organizations was discussed in different meetings. However, there were no recorded notes of discussions for those meetings, and no timeline had been fixed for the implementation of the recommendations of the partnership review committee. The Board also noticed that the Ecuador country office had called for expressions of interest from potential implementing partners for the country programme for the period 2019–2022 in May 2018, that is, eight months after the global quality review of partnerships. The process was planned to be completed by September 2018. Another expression of interest was initiated through a survey (limited enquiry and social media) in December 2018 on the basis of inadequate representation, and the process had yet to be completed.

107. UNICEF stated that the choice of independent civil society partners was limited, and therefore it would introduce open selection where appropriate. Furthermore, the process of direct selection was chosen many years ago and partners were selected by the committee, which was rationale enough. It also stated that human resources constraints also resulted in delays in calling for an expression of interest. UNICEF also indicated that the Ecuador country office had conducted two expressions of interest, from which eligible partners had been identified, and the process would be completed as a priority.

108. The Board is of the view that carrying out an open selection process has the inherent advantage of being more transparent and objective and having the potential to bring more efficiency in the delivery of services, owing to the generation of competitive tension. Furthermore, in the case that the process of direct selection is preferred in specific cases, the complete rationale should be properly documented in each case to make the process transparent.

109. **The Board recommends that the Panama and Ecuador country offices carry out a formal process for the open selection of civil society organizations as a priority and document the rationale for selection in all cases where the direct selection method is preferred. The Board also recommends that UNICEF review**

**the status of the selection methodology adopted across country offices and take similar corrective action in cases where the open selection process is not followed.**

*Outstanding direct cash transfers*

110. Direct cash transfer advances are the money given by UNICEF to implementing partners. Direct cash transfers are requested and released, on a quarterly basis, for programme implementation in a period not exceeding three months, and are administered on a six-month rolling basis. UNICEF issues direct cash transfers for two successive three-month periods at the request of implementing partners. A report on the use of the first direct cash transfer must be received before a direct cash transfer for the third three-month period is released. A report should be received within three months of utilization and within six months of the full utilization of the direct cash transfer.

111. The Board noticed that an amount of $229.99 million was pending for more than three months against 3,528 implementing partners. This included $200.14 million outstanding for a period of three to six months, $22.40 million outstanding for a period of six to nine months and $7.45 million outstanding for more than nine months, including cases pending for more than three years. Furthermore, 1,095 of these implementing partners (31 per cent) had a risk rating of "high" or "significant", 204 of which had an amount outstanding for more than six months, totalling $8.80 million, and 25 of which had an amount outstanding for more than nine months, totalling $1.21 million.

112. **The Board recommends that UNICEF implement a time-bound plan to take necessary corrective measures to improve the status of outstanding direct cash transfers.**

113. UNICEF took note of the recommendation and stated that the recommendation had been fully implemented and that it would continue to review old outstanding balances, but mentioned that the reasons for old outstanding balances were known to management in all cases.

114. The Board noted the UNICEF reply that it was aware of the reasons for the old outstanding balances, and therefore considers that the information should enable UNICEF to take necessary remedial action on time going forward.

*Direct cash transfer in violation of guidelines*

115. The UNICEF financial and administrative policy provides that direct cash transfers are requested and released, on a quarterly basis, for programme implementation in a period not exceeding three months, and are administered on a six-month rolling basis. It also provides that the programme officer certifies the Funding Authorization and Certificate of Expenditures form following a review to ensure that the programme implementation period does not exceed three months. A six-month request and release can be considered for low-risk partners in exceptional cases. Furthermore, when there is an existing outstanding direct cash transfer advance that is more than six months old for a partner, the programme officer should prepare a note for the record while processing the subsequent advance request for a partner.

116. The Board noticed the following issues regarding compliance with these provisions at the Latin America and the Caribbean Regional Office:

(a) Subsequent payments were made in two cases each in the Panama and Ecuador country offices, even though there were existing outstanding direct cash transfer advances of more than six months;

(b) Additional funds were released in one case, even though the amount released in the first instance covered activities for the period for which the subsequent payment was released, and the report of utilization for the previous amount released was not received;

(c) The entire amount of the approved programme was released in one instalment for a period covering more than 12 months in one case;

(d) The report on utilization was received after a gap of one year from the date of release of funds in one case, where the subsequent programmatic check revealed that the majority of the targets had not been achieved.

117. UNICEF, while stating that the instructions would be followed, described the issues relating to several changes in staff managing the partners, the difference in the interpretation of terms and the release of funds owing to the challenge of expiring grants. UNICEF also indicated that the Ecuador country office had already taken action to ensure that subsequent payments made to partners with existing outstanding direct cash transfer advances of more than six months were supported with a note for the record signed by the Head of Office.

118. The Board noted the UNICEF reply and is of the view that the reported status in the test-checked country office reflects weaknesses in the control mechanism over the direct cash transfer processes, which needs to be mitigated as a priority.

119. **The Board recommends that UNICEF review the adherence to the harmonized approach to cash transfers framework in its country offices and ensure that all offices follow the provisions of the framework while processing direct cash transfers.**

### 6. Private sector fundraising

*Performance of private sector fundraising*

120. The UNICEF Private Sector Plan 2018–2021: IMPACT for Every Child laid down a common vision and framework for private sector fundraising and partnerships across UNICEF in support of the UNICEF Strategic Plan 2018–2021. The private sector revenue goal is to raise $9.6 billion gross ($7.5 billion net) from 2018 to 2021. The 2018–2021 Plan also aimed to double the number of individual donors to UNICEF in comparison to the 2014–2017 Plan. Structured private sector fundraising activities were coordinated mainly through 33 National Committees and 21 UNICEF country offices.

121. The Board noticed that the targets for the year 2018 were not achieved in all four major channels of revenue (see table II.4).

Table II.4
**Status of revenue from major channels**
(Millions of United States dollars)

| *Major revenue channel* | *Budget* | *Actual* | *(Shortfall)/excess* |
|---|---|---|---|
| Pledges | 874.70 | 771.41 | (103.29) |
| Corporate | 201.60 | 169.17 | (32.43) |
| Foundations | 282.00 | 238.00 | (44.00) |
| Major donors | 86.57 | 84.15 | (2.42) |

*Source*: Information provided by UNICEF.

122. National Committees are non-governmental organizations created in specific territories for the purposes of advancing children's rights and well-being globally, mainly through resource mobilization in accordance with a cooperation agreement, and constitute the most important source of revenue from the private sector. The performance of National Committees is key to achieving the targets for revenue generation from the private sector. The Board noticed that against a target of $1.79 billion of revenue generation in 2018, the actual revenue generation by National Committees was $1.45 billion, indicating a shortfall of $0.34 billion. The Board further noticed that 24 National Committees could not achieve their target revenues, with a shortfall ranging from 2 per cent to 50 per cent, including 13 National Committees that did not achieve their targets in the year 2017 either.

123. The Board noticed that against a revenue generation target of $260 million in 2018, country offices were able to generate revenue of $233.73 million, resulting in a shortfall of $26.27 million. Twelve country offices could not achieve their revenue generation target, with the shortfall ranging from 5 per cent to 100 per cent, and many country offices were consistently underperforming against the targets.

124. The Board also carried out an analysis of the performance of National Committees and country offices for these revenue streams, which revealed the status of revenue generation as shown in table II.5.

Table II.5
**Status of revenue generation**

| *Revenue channel* | *National Committees* | *Country offices* |
|---|---|---|
| Pledges | Shortfall against targets in 22 National Committees (ranging from 3 to 28 per cent) | Shortfall against targets in 8 country offices (ranging from 3 to 33 per cent) |
| Corporate | Shortfall against targets in 22 National Committees (ranging from 1 to 98 per cent) | Shortfall against targets in 17 country offices (ranging from 5 to 100 per cent) |
| Foundations | Shortfall against targets in 28 National Committees (ranging from 6 to 87 per cent) | Shortfall against targets in 7 country offices (ranging from 19 to 95 per cent) |
| Major donors | Shortfall against the target in five National Committees | No country office achieved the target |

*Source*: Information provided by UNICEF.

125. UNICEF attributed shortfalls in 2018 to an adverse exchange rate, a lack of high-profile emergencies, slower-than-budgeted growth in pledge donations, principally because of underperformance in key markets, and closure of one National Committee in 2018. UNICEF stated that in the pledge channel, although growth was strong, it was not strong enough given the high targets, owing principally to some issues in specific markets. The Board was informed that in the corporate channel income had plateaued, and that shortfall in foundation income was a cause for concern. It was also informed that a major donor market did not exist in most countries, and revenue was more volatile among this group because a small number of donors could have a big impact on revenue. UNICEF further stated that it was aiming to broaden its base in the countries that had the greatest number of ultra-high-net-worth individuals.

126. The Board noticed that there were variations in the performance of country offices and National Committees, with the existence of a large number of underperformers. Furthermore, various country offices and National Committees were consistently underperforming, especially for the pledges revenue stream. While the Board appreciates that opportunities may differ across markets, there is a need to focus on specific strategies for separate revenue streams in different countries.

127. **The Board recommends that UNICEF take the steps necessary to identify the underperforming National Committees and country offices and identify measures to further strengthen strategies to address the issues having an impact on their performance to help to achieve the targets for the current strategic plan period.**

128. UNICEF, acknowledging the overall finding, stated that action was already being implemented and the steps to identify underperforming National Committees and country offices and develop responsive strategies were already in place. Management identified underperforming markets and worked with those offices on strategies to address the issues that had an impact on performance. For 2018, it was contextually important to note that fundraising performance was not unique to UNICEF. Preliminary informal information from counterparts at other charities indicated that the entire sector had lower-than-expected revenue, validating management’s assessment that the results of UNICEF were significantly influenced by external market factors.

129. The Board noted that target-setting was normally a collaborative exercise for private sector fundraising and the existence of consistent underperformers implied that the responsive strategies put in place might need to be further strengthened to identify potential areas of improvement to support the strategic plan targets.

*Joint Strategic Plans and contribution rates for National Committees*

130. The UNICEF financial regulations and rules stipulate that UNICEF shall make arrangements with the National Committees that enable them to retain up to 25 per cent of their gross proceeds in any one calendar year to meet their costs of operation. The Executive Director may agree to vary this amount in exceptional circumstances, and such variations shall be documented. It is stipulated in the cooperation agreements that the standard minimum annual contribution rate of National Committees to UNICEF is 75 per cent of gross proceeds, and that the National Committee will strive to reach this target. A variance of 5 per cent of gross proceeds is permitted for expenses applied to child rights advocacy and education for development work.

131. Joint Strategic Plans are prepared bilaterally by the National Committees and UNICEF. In 11 National Committees, the targeted gross revenue for the year 2018 was significantly lower than the actual gross revenue received during the year 2017. The reduction ranged from 1.53 per cent to 12.85 per cent. The Board noticed the following issues in the targets of the Joint Strategic Plans for the year 2018:

(a) The Joint Strategic Plan targets for contribution rates were less than the rate of 75 per cent in the UNICEF financial regulations and rules in the case of 20 National Committees during the year 2018. Furthermore, the Joint Strategic Plan targets for the budget year 2019 were also less than 75 per cent in the case of 19 National Committees;

(b) Twenty-one National Committees incurred expenses of more than 25 per cent of their gross revenue collection, with the expenses ranging from 25.8 per cent to 57.6 per cent. The Board noticed that even after factoring the allowed variance of 5 per cent for child rights advocacy and education for development work, 13 National

 

Committees incurred excess expenditure, with expenses ranging from 33.1 per cent to 57.6 per cent. Furthermore, 10 National Committees had projected to incur expenditure of more than 30 per cent of their gross revenue collection during 2019.

132. UNICEF stated that although the targets were lower for some individual markets than the previous year, they reflected the reality of those market environments. It further stated that a glide path was part of the signed Joint Strategic Plan, and it agreed to monitor the adherence of the National Committees to the glide paths for improvement of their contribution rate, including by monitoring non-fundraising expense for improved efficiency. Furthermore, on the basis of the 2018 out-turn, it was felt that there was a need to adjust the curve in terms of expecting more income to come later in the strategic period.

133. The Board noted that the issue regarding contribution rates being lower than 75 per cent had been raised in previous Board reports. However, the majority of National Committees continued to have a contribution rate lower than the one prescribed in the UNICEF financial regulations and rules. A trend analysis of contribution rates since 2015 revealed that:

(a) In the case of 16 National Committees, the contribution rates had been lower than 75 per cent in all years since 2015. Furthermore, 5 of those 16 National Committees had shown a declining trend in terms of the contribution rates in those years;

(b) The total number of National Committees with contribution rates lower than 75 per cent had remained roughly stagnant, with this number being 19 in 2015, 21 in 2016, 22 in 2017 and 20 in 2018, and 20 budgeted for 2019.

134. **The Board recommends that UNICEF lay down a clear plan and engage with the National Committees to ensure that the contribution rates remain in line with the provision of the UNICEF financial regulations and rules and the cooperation agreement.**

135. UNICEF agreed with the recommendation and stated that it had implemented it through the Joint Strategic Plans, which have clear plans, and through regular engagement with the National Committees to strive to reach the 75 per cent contribution rate, and progress in that respect depended on the specific context of the various markets.

*Retention of non-statutory reserves by National Committees*

136. Reserves are part of the funds of a National Committee that are generated through their income-generating activities and are established to ensure that the National Committees meet their commitments, obligations and other contingencies, and deliver on their objectives in the event of unforeseen financial difficulties. These funds remain in the National Committees after the Committees have sent their contribution to UNICEF, as agreed in line with the cooperation agreement and the Joint Strategic Plan. There are two types of reserves: statutory and non-statutory. Statutory reserves are those funds that a National Committee is obliged to maintain to fulfil legal requirements, in accordance with local charity and accounting regulations. Non-statutory reserves are those funds maintained by a National Committee but for which there is no underlying legal or regulatory requirement.

137. The cooperation agreement stipulates that the National Committees shall adopt a reserve policy that is in accordance with national laws and statutes and must include the level, management strategy and planned utilization of such funds. To develop or review the existing reserve policy of National Committees, a reserve policy guidance note was prepared in 2017. It provided that the reserve policy should be reviewed at least once every four years to ensure that it met changing needs and circumstances. It

also laid down a new and revised benchmark of three to six months of operating expenses for maintaining the level of non-statutory reserves. The Board noticed that:

(a) The reserve policy of 17 National Committees was not reviewed regularly, with the most recent reviews carried out in periods ranging from the year 2011 to 2014;

(b) The policy document of one National Committee was not in line with the guidance note, and eight National Committees had excess non-statutory reserves in comparison to their benchmarks, with the excess ranging from $12,688 to $6,314,407.

138. UNICEF replied that the process to align the reserve policies with the new guidance had started, and compliance would be ensured by 2019. It also stated that the level of non-statutory reserves was assessed against future expenses, and that analysis showed that only two National Committees were maintaining a very high level of reserves. National Committees were independent entities and reserve polices were to be considered as guidelines of best practices to assist the National Committees to draft and/or revise their reserve policy.

139. The Board noted that the primary purpose of non-statutory reserves was to ensure the solvency of a National Committee and maintain its ability to carry out its key activities in the future, by designating amounts for essential future spending. The reserve guidance clearly indicated the level of reserves to be maintained. Even after considering the future expenses predictions for 2019 from the Joint Strategic Plans, five National Committees had excess non-statutory reserves. The Board noted that maintaining higher levels of reserves could have a direct impact on the amount of net contributions received by UNICEF.

140. **The Board recommends that UNICEF constructively engage with the National Committees to have a reserve policy that is aligned with the maintenance of benchmark requirements for reserve levels.**

141. UNICEF agreed with the recommendation and stated that it would continue to engage with National Committees and had already begun the process of aligning the reserves policies with the new reserve policy guidance, with a target completion date of the end of 2019, followed by action to be taken by the national committees by the end of 2020.

*Related entities of National Committees*

142. The cooperation agreement stipulated that the strategy for the management and monitoring of a new or existing related entity would be included in the Joint Strategic Plan. The National Committee would ensure that a related entity complied with all financial and other UNICEF reporting requirements under the cooperation agreement and the Joint Strategic Plan.

143. The Board noticed that there were nine National Committees with 11 related entities. However, key performance indicators were not prescribed for four related entities in the Joint Strategic Plans of four National Committees, and only one related entity had a provision for remittances to UNICEF. The Board further noticed that five related entities had a shortfall in key performance indicators for fundraising, ranging from 21 per cent to 94 per cent, and one related entity had a shortfall in non-fundraising targets (recruitment of number of donors and retention of donors beyond one year). Data for the achievements of one related entity against non-fundraising key performance indicators were not available.

144. **The Board recommends that UNICEF take the measures necessary for the inclusion of key performance indicators for activities of all related entities in the Joint Strategic Plans, with a focus on remittances of the amount collected to UNICEF and follow-up of the achievement of targets.**

145. UNICEF accepted the recommendation and stated that it had implemented it in the Joint Strategic Plans for 2019.

*Management of investment fund*

146. The UNICEF Private Fundraising and Partnerships Division carries out the management of the investment fund for the promotion of private sector revenue generation. The investment fund budget for 2018 was proposed at $105 million, which represented an increase of 31 per cent from the 2017 budget of $80 million and an increase of more than 156 per cent from the 2013 budget of $41 million. The Board noticed various issues in the management of the investment fund, which are described in detail below.

*Fundraising development programme*

147. The fundraising development programme has been one of the important components of the portfolio of the investment fund for maximizing private Sector fundraising revenue. The minimum desired return on investment for any single activity funded under the programme is 3:1 over a 36-month period. It is the responsibility of UNICEF to ensure that funds are deployed for the intended purpose and are growing in line the criteria of the investment fund and the plan.

148. The Board noticed that UNICEF received a 36-month report for fundraising development programme investments made in the years 2013, 2014 and 2015 for details up to 2018. During the period 2013–2015, UNICEF approved 214 fundraising development programmes,[2] involving a total fund of $156.31 million. The Board noticed that the return on investment of 110 funds (51 per cent) was below the prescribed minimum, which involved a total investment of $104.68 million, constituting 67 per cent of total allocations for fundraising development programmes during the period 2013–2015. The Board also noticed that with the increase in the number of funds and amount of funding during 2013 and 2015, funds having a lower return on investment (less than 3:1) also increased, from 30 in 2013 to 42 in 2015. Furthermore, in 158 out of 214 cases (74 per cent), the return on investment achieved was lower than that envisaged at the request stage. The Board also noticed that there was no reporting mechanism in respect of the targets, achievements and shortfalls of the returns from the fundraising development programme investments.

149. UNICEF stated that the issue had already been identified and addressed through a new allocation mechanism that prescribed a return on investment of 3:1 for overall fundraising development programme investment over a 36-month period instead of a return on investment of 3:1 for each fundraising development programme (each activity), the introduction of more reporting and a more flexible approach to country-level funding. It also stated that when the 2015 mechanism was in place, proposals were assessed on the assumption that offices were submitting expected results that were skewed optimistically, and thus results that were lower than those in the proposal were not a cause for concern. Furthermore, it would undertake to provide succinct insights into the utilization and results of investment funds in key communications such as the annual report.

150. **The Board recommends that UNICEF improve the management of the fundraising development programme portfolio through a more realistic assessment of the return on investment and put a robust monitoring mechanism in place for timely interventions in cases of below-par performances.**

151. UNICEF accepted the recommendation and stated that it had already been implemented through the 2019 Joint Strategic Plans. Furthermore, in the revised

[2] Requests where the 36-month reports have been finalized.

investment fund framework, the portfolio as a whole was expected to reach 3:1. This approach incentivizes offices to submit more realistic forecasts for returns in their proposals. The approach is not to decrease individual variances, but to manage the overall portfolio result. Consequently, UNICEF does not see evidence for concern, and no different course of action is planned. It will continue to monitor results.

*Investment funds management platform*

152. The investments funds management platform was developed in July 2018 by consolidating two applications (the old investment funds management platform and Cognos Investment Funds) into one platform, with the objective of facilitating data entry for the countries and providing management with a holistic view of a country's private sector performance.

153. The Board noticed the following issues:

(a) The investment funds management platform was not integrated with VISION;

(b) There was no provision for information regarding rejected cases;

(c) There were differences in the data available on the investment funds management platform compared with the actual number of cases approved and not approved during the year 2018;

(d) Four request proposals had been deleted from the investment funds management platform, and the details of those cases were not available for review.

154. UNICEF stated that it would use VISION data in the investment funds management platform from May 2019, as it was currently creating a payment and fundraising reduction module in which data from VISION (inSight) would be used. It further stated that there was a plan to introduce improved functionality into the platform during 2019.

155. **The Board recommends that integration of the integrated funds management platform with VISION and inSight and other dependent systems be completed at the earliest.**

156. UNICEF agreed with the recommendation. The integrated funds management platform launched the payment module in April and the fundraising adjustment module in June 2019. Both modules use information from VISION.

157. **The Board also recommends that explicit provision for capturing and reporting on details of rejected cases be provided in the integrated funds management platform.**

158. UNICEF agreed with the recommendation and stated that the introduction of improved management and reporting functionality that is integrated with VISION was under way and was targeted for implementation in 2019.

### 7. Procurement, supply chain and contract management

159. According to the UNICEF Supply Manual, the supply chain is a set of interlinked processes that ensure that the right quantities of the right supplies are delivered in the most efficient manner to the right locations at the right time. As stated in chapter 9 of the Manual, in-country logistics refers to supply chain activities relating to the handling of goods after they have reached a country's port of entry and involves goods clearance, warehousing and inventory management, in-country distribution of supplies and inland transportation, and supply tracking.

*Goods in transit*

160. The UNICEF Supply Manual defines goods in transit as programme supplies that have been picked up from the supplier, are in the custody of a freight forwarder or transporter and have yet to be delivered to a country office warehouse or handed over to an implementing partner. A significant proportion of UNICEF programme supplies are, at any given period, in transportation to country offices or to implementing partners. They are thus within the control of UNICEF and are recorded as goods in transit. The supplies remain as goods in transit until they are received in the country office physically and in VISION or are directly handed over to the implementing partners with acknowledgement of receipt reflected in VISION.

161. The Board noted that aged goods in transit represent a risk with financial, programmatic and reputational implications for UNICEF. The Board noticed that 4,872 inventory items, covered by 1,905 supply deliveries and valued at $96.64 million, were reflected as goods in transit. Analysis of these goods in transit items further revealed that:

(a) They included supply deliveries for emergency items valued at $29 million. Of those, $7.84 million (27 per cent) of items were in transit and under the control of freight forwarders. The remaining $21.16 million of supplies had arrived in the country offices, but the supplies were either under customs clearance or awaiting acknowledgement of receipt by the implementing partners;

(b) A total of 91 supply deliveries, valued at $4.9 million, were recorded as being in transit beyond the period of 100 days. They included 38 items, valued at $1.4 million, awaiting country office action owing to the non-receipt of acknowledgement from the implementing partners, 127 items, valued at $1.73 million, awaiting customs clearance and 12 items, valued at $1.64 million, that were in shipment.

162. UNICEF highlighted the continuous improvement made in prior years to both improve the monitoring of goods in transit and achieve reduction in the value of long-standing goods in transit. The value of goods in transit beyond 100 days was reduced by 24 per cent compared with 2017 and by 42 per cent compared with 2016. Furthermore, the value of long-standing supplies in transit (beyond 200 days) was reduced globally by 91 per cent between 2016 and 2018, with a 39 per cent decrease between 2017 and 2018 only.

163. The Board noted the progress made by UNICEF in terms of monitoring the status of goods in transit and following up with country offices. The Board is of the view that there are shipments that are still in transit beyond 100 days, including emergency supplies, which need to be addressed.

164. **The Board recommends that UNICEF continue its close monitoring of the goods in transit and take further measures to avoid the goods remaining in transit for more than 100 days, especially for emergency supplies.**

165. UNICEF agreed with the recommendation and stated that the oversight activities undertaken fully integrated the monitoring of goods in transit to give timely attention to the identification of risks to country offices. It is keen to continue monitoring goods in transit and will fully integrate the regular monitoring of emergency supplies by the end of 2019.

*Emergency supply response*

166. UNICEF divisional procedure prescribes that the monitoring and management of all emergency processes and activities is the responsibility of the Emergency Coordinator. The Emergency Coordinator assesses a sales order received with an emergency order reason and decides whether it is to be treated as one of the following:

(a) Rapid response emergency, ready for pickup within 48 hours and arrival at the entry point of the receiving country within 72 hours by air;

(b) Emergency, ready for pickup within 10 days and arrival at the entry point of the receiving country within 14 days by air;

(c) Other emergency, ready for pickup within 10 days and arrival at the entry point of the receiving country within 60 days by sea.

167. The Board noticed that rapid response emergency orders were processed and delivered within 6 days on average, while emergency orders and other emergency orders were processed and delivered within an average of 24 days and 66 days, respectively. Thus, in all three emergency responses, UNICEF was unable to adhere to the prescribed lead times.

168. The average processing times were further estimated for four different stages in the supply chain, considering: (a) the time taken from the release of the sales order or emergency approval to the creation of the stock transfer order for the warehouse; (b) warehousing, that is, the time taken from the creation of the stock transfer order to the release of the stock transfer order; (c) release of the order for pickup by the freight forwarder, that is, the time taken from the release of the stock transfer order to the actual sailed date; and (d) shipment, that is, the time taken from the sailed date to the actual delivery date. The Board noticed that during these stages, the average lead time taken for the processing, preparation and release of the order for pickup by the freight forwarder for emergency and other emergency supplies was more than 10 days, indicating the need for measures to address the bottlenecks faced at those stages.

169. **The Board recommends that UNICEF prescribe the maximum time allowed for delivery of the items for each emergency type, enforce it strictly and take corrective action towards reducing the lead times to ensure a prompt supply response in emergencies.**

170. UNICEF accepted the recommendation and stated that it would review the maximum time allowed for the delivery of items of each emergency type by the second quarter of 2019 and would take corrective action towards reducing the lead times by the first quarter of 2020 to ensure prompt supply responses in emergencies.

*Monitoring of delay by freight forwarders*

171. The procedures of the UNICEF Supply Division prescribe that for supply orders placed with vendors, the supplier sends a notification of goods readiness to the assigned freight forwarder before the delivery date on the purchase order and the freight forwarder coordinates directly with the supplier to plan shipments, makes all necessary arrangements for the handover of cargo, books the shipment with the carrier or carriers and obtains transportation documents depending on the mode of transport.

172. The Board noticed that there was an overall delay of 19.52 per cent in shipments handled by five freight forwarders, with the value of total delayed shipments amounting to $778.79 million. Furthermore, the shipments handled that were delayed by the individual freight forwarder ranged from 7 per cent to 35 per cent of the value of shipments handled by them, and the individual value of delayed shipments ranged from $8.58 million to $495.07 million. The Board also noted that although the contracts with freight forwarders contained a provision for the levy of a penalty in case of delayed supply, UNICEF had not charged any penalty during 2018.

173. UNICEF stated that the performance of freight forwarders was assessed against other contractual key performance indicators, operational performance, responsiveness, context and circumstances around the specific key performance indicator measurement.

Furthermore, many cases of delay on the part of freight forwarders was due to reasons for which they were not responsible. It also stated that of the delayed shipments, 25 per cent were delayed by 1–3 days and 20 per cent by 3–6 days (both categories corresponding predominantly to air shipments), whereas 40 per cent were delayed by 7–15 days (corresponding to sea shipments), which is considered acceptable in the case of booking rollover. Considering the severity of delays and the fact mentioned above that liability for delays was often due to factors beyond the control of the freight forwarders, the overall performance of the freight forwarders was deemed satisfactory, except for one. However, no information was provided on the action taken against the freight forwarder whose performance was not found to be satisfactory.

174. The Board was informed that the performance of freight forwarders was measured by a particular key performance indicator that measures the time taken to dispatch shipments from the delivery received date to the shipment start date in the balanced performance scorecard, prepared twice a year. The Board noticed that the delay indicator in the key performance indicator was not capturing correct data, resulting in errors, such as the shipment start date being earlier than the delivery received date. The Board was informed that the main reasons for these errors pertained to time zone set-up in VISION, delays in transmitting messages owing to shipment process issues, purchase orders created prior to the creation of the new system, which meant that delivery dates were not captured in VISION, and a known system error. The Board noted that those errors affected the quality of monitoring of the performance of the freight forwarders.

175. The Board also noticed that the freight forwarders performance monitoring tool was not capturing the reasons for delays in shipments. Capturing reasons for delays would have helped in the assessment of reasons for delays and the more efficient and transparent monitoring of performance of freight forwarders.

176. **The Board recommends that system issues affecting the utilization of the freight forwarders performance monitoring tool be resolved as a priority to ensure the effective monitoring of the performance of the freight forwarders. The Board also recommends that necessary contractual action be initiated against the freight forwarders whose performance is not found satisfactory.**

177. UNICEF acknowledged the recommendation and stated that it deemed the current monitoring mechanism for freight forwarder performance to be strong and sufficient to enable improvement in performance. It had taken action to implement the recommendation, including through the implementation of electronic data interchange developments to include a reason code in VISION to enable the attribution of responsibilities for delays to the liable supply chain stakeholder. UNICEF is further enhancing the freight forwarder monitoring tool by introducing additional system validations on “shipment start” and “delivery” dates to ensure the accuracy of data in the monitoring of freight forwarder performance. UNICEF will continue to review, on an ongoing basis, the performance of the freight forwarders and assess relevant contract management and contractual actions to address any issues identified with regard to performance. It has limited the scope of contracts for a significant freight forwarder with performance issues. Results are expected by the first quarter of 2020.

*Demurrage*

178. The UNICEF Supply Manual provides that it is the responsibility of the country office to obtain necessary exemptions and customs documentation for the timely clearance and receipt of UNICEF supplies to avoid and minimize detention charges related to transport. It also provides that the Supply Division should maintain up-to-date policies and procedures in the area of international transport and develop tools

and guidance in support of shipment planning, implementation and monitoring. The UNICEF global freight agreements generally cover 30 days free of demurrage for coastal country offices and 45 days free for landlocked country offices.

179. The Board noted that the Supply Division prepared biweekly freight forwarder container monitoring reports, which are shared with country offices to enable them to take proper action to review the position of shipments and take action to clear customs, and deliver and return containers that are unduly delayed. The Board also noticed that 2,101 of the 5,878 containers of programme supplies were returned empty to port with delays during 2018. Details are presented in table II.6.

Table II.6
**Status of containers shipped and returned empty to the port**

| *Region* | *Total number of containers shipped and returned during 2018* | *Number of delayed containers* | *Percentage of delayed containers (on which demurrage was incurred)* | *Total number of demurrage days* | *Average number of demurrage days with respect to delayed containers* | *Total estimated demurrage amount (United States dollars)* |
|---|---|---|---|---|---|---|
| East Asia and the Pacific | 247 | 58 | 23 | 2 624 | 45 | 58 025 |
| Europe and Central Asia | 25 | 6 | 24 | 86 | 14 | 2 088 |
| Eastern and Southern Africa | 1 357 | 357 | 26 | 9 560 | 27 | 201 900 |
| Latin America and the Caribbean | 96 | 32 | 33 | 654 | 20 | 13 863 |
| Middle East and North Africa | 1 365 | 368 | 27 | 7 482 | 20 | 169 663 |
| South Asia | 730 | 182 | 25 | 14 152 | 78 | 345 238 |
| West and Central Africa | 1 986 | 1 095 | 55 | 34 936 | 32 | 761 050 |
| Western Europe[a] | 72 | 3 | 4 | 67 | 22 | 1 675 |
| **Total** | **5 878** | **2 101** | **36** | **69 561** | **33** | **1 553 502** |

*Source*: Information provided by UNICEF.
[a] Refers to Denmark only, where the UNICEF Supply Division is based.

180. The Board also noted that for 630 shipments, either the date of the loaded containers leaving the port or the date of return of empty containers to the port were not captured in the system, and hence their status was not available in the freight forwarder container monitoring report. Furthermore, the report allowed for the depiction of containers as delivered even if the date of exit from the port and the date of entry of empty containers into the port were not available.

181. UNICEF stated that the objective of the biweekly report on the monitoring of containers was to improve the timeliness of delivery for programmes and to inform country offices of their pipeline status. UNICEF further stated that the proportion of timely returns of containers out of the confirmed returns was 60 per cent in 2017 and increased to 69 per cent by the end of 2018. The demurrage values in the monitoring report were only estimates. UNICEF also stated that it was working in close collaboration with the freight forwarders to improve both the accuracy and timeliness of data in the container monitoring report to reflect logistics events in a timely manner.

182. The Board further noticed that UNICEF was considering containers discharged and returned empty during the same year, whereas ideally the monitoring should be conducted with regard to containers returned, irrespective of the year of discharge. By using the current method of monitoring, the containers that are discharged during one year and returned empty during another year will never be considered in the

monitoring process. UNICEF agreed to change the method of monitoring as suggested by the Board.

183. **The Board recommends that necessary action be taken by the specific regional and country offices to minimize container retention and consequent demurrage expenses.**

184. **The Board also recommends that UNICEF improve the freight forwarder container monitoring report to ensure the capture of correct and relevant data to arrive at accurate conclusions.**

*Vaccine arrival report*

185. The UNICEF Supply Manual provides that, with regard to the shipment of supplies, all vaccines should be inspected within 24 hours of their arrival at the designated place and the results of the inspection should be communicated to UNICEF through a vaccine arrival report, which is part of the effective vaccine management process. Vaccine arrival reports must be completed and returned to the Supply Division for every vaccine shipment procured through UNICEF within three working days.

186. The Board noticed that of a total of 2,628 vaccine shipments made in 2018, 15 vaccine arrival reports had yet to be received from one country office. Furthermore, of the 2,613 vaccine arrival reports received, in 736 shipments (28 per cent) there were delays in the receipt of the reports, ranging from 4 to 286 days. The Board also noticed that of the 736 vaccine arrival reports not received on time, in 318 shipments (12 per cent) the inspection was not done within the designated 24 hours. The Board also noticed regional disparities in the timeliness of receipt of vaccine arrival reports, with the East Asia and the Pacific, Europe and Central Asia, Eastern and Southern Africa and Latin America and the Caribbean regions sending only 35 per cent to 67 per cent of the reports on time.

187. The Board noticed that the requirement for completing and returning the vaccine arrival report was revised from “three calendar days” to “three working days”. In 71 per cent of the cases, vaccine arrival reports were received on time, compared with the 41 per cent received on time in 2017. However, the revision of the timeline for submission of vaccine arrival reports contributed to about 50 per cent of this increase.

188. UNICEF stated that its monitoring of the delivery and supply of vaccines was strong, and it would continue to enhance its efforts in monitoring the timely receipt of vaccine arrival reports. Furthermore, it stated that efforts were ongoing in the country offices, including the implementation of the mobile application for vaccine arrival reports and the performance of inspections within 24 hours, which would improve the rate of receipt of all reports and should have a material impact on timeliness. It agreed that there were regional disparities in performance and stated that the submission of the vaccine arrival reports did not preclude the ability of the Supply Division to manage the quality and security of vaccines, since complaints, when they occurred, were submitted and investigated, independent of the vaccine arrival report. Furthermore, changes in the time requirement were made to accommodate the various times of arrivals in countries, time differences and differences in weekends and holidays, which were skewing the timeliness results. This was fairer and more representative than previously calculated.

189. The Board noted the efforts of UNICEF to ensure that the country offices adhered to timelines when submitting vaccine arrival reports, but was concerned that delays in inspection had the potential to affect the assurance system over the quality and security of the vaccines. Furthermore, continued delays in the submission of

vaccine arrival reports from some countries affected the effective monitoring of the supply and delivery of vaccines in a timely manner.

190. **The Board recommends that UNICEF coordinate with its regional and country offices, particularly in the regions where higher incidences of delay are noticed, to work with recipient countries to ensure the timely inspection and transmittal of vaccine arrival reports and further strengthen the monitoring of delivery and supply of vaccines.**

191. UNICEF accepted the recommendation.

*Extension of existing contracts*

192. The procedures of the UNICEF Supply Division provide that the Contracts Review Committee is established as an advisory body to provide a competent, independent and unbiased review to the Director of the Supply Division of the process leading to a recommendation on the proposed award of a contract for the acquisition of goods or services, the value of which is $100,000 or above. The Committee provides written advice to the Director, and the Director is expected to act upon such advice before the Supply Division can enter into any contractual commitment. It also provides that resubmissions should be made whenever there are proposed contract recommendations to renew or to modify the substantive terms and conditions of contracts, proposed contract recommendations to renew or modify contracts that result in increases of more than 10 per cent of the total financial commitment, and conditional recommendations requiring additional action, and in cases where an incomplete submission has been returned by the Contracts Review Committee.

193. The Board noticed that there were 26 cases of resubmissions to the Contracts Review Committee during the year 2018, 13 of which pertained to the extension of existing contracts. An analysis of the resubmission cases and minutes of the meetings concerned revealed that three cases were for the extension of the term of the long-term arrangements but had been submitted after the expiry of the existing long-term arrangements, three cases were for the extension of the term to provide time for retendering, and one case was for the extension of an existing long-term arrangement, considering that the service of the existing vendor was satisfactory.

194. The Board was informed that the long-term arrangements mentioned pertained to divisions and offices at UNICEF headquarters. The Board noticed that neither were those contracts renewed before their expiry nor were new contracts executed prior to the expiry of the old contracts. The fresh contracting process ideally should have been completed to ensure that the new long-term arrangement was in place by the time the existing long-term arrangement was over.

195. UNICEF stated that the biggest bottlenecks identified in those cases were related to processes where the Supply Division had limited influence. Discussions were conducted on corrective measures with the divisions and offices in performance monitoring board meetings, held quarterly. It also stated that in five cases, the extension of the long-term arrangement was necessitated by a delay on the part of the division concerned in providing the documentation for the timely completion of retendering process. In one case, the division started the process for extending the existing long-term arrangement, which led to the allowance of additional time to complete the process while running the request for proposals. In another case, since the performance of the existing vendor was found to be satisfactory and the same service provider was requested by the concerned division owing to the need for continuation, the case was submitted to the Contracts Review Committee for its recommendation.

196. The Board noted that the reply explained the reasons for the specific cases of delays.

197. **The Board recommends that UNICEF improve the existing system to provide a robust and integrated case management solution that would enable coordination among all internal stakeholders for the timely initiation and completion of the required procurement and contract management processes.**

198. UNICEF accepted the recommendation.

*Absence of provision of liquidated damages in the Latin America and the Caribbean region*

199. The UNICEF Supply Manual provides for a clause for liquidated damages that mandates a predetermined rate of compensation for late delivery of goods or services or for goods or services that do not meet UNICEF specifications and are therefore rejected by UNICEF. The liquidated damages clause needs to be included in all tenders, long-term agreements, purchase orders and contracts so that it can be contractually utilized in the case of non-performance of vendors. The absence of the clause in tenders, long-term agreements, purchase orders or contracts needs to be adequately justified and documented.

200. The Board noticed that the general terms and conditions of purchase orders for the supply of goods and services issued by the Latin America and the Caribbean Regional Office and the Ecuador and Panama country offices had a clause that UNICEF could require the supplier to pay liquidated damages for delayed delivery, as set out in the contract. However, when the contracts were entered into, the specific clause regarding the rates at which the liquidated damages were applicable was not included in the contractual provisions by the Latin America and Caribbean Regional Office in the case of contracts for the supply of goods, or by the Ecuador and Panama country offices for the supply of both goods and services. The justification for the non-inclusion of the specific clause was also not documented. The Board also noticed that:

(a) In the Latin America and Caribbean Regional Office, of 14 contracts for the supply of goods valued at $110,802.31 made during the year 2018, goods in 11 contracts valued at $87,969.92 were supplied with delays ranging from 3 to 125 days;

(b) In the Ecuador country office, of 32 contracts for the supply of goods valued at $350,753.09 made during the year 2018, goods in 6 contracts valued at $69,698.41 were supplied with delays ranging from 1 to 188 days;

(c) In the Panama country office, of 5 contracts for the supply of goods valued at $19,933.50 made during the year 2018, goods in 3 contracts valued at $16,026.30 were supplied with delays ranging from 14 to 66 days;

(d) The specific date of receipt of the final delivery of services was not documented.

201. UNICEF stated that in the case of the Panama country office, there was no cost to the organization and, furthermore, in many cases the reason for delay was not related to supplier performance. In case of the Ecuador country office, it stated that in the market context, it was not a common practice to include penalties in contracts since there was the risk that suppliers might refuse to sign the contracts or demand clauses to be included to protect them for late payments.

202. The Board is of the view that non-inclusion of the specific clause for liquidated damages was not in line with the provisions of the UNICEF Supply Manual and carried the risk that interests of UNICEF would not be adequately safeguarded in contracts with the vendors.

203. **The Board recommends that a specific clause regarding the levy of liquidated damages be included in all tenders, long-term agreements and purchase orders and, in cases where such a clause is not included, justification for the decision should be adequately justified and documented.**

204. **The Board also recommends that specific dates on which the final delivery of services was made be properly documented.**

205. UNICEF agreed with the recommendations and stated that the Ecuador country office had included the provision on liquidated damages in all of its contracts since March 2019 and Panama country office had proceeded in a similar manner since April 2019.

*Bank guarantee*

206. The Board noted that the Lebanon country office had awarded a contract in April 2017 to a contractor for rehabilitation works for 16 public schools. The contractor had obtained a bank guarantee (dated 20 February 2018) for $278,719 to cover the defects liability period.

207. The Board noticed from the internal correspondence of the Lebanon country office that the contractor had submitted a scanned copy of the original bank guarantee by attaching to it the original bank debit advice. The country office resolved to execute the bank guarantee for the defects liability after defects were reported by the schools in the work completed by the contractor, but the guarantee was not encashed since the contractor had returned the original bank guarantee to the bank and had it cancelled. This lapse was made possible by the country office having accepted a scanned copy of the guarantee.

208. UNICEF stated that it did not accept scanned copies. The case in question was the result of fraudulent activity committed by the vendor and was being handled in line with relevant UNICEF rules and regulations. It further stated that it had already started a new procedure for verification of the authenticity of bank guarantees, which included requesting a bank's advice on the authenticity of the letter of guarantee, and would also be exploring the following options: (a) requesting the bank to contact the issuing bank to confirm the authenticity; or (b) contacting the issuing bank directly to obtain confirmation on the authenticity of the letter of guarantee.

209. The Board noted the reply of UNICEF regarding the new procedure for ensuring the authenticity of bank guarantees submitted by contractors being put in place in the Lebanon country office. The Board is also of the view that, taking into consideration the difficult environment in which various offices of UNICEF operate and the experience in the Lebanon country office, the internal control procedures over the bank guarantees need to be reviewed to identify the existing weaknesses and put in place a mechanism to avoid such instances in future.

210. **The Board recommends that existing internal controls be reviewed to put in place a robust mechanism over the bank guarantees received by UNICEF.**

211. **The Board also recommends that investigation in the fraud case be completed in a timely manner and that necessary remedial action be taken.**

212. UNICEF accepted the recommendations.

*Outstanding value added tax receivables*

213. The UNICEF Programme Policy and Procedure Manual states that in accordance with the Basic Cooperation Agreement, no direct taxes, tolls, cesses or duties shall be levied on supplies, equipment or services provided by UNICEF under the country programme action plan. Where the Government offers reimbursement of

value added tax (VAT), and UNICEF is charged VAT by vendors, VAT is to be separately recorded as a receivable when the vendor invoice is processed.

214. The Board noticed that total VAT receivable balances as at 31 December 2018 amounted to $41.10 million. Details of outstanding VAT belonging to the period before the year 2018 are presented in table II.7.

Table II.7
**Details of old outstanding value added tax receivables**
(United States dollars)

| *Region* | *2012* | *2013* | *2014* | *2015* | *2016* | *2017* | *Total* |
|---|---|---|---|---|---|---|---|
| East Asia and the Pacific | – | – | 291 | 76 606 | 90 886 | 52 100 | 219 883 |
| Europe and Central Asia | – | 13 531 | 70 173 | 3 308 | 57 | 2 458 799 | 2 545 868 |
| Eastern and Southern Africa | 1 804 | 446 620 | 45 707 | 1 219 146 | 732 663 | 3 052 333 | 5 498 273 |
| Headquarters | – | – | – | – | 52 158 | 104 367 | 156 525 |
| Latin America and the Caribbean | 1 848 | 3 845 | 306 | 12 462 | 72 723 | 688 110 | 779 294 |
| Middle East and North Africa | – | 6 406 | 55 806 | 84 640 | 392 399 | 510 497 | 1 049 748 |
| South Asia | 1 375 | – | 12 647 | 639 158 | 496 323 | 4 728 727 | 5 878 230 |
| West and Central Africa | – | – | 28 | 8 685 | 53 417 | 163 849 | 225 979 |
| **Total** | **5 027** | **470 402** | **184 958** | **2 044 005** | **1 890 626** | **11 758 782** | **16 353 800** |

*Source*: Information provided by UNICEF.

215. The Board also noticed that the outstanding VAT receivables included claims to be processed for a write-off of $149,915, rejected claims of $702,845 and claims of $3,458,591 that were under ongoing review by the tax authority.

216. UNICEF stated that the amount recoverable was being followed up and while recovery had slowed, claims were still in the process of review, and the offices concerned still anticipated a refund. It also stated that an adequate process was in place, with the offices submitting timely requests to the Global Shared Services Centre for the clearing of refunds. The existing challenges pertained to actual recovery, and offices with recovery delays were appropriately engaged in escalation efforts through their respective tax authorities, the United Nations resident coordinators and sister agencies.

217. The Board noticed in the audit of the Middle East and North Africa Regional Office and the Latin America and the Caribbean Regional Office that:

(a) There were instances of refusal of refunds of the tax paid owing to several shortcomings in the submission, such as invoices not including the VAT rate or vendor address, the fact that a supplier did not declare sales to UNICEF to the VAT department, and the delayed submission of VAT claims in the Lebanon country office;

(b) There were instances of delays in the submission of VAT claims and differences in the VAT recoverable amount, as reflected in the VAT recoverable account and the details of VAT recoverable claims in the Ecuador country office.

218. The Board noticed that the efforts made by different offices of UNICEF in submitting and pursuing the outstanding VAT receivables needed improvement.

219. **The Board recommends that UNICEF further strengthen the monitoring mechanism for the submission and follow-up of VAT claims. The Board also recommends that available measures be explored for the timely settlement of long outstanding claims.**

## 8. Global Shared Services Centre

220. In February 2012, UNICEF prepared a concept paper on the consolidation and offshoring of its activities to increase its organizational efficiency and improve value for money spent on programmatic interventions. A business case was prepared in 2013, which was subsequently revised, and the proposal for the establishment of the Global Shared Services Centre was approved in November 2013. The Centre officially started functioning in September 2016 and became fully operational by the end of December 2016.

221. The Global Shared Services Centre project was headed by the Deputy Executive Director for Management and was aided by the Global Shared Services Centre implementation group, the business owners advisory committee and external consultants. The project was implemented by the Global Shared Services Centre project team. On approval of the project, the business owners advisory committee was constituted, with the Deputy Executive Director as the Chair. The committee included the Comptroller and Director of the Division of Financial and Administrative Management, the Director of the Division of Human Resources, the Director of the Information Technology Solutions and Services Division and the Director of Change Management. Two regional directors were also part of the committee. The committee met periodically to review the progress of implementation of the project and to take appropriate decisions. The project was initially managed by the Change Management Office at UNICEF headquarters in New York until the establishment of the Centre, with adequate space and staff, in Budapest.

*Project implementation*

222. The Board noted that, according to the original business case, the time available for the implementation of the project was 18 months, and the project was approved in November 2013. The Global Shared Services Centre started providing all of its services and functions from 1 January 2017, 37 months after the approval of the project, and was considered fully stabilized by 31 December 2017, 49 months after the approval of the project.

223. The Board noticed that the following aspects had an impact on the time taken for the establishment of the Global Shared Services Centre:

(a) The project team was constituted in January 2014, and the complete project team was in place only by December 2014, 13 months after the approval of the project;

(b) The first instalment of the project funding of $2,141,000 was released during October 2014, 11 months after the approval of the project;

(c) There were changes in the functions to be carried out at the Centre from the ones envisaged in the original business case, with the addition of local payroll, the global help desk tier 2 function and service quality management to the scope of functions;

(d) An independent review of the human resources and payroll processes was commissioned in September and October 2014, which resulted in a reduction in staff and changes in the organizational structure at the Centre. Furthermore, an independent review of the information and communications technology function at UNICEF headquarters was conducted, which also influenced the design of the organizational structure for information technology in the Centre;

(e) The number of staff at the Centre continued to be reviewed and readjusted from 2014 to 2018. Furthermore, there were delays in the recruitment of staff in the initial period. Details of the number of staff are presented in table II.8.

Table II.8
**Engagement of staff at the Global Shared Services Centre**

| *Date* | *Approved staff* | *Actual staff* |
|---|---|---|
| 31 December 2015 | 306 | 15 |
| 31 December 2016 | 301 | 272 |
| 31 December 2017 | 302 | 282 |
| 31 December 2018 | 307 | 277 |

*Source*: Information furnished by UNICEF.

224. The Board noted that the scope of work, organizational structure, staff requirements and resource provisioning were not firmed up while the business case was finalized and approved.

225. UNICEF stated that the location was confirmed by the Executive Director in February 2015 and the host agreement was signed in June 2015. Consequently, the time taken for implementation should be measured from June 2015. The Global Shared Services Centre was fully functional by the end of 2016, accounting for less than 18 months of implementation. Furthermore, the business case provided information to make a decision, but did not provide a comprehensive design and implementation plan. When a decision was made, a project was established to conduct further design and develop a project implementation plan. Thereafter, adjustments were made to the original value proposition. The scope did not change, except to add a global help desk. The project implemented an organizational design review process with business owners to finalize the organizational structure over a period of several months.

*Project cost*

226. The Board noticed that in the original business case, the total cost of the project was estimated at $29.2 million, which was later revised to $15.85 million following an independent review in 2014. The Board was informed that the final approved cost, covering both staff and non-staff costs, was $14.16 million. However, a copy of the document for the approval of this final cost was not made available to the Board.

227. The Board was informed that the actual expenditure incurred for the implementation of the Global Shared Services Centre project was $11.69 million. The Board noticed that the actual cost incurred did not include the cost of human resources transition, which was absorbed by the Division of Human Resources, and the amount of the actual cost incurred for human resources transition was not available. Furthermore, the Board was informed that a portion of the costs of information technology investments estimated in the business case was also funded from existing budgets for information technology investments, details of which were not made available either. In addition, details of the actual expenditure incurred, amounting to $11.69 million, were not made available to the Board and therefore the Board could not verify the actual expenditure incurred for the establishment of the Centre by UNICEF.

*Projected savings from the Global Shared Services Centre*

228. One of the drivers for conceiving and executing the Global Shared Services Centre project was cost efficiencies arising from the consolidation and specialization of transactions. It was thought that the shared service centre model provided an opportunity to move activities from high-cost locations to low-cost locations. Details

of estimated savings projected and worked out for the years 2017 and 2018 are presented in table II.9.

Table II.9
**Details of savings from the Global Shared Services Centre**
(Millions of United States dollars)

| *Cost savings projected* | *Final projection (2013)* | *Estimated savings calculation for 2017* | *Estimated savings calculation for 2018* |
|---|---|---|---|
| Global transaction processing costs (A) | 44.5 | 41.0 | 41.1 |
| Global Shared Services Centre operating costs (B) | 22.2 | 15.9 | 20.6 |
| **Overall annual net savings (A)-(B)** | **22.3** | **25.1** | **20.5** |

*Source*: Information furnished by UNICEF.

229. For estimating the global transaction processing costs for a volume of transactions, the use of full-time equivalents[3] for transactions, which had earlier been processed in the country and local offices, was considered. For transactions earlier processed at headquarters by full-time positions, a "lift and shift" approach was considered.

230. The Board noticed, however, that calculations of savings were based on estimates rather than actual amounts, for example, for working out the global transaction processing costs in 2017 and 2018, estimates of transaction volumes were used in place of actual transaction numbers. The Board noticed that the transaction volume for 2017 was estimated from the volume of transactions in 2016, which, in turn, was estimated using a growth rate calculated on the basis of changes in transaction volumes from 2013 to 2016 for selected proxy processes. Furthermore, a specific calculation was not carried out for the year 2018 on the premise that both volumes and actual operating costs did not vary significantly from 2017.

231. The Board is of the view that the estimates may not reflect the actual position, in view of the following:

(a) Two proxy process were used to work out the estimated growth in transactions: the full-time equivalents for all of the business processes carried out at Global Shared Services Centre, that is, personnel action forms, were used as the proxy process for human resources transactions, and invoice processing was used as the proxy process for finance transactions. The Board noticed, however, that there were significant differences in the volumes and changes across processes under the same area;

(b) The change in transactions (growth/reduction rate) was not uniform over the years.

232. UNICEF stated that calculations of cost savings of the Global Shared Services Centre following its launch were based on actual transaction volumes from offices, less the cost of running the Centre. The methodology used the original time and levels of staff to perform those functions in field offices, in line with the business case benchmarks, multiplied by the volumes in each country, using the standard staff costs for staff levels for each country, less the operating cost of the Centre. The exercises carried out in 2016 and subsequently were in accordance with the original business

[3] A full-time equivalent is the amount of work effort that represents one full-time employee. The full-time equivalent calculation is used when the work effort for a process is distributed among multiple employees performing the function on a part-time basis.

case methodology, accounting for changes in volume from the original data collected in 2012. The Board was informed that the Centre had started tracking additional savings arising from additional functions transferred to it and efficiency savings.

233. The Board noted that the operationalization of the Global Shared Services Centre and the central processing of transactions resulted in improved efficiency. However, the Board is of the view that the methodology for the calculation of savings needs to be made more robust by utilizing actual transaction numbers across business processes to afford a more complete assessment of efficiencies achieved by the Centre.

*Details of time gains from the Global Shared Services Centre*

234. The Board noticed that it was estimated that operational staff in the field stood to gain 680,000 hours of work per year in UNICEF as a whole, and about 2,500 staff, who were performing low-value activities, would be able to better spend their time on mission-focused activities after the establishment of the Global Shared Services Centre.

235. The Board noticed that details of actual gains in the number of hours of work and details capturing changes towards mission-focused activities following the establishment of the Global Shared Services Centre were not available. The Board is of the view that there was a need to review and rationalize the work profile of all those staff who were associated with functions now carried out by the Centre, an assurance on which could not be drawn owing to the lack of availability of necessary details.

236. **The Board recommends that UNICEF review and strengthen the methodology to calculate savings achieved to give a complete picture of all of the efficiencies achieved, including post reductions, across the organization as a result of the establishment of the Global Shared Services Centre.**

237. UNICEF, while acknowledging the recommendation, stated that it had developed an updated methodology for calculating future savings and anticipated the full implementation of the recommendation by the second quarter of 2020.

*Documentation for the functioning of the Global Shared Services Centre*

238. The Global Shared Services Centre has been carrying out various important business processes and transactions, many of which have financial implications. In addition, a large number of processes carried out at the Centre involved steps being taken at other offices of UNICEF, generally prior to processing at the Centre. The Board noted that this scenario inherently entails a clear definition of the roles and responsibilities of the Centre in relation to other offices for each of these processes and also a formal and clear delegation of authority to the Centre for carrying out these functions.

239. The Board was informed that the functions, responsibilities and accountability of the Global Shared Services Centre were captured in an express and implied manner from a large number of documents, including the UNICEF Strategic Plan 2018–2021, the UNICEF integrated budget for the period 2018–2021, the annual report of the Executive Director and midterm review documents. The Board noted that there was no comprehensive document that defined the roles, functions and responsibilities of the Centre and its relation to other offices of UNICEF.

240. The Board noticed that although the Global Shared Services Centre started performing all functions from January 2017, the authority required for it to perform its functions was formally delegated, entailing a significant delay. Authority for financial transactions was delegated on 8 February 2018, authority for processes

relating to contributions on 31 January 2019 and authority for entitlement-related functions on 28 December 2018. Moreover, the Board could not find any document communicating formal delegation from the Supply Division for the functions moved to the Global Shared Services Centre or for the customer care function being carried out by the Centre.

241. UNICEF stated that the roles, functions and responsibilities of the Global Shared Services Centre were captured in several Executive Board documents and internal communications, and there was no need for a separate document laying them down. It stated that it would consider the possibility of preparing a report for the Executive Board detailing the updated functions, structure and accountabilities of all UNICEF offices, including the Global Shared Services Centre, but the report would be possible only after approval of the strategic plan for the period 2022–2025. For invoices, it agreed on the need to have a documented memorandum for handling direct freight invoices.

242. The Board noted that the majority of documents being relied upon as the basis for deriving the roles and responsibilities of the Global Shared Services Centre were time-specific documents. The Board is of the view that, taking into consideration the significant role played by the Global Shared Services Centre in different business processes and financial transactions, there is a need for comprehensive documents that clearly define the responsibilities of all UNICEF offices and the Global Shared Services Centre for each process.

*Standard operating procedures and process for the mapping of functions of the Global Shared Services Centre*

243. The Board noticed that standard operating procedures and process instructions had been prepared for the majority of the areas of functioning of the Global Shared Services Centre. However, the system needed to be strengthened in the following areas:

(a) The process to be followed and responsibilities of the Global Shared Services Centre and country offices in respect of cases created before the establishment of the Centre, in particular clearing outstanding invoices, cleaning master data and processing old invoices and payments;

(b) Strengthening system-based controls in VISION;

(c) Strengthening the knowledge of country offices and regional offices on the requirements for processing service requests efficiently and without delay and for return and rejection.

244. UNICEF stated that the new case management tool, called Service Gateway, would be used as a single repository for all information about the functions, process guidelines and accountabilities of the Global Shared Services Centre.

245. **The Board recommends that UNICEF consider issuing comprehensive documents defining the roles and responsibilities of the Global Shared Services Centre and the relationship of the Centre with other UNICEF offices in all of its areas of functioning, and mitigate the existing gaps in the internal instructions and procedures for all areas of functioning of the Centre.**

*Functioning of the Global Shared Services Centre*

246. Services provided by the Global Shared Services Centre were formalized in service-level agreements between the Centre and its client offices, namely, offices at UNICEF headquarters and field offices. Service-level agreements defined the

services offered and the expected service levels, such as the number of days taken to perform each transaction type, and were different for standard and emergency cases.

*(a) Differences in data*

247. The Board noticed that the Global Shared Services Centre provided data on performance against service-level agreements, which was different from the inSight performance indicator data set. There were differences in the numbers of cases created, cases closed, the service-level agreement targets met and the average processing time of business processes among the two data sets.[4]

248. UNICEF stated that discrepancies in the data were caused by the referencing of two different versions of the dashboard. The Board noted that the basic data from which the dashboard figures were sourced should not change, especially after the closure of the financial year, and two different versions of data should not coexist in the production environment.

*(b) Performance against service-level agreement targets*

249. The Board carried out an analysis of the performance of the Global Shared Services Centre against the service-level agreement targets for various processes on the basis of the data furnished by the Global Shared Services Centre (see table II.10).

Table II.10
**Analysis of performance against service-level agreement targets**

| *Type of business process* | *Cases processed* | *Service-level agreement target met* | *Service-level agreement target not met* | *Remarks where service-level agreement targets not met* |
|---|---|---|---|---|
| **Payroll** | | | | |
| Normal | 11 714 | 11 089 | 625 | 44 standard and 25 emergency cases were processed in more than five days and 8 standard and 6 emergency cases were processed in more than one month after the service-level agreement time was over |
| Emergency | 2 674 | 2 519 | 155 | |
| **Total** | **14 388** | **13 608** | **780** | |
| **Finance** | | | | |
| Normal | 255 456 | 235 098 | 20 358 | 193 standard and 324 emergency cases were processed in more than five days and 74 standard and 65 emergency cases were processed in more than one month after the service-level agreement time was over |
| Emergency | 150 903 | 145 228 | 5 675 | |
| **Total** | **406 359** | **380 326** | **26 033** | |
| **Human resources** | | | | |
| Normal | 60 890 | 57 981 | 2 909 | 186 emergency cases were closed in the first 5 days, 30 cases in 6 to 10 days and 14 cases in more than 10 days after the service-level agreement time was over |
| Emergency | 1 378 | 1 148 | 230 | |
| **Total** | **62 268** | **59 129** | **3 139** | |
| **Harmonized approach to cash transfers** | | | | |
| **Total** | **88 411** | **87 095** | **1 316** | Delays ranged from 2 days to 78 days after the service-level agreement time was over |

*Source*: Information furnished by UNICEF.

[4] Processes where the two data sets differed included offer issued, medical clearance, separation, SAP Human Resources payroll documents, payment and disbursement, and request for salary advance.

250. The Board also noticed that the service-level agreement target for bank reconciliation was eight days. The Board was informed that of 370 bank reconciliation statements for the month of December 2018, reconciliation for 172 of them was done after 8 January 2019, as the closing instructions provided that the time available was until 10 January 2019.

251. UNICEF stated that:

(a) Reasons for delays in processing the cases, with regard to the finance processes, included the need for greater scrutiny by the payments team for manual payments, system outages of the United Nations tax interface, delays in closing requests in MyCase[5] owing to internal restructuring, frequent MyCase outages, the resignation of staff and slow recruitment;

(b) Reasons for delays in processing human resources cases included the existence of complex inter-agency mobility agreements and multi-stakeholder processes, the receipt of a large number of documents for updating official files, dependence on external factors and the submission of incomplete information in medical clearance requests;

(c) Reasons for delays in harmonized approach to cash transfers cases included system downtime.

252. The Board noted that delays in processing the cases beyond the service-level agreement time resulted in delays in payments and the update of relevant records in the database. Furthermore, the Board noted with concern that delays in processing emergency cases could have an impact on programmatic interventions at the field level, and therefore UNICEF should strive to achieve the target time in all cases.

*Ticket processing*

*(a) Return and rejection*

253. Each request received at the Global Shared Services Centre from country offices was processed as a separate ticket which was tracked throughout its entire process, from receipt to settlement. Its processing time was finally measured against the service-level agreement target to assess its achievement against that target. The Board noticed that a ticket could be returned for lack of information or submission error, among other things, and could be resubmitted or rejected. For the period the ticket is returned, the calculation of processing time is stopped. Reasons for the return or rejection included errors in submission, incorrect request type, the request being outside the scope of the Global Shared Services Centre, possible duplication and the request not being eligible for entitlement.

254. The Board was informed that 25,908 normal and 5,728 emergency cases from the finance business process were returned during the year 2018, which included 1,192 normal and 356 emergency cases returned owing to possible duplications. Furthermore, 10,647 cases (other than invoices) were returned during the year, which included 755 cases that were returned repeatedly, that is, 3 to 10 times, and 2,906 cases being returned without any reason for their return being assigned.

255. The Board was also informed that 8,051 cases were rejected during the year 2018, of which 2,095 were rejected owing to duplication. These included 1,233 cases pertaining to human resources or payroll and 234 cases that were returned prior to rejection owing to various reasons, including missing information. Moreover, 19 of those rejected cases were returned earlier without any reason being assigned.

[5] The management tool for uploading requests by country offices.

256. UNICEF attributed repeated returns to missing or incomplete supporting documentation. The Board was also informed that the Global Shared Services Centre and the country offices had internal controls in place to mitigate the risk of duplication in processing or payment, and regular reminders during training webinars would further reduce the risk. Furthermore, a request had been raised for an information technology solution to be implemented within VISION to mitigate the risk of duplication of invoices.

257. The Board noted that concerns were raised by country offices upon the return of requests by the Global Shared Services Centre for instances of the same cases being returned more than three times with no reasons for return noted. This indicates a need to review the processes and cases involved to identify areas for improvement. The Board also noted that the duplication of requests was just not due to system issues, as was highlighted by the Centre, but that there were issues in the processing of the cases by individuals at various levels in the whole value chain of these business processes. Controls being used for detecting duplication were exercised manually and seemed to be largely dependent on individual processors rather than being part of the system in place.

*(b) Time taken for the closure of cases*

258. The Board noticed that 376 cases were rejected after return, of which 125 were rejected with a total freeze time[6] of 10 to 460 days. Such a high freeze time leaves open the possibility that these tickets were kept in the Global Shared Services Centre without processing. Furthermore, 10 cases were rejected with a net processing time of 12 to 46 days, although they were returned at least once for some deficiency during processing at the Centre. The Board noted that this also indicated the possibility of the cases being kept at the Centre without processing.

259. The Board also noticed that of 26,444 cases processed without any return operation, in 98 cases the number of business days between the open and closed date was in the range of 100 to 624 days, while the target number of days was only 20 days. The Board noted that in human resources cases, the human resources administration had worked on complex human resources issues, and in payroll cases, the delay was due mainly to a delay in receiving information or clarification from third parties. However, an excess time of up to 5 to 30 times the target number of days in a high number of cases was an area of concern.

260. UNICEF stated that some cases indeed were not followed up for a long time, and others were in “returned” status for a long time, which was normal in separation cases.

*(c) Operation of the service-level agreement clock*

261. The service-level agreement clock[7] would run when the request was being processed by the Global Shared Services Centre during office hours, and would be off outside of office hours. The clock was also paused for transactions that could not be fully processed owing to missing elements. The clock could be paused either when the processor at the Global Shared Services Centre returned the request to the requestor for various reasons, or when the processor set the status to “pending”, as completion of the request required input from third parties.

[6] The time when the service-level agreement clock is stopped during the life cycle of a request. This time is excluded from the service-level agreement calculation.

[7] The system for the calculation of processing time taken by the Global Shared Services Centre for assessment against service-level agreements.

262. The Board noted that the processor could manually pause and resume the time clock. As the clock was used to measure performance against the service-level agreement, the possibility of its manual operation was an area of concern. The Board noticed from a test check that for 71 returned tickets where the service-level agreement was met, the processing time recorded was less than the duration of time between the open date and the returned date by up to 82 days. This indicated the possibility of pausing the clock with "pending" status prior to its return and therefore a deviation from the standard practice.

263. UNICEF stated that of those 71 cases, in three cases the "pending" status was set, and all the cases were from the human resources administration, which had valid reasons. The Board noted that even in these three cases where the clock was paused, the cases were returned without mention of any reason, which was not appropriate.

*(d) Average time taken and service-level agreement targets*

264. UNICEF considered the processing and closing of 90 per cent of the cases within the time prescribed by the service-level agreement as the target. However, the Board could not find any document containing the formal approval of competent authority for the 90 per cent norm. The Board noted that the individual service-level agreements prescribed a target number of days to be taken to complete the process at the Global Shared Services Centre. Generally, the Centre was able to meet the 90 per cent norm for targets prescribed in individual service-level agreements.

265. An analysis of the average time taken for all of the processes and its comparison with the service-level agreement target revealed that:

(a) In finance-related processes, the average time taken to complete 7 out of 20 processes was less than 50 per cent of the service-level agreement target time, ranging from 14.70 per cent to 49.50 per cent;

(b) In human resources-related processes, the average time taken to complete 20 out of 35 processes was less than 50 per cent of the service-level agreement target time, ranging from 2.00 per cent to 48.30 per cent;

(c) In payroll-related processes, the average time taken to complete 4 out of 10 processes was less than 50 per cent of the service-level agreement target time, ranging from 7.33 per cent to 47.33 per cent.

266. The Board noticed that in 31 out of 65 processes in the three major streams, the average processing time was much lower than the service-level agreement target time, which indicated that the time targets prescribed in the service-level agreements needed to be reviewed.

267. The Board also carried out an analysis of the time taken for the processing of cases after the target was met for one sample process each from the three main functions of payroll, human resources and finance. The Board noted that the average time to process cases after the target of 90 per cent had been met had increased significantly. This indicated that the efficiency level of processing went down after service-level agreement target of 90 per cent had been met. The Board also noted that the processing time was much higher after the service-level agreement target had been met (see table II.11).

Table II.11
**Average processing time for cases**
(Number of days)

| *Functions (process)* | *Average processing time of cases until 90 per cent limit was met* | | *Average processing time of cases processed after 90 per cent service-level agreement limit was met* | | *Average processing time of cases where service-level agreement was not met* | |
|---|---|---|---|---|---|---|
| | *Regular* | *Emergency* | *Regular* | *Emergency* | *Regular* | *Emergency* |
| Payroll (payments/disbursements) | 1.00 | 1.03 | 3.46 | 3.45 | 5.88 | 5.17 |
| Human resources (rental subsidy) | 1.16 | 1.19 | 2.80 | 2.71 | 3.60 | 3.32 |
| Finance (logistics and direct invoices) | 1.53 | 0.11 | 2.90 | 0.72 | 3.51 | 1.44 |

*Source*: Data shared by UNICEF.

268. UNICEF stated that service-level agreement targets were set in accordance with industry standards and agreed with business owners as part of the start-up of the Global Shared Services Centre project. These service-level agreement targets had been reviewed annually, first in 2017 and again in 2018, in which the processes, average processing time and industry standards were considered. The targets are all above the median and generally in the top or second-from-top quartile. An annual review of service-level agreement targets was being conducted to determine areas in which targets could be reduced on the basis of current staff capacity. The Global Shared Services Centre indicated that a revision of the service-level agreement targets, including onboarding, had recently been implemented, that a new case management tool had replaced MyCase and that it intended to revisit service-level agreement targets again in a few months.

269. While the Board appreciates the regular review being carried out, it is of the view that the present status implies that the targets in various processes need to be relooked and the empirical data of the average times being taken also need to be considered as an important input in the review. The Board also noted that the Global Shared Services Centre needed to take a relook into the processing time taken for achieving service-level agreement targets and the processing time taken after achieving service-level agreement targets to identify areas for further improvement in its functioning.

270. **The Board recommends that UNICEF review the service-level agreement targets for business processes and take into consideration the average time taken for processing as an important input in the exercise.**

271. **The Board recommends that UNICEF strive to fix a tolerance limit, beyond which individual reasons for not meeting the service-level agreement targets should be clearly documented.**

272. **The Board recommends that UNICEF review the system to identify and correct the possibility of manually pausing the service-level agreement clock and review the cases in which the service-level agreement clock had been manually paused for long periods.**

273. **The Board recommends that UNICEF ensure that the specific reasons for the return and rejection of all cases are documented in the ticketing tool.**[8]

[8] Tool for uploading service requests by country offices and further communication.

*Maintenance of master tables*

274. The Global Shared Services Centre is responsible for maintaining an up-to-date, accurate and complete database in VISION in respect of customers, banks and vendors, including staff, which serves as a key internal control for mitigating financial risks. Master tables are used in the process of invoice payments, payroll and the accounting of transactions in VISION. The specific responsibility of the Centre also includes resolving exceptions with the country offices or vendors, as appropriate. The responsibility for maintaining the master table has been centralized in the Centre since September 2016.

275. The Board noticed significant deficiencies in the important master data managed by the Global Shared Services Centre related to the areas of human resources, bank and vendors (see table II.12).

Table II.12
**Deficiencies in master tables**

| | *Missing data* | | | | |
|---|---|---|---|---|---|
| *Table* | *Filed particulars* | *Number of records* | *Irrelevant data* | *Duplicate records* | *Additional issues* |
| Bank master | SWIFT/bank identifier code for international transfers | 62 905 | 13 columns | 1 618 (based on bank key, a unique field) | 1 399 records with error remark |
| | Bank numbers of the account | 30 850 | | | |
| | City details | 905 | | | |
| | Bank branch details | 54 225 | | | |
| | UNICEF region details | 138 335 | | | |
| Vendor master | Tax number | – | 805 | 3 (same vendor No.)<br>2 (based on location) | – |
| | City details of vendor | 18 318 | | | |
| | Address details | 28 120 | | | |
| | Data missing (number of fields) | 116 fields | | | |
| | Contact details | 69 722 | | | |
| LFBK master | Bank account details | 721 | 641 | 1 690 vendor transactions without bank account numbers in master tables | |
| Human resources master | System identification numbers | 1 941 | – | 2 (based on personal details) | – |
| | United Nations Joint Staff Pension Fund unique identification numbers | 406 | – | | |
| | UNICEF email identifiers | 124 | – | | |
| | Increment date | 14 680 | 4 538 | Invalid year “9999” was given for all cases, where action is invalid for next increment irrespective of reason for ineligibility | |

*Source*: Master tables furnished by UNICEF.

276. The Board noted that there were issues relating to lack of definition of mandatory fields for all master tables, missing information in various fields of data, the existence of a few duplicate records and data quality. Some of these issues also indicated the need for more robust input control for data entry in VISION.

277. UNICEF stated the specific reasons for individual issues, which included the optional nature of fields, legacy issues, specific country requirements, the conscious decision to use a particular data set, lack of a VISION account for all staff members and a missing United Nations Joint Staff Pension Fund unique identification number owing to staff not being qualified for enrolment. It also stated that many problematic

records were already blocked up. It gave assurances that the issues identified would be addressed in subsequent clean-ups during 2019 and the listing of mandatory fields would be completed.

278. The Board noted that these master tables would be referred to for significant transactions, such as invoice processing and payments, and having a robust, complete, accurate and reliable data set in these master tables would be part of an essential internal control system for the organization. The Board also noted that in the vendor master, country was the only mandatory field for the vendors, and the remaining data regarding the address and city would facilitate the identification of duplicate records and ensure the authenticity of vendors.

279. **The Board recommends that data in all master tables be reviewed regularly for completeness, accuracy and quality, and that a clear definition of mandatory fields be established for all master tables.**

280. UNICEF agreed with the recommendation and stated that it would propose mandatory fields for finance master records by the second quarter of 2020 for inclusion in the master data management procedures and guidance. The system already had built-in master tables with mandatory fields and appropriate controls based on information types.

*Invoice processing*

281. UNICEF disbursements were based on an approved purchase order or contract, with a valid goods receipt or service entry sheet, an invoice from the vendor and other appropriate documents in VISION.

282. The standard operating procedure for the processing of logistics invoices provided that the invoice date was mandatorily entered in VISION and a posted invoice was selected for payment based on the payment due date. The payment due date was determined from the payment terms and was calculated from the invoice date. Furthermore, the UNICEF financial and administrative policy provided that the normal payment period from the baseline date[9] was 30 days.

283. The Board noted that the baseline date was an important date field in VISION which denoted the date the invoice was received in the country office and further determined the due date for the payment of each invoice. In this connection, the Board noticed the following issues:

(a) In 367 cases, the baseline dates were very old, ranging from the years 1981 to 2016, for which the transactions were processed. Moreover, in eight cases, the baseline date was invalid, containing details like “0018”, “0218”, “1201” and text. The Board noted that in these cases, the trail for the posting of the invoice and three-way match confirmation[10] had to be verified manually from individual records. UNICEF attributed input errors for baseline dates as the reason for these instances, and stated that some years, such as 2013, were valid. The Board noted that these details might be correct, but the status needed review, since the baseline period of 2013 for invoices processed in 2018 would not be normal business practice in UNICEF, especially as it also signified that it took five years to process the payment after the receipt of the invoice;

(b) In 41,459 cases, there were delays of between 30 and 2,000 days in payment compared with the normal payment period, that is, 30 days from the baseline date. UNICEF attributed the delay to the late submission of invoices by country

[9] The date the invoice was received in the country office.

[10] Assurance that the purchase order and the goods receipt exist for the invoice.

offices and returned cases. The Board noted that the late submission of invoices after more than three years needed to be reviewed;

(c) In 55 cases, payments were made earlier than the baseline date by up to 360 days. UNICEF stated that 38 of these cases were manual input errors and 17 had terms of the baseline date at the end of the month. It also stated that, in most cases, incorrect future baseline dates had been entered manually. The Board noted that the manual input errors cited by UNICEF were an indication of weak internal controls, especially since the match between the baseline and payment dates was an important part of the three-way match confirmation in respect of invoices. In addition, there was a need for the review of cases that were not related to manual entry errors.

284. **The Board recommends that UNICEF incorporate necessary input controls and data checks, especially for the baseline date in VISION.**

285. **The Board also recommends that UNICEF take the measures necessary to ensure the timely submission and processing of invoices by all concerned offices.**

*Mitigation of payroll errors and exceptions*

286. The Global Shared Services Centre payroll team was responsible for processing monthly payroll for UNICEF staff. The monthly payroll process involved various steps, such as running payroll simulation and comparison reports to validate payroll simulation results, generating funding analysis reports as needed and following up with field offices as necessary, identifying errors and exceptions through master data exception reports and resolving errors before actual payroll processing.

287. The master data exception report was a control developed jointly by the human resources administration and the payroll team to flag exceptions and errors to give end users the opportunity to manually review and validate the outliers prior to actual payroll processing to prevent the wrong payment. The Board noticed during a test check of master data exception reports that there were errors and exceptions flagged as “in receipt of allowance date did not agree with the start of dependency record”. However, there was no pursuance of recovery from those cases.

288. The Board was informed that dependants’ data in those cases were created by the local offices in earlier periods, when human resources activities were decentralized to the field offices, and, owing to a lapse period more than two years from the administrative error, based on an administrative instruction, the recovery of the overpayment was not processed. The Board noted that the administrative instruction provided that overpayments would normally be recovered in full. However, when such overpayment resulted from an administrative error of which the staff member was unaware, recovery was to be limited to the amounts paid during the two-year period prior to the notification of such overpayment by UNICEF. Therefore, in all such cases, it was necessary to ascertain whether the staff members were informed or not before deciding on the course of action, and non-action on the basis of time period alone was not in line with the provisions of the administrative instruction.

289. UNICEF acknowledged the issue and stated that following the establishment of the Global Shared Services Centre, new actions were performed in a controlled environment with adequate checking to minimize such risk and recurrence. However, the legacy cases needed to be reviewed for further action. The Board was informed that this check had been introduced in the exception report for the purposes of ensuring data alignment as a streamlining effort. The correction of records had started and was in progress.

290. The Board noted that certain errors and exceptions were being repeated frequently. It would be important to review and segregate the exceptions and

repetitive exceptions into two categories: those that were routine in nature and did not have an impact on payroll; and those that did have an impact on payroll, and to address the exceptions that affected payroll as a first priority.

291. **The Board recommends that UNICEF prioritize the settlement of outstanding cases on the basis of focused criteria and an action plan involving all concerned offices.**

292. **The Board recommends that UNICEF explore the feasibility of recovery of overpayments, including those that were due to the entry of incorrect data in earlier years, in line with the administrative instruction concerned.**

293. **The Board recommends that UNICEF explore enhancing the monthly master data and funds exception report to identify exceptions or errors with payroll implications for review and corrective action.**

## C. Disclosures by management

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

294. UNICEF reported to the Board that losses in assets of $4.42 million (2017: $3.21 million) had been written off during 2018, including inventory of $2.52 million, contributions receivable of $1.44 million, and other receivables and property and equipment of $0.46 million.

### 2. Ex gratia payments

295. UNICEF reported that one event qualifying for ex gratia payment was authorized by the Executive Director in 2017. During 2018, a total of $ 38,012 (2017: $0.73 million) was made in three countries to qualifying national staff in duty stations subject to danger pay.

### 3. Cases of fraud and presumptive fraud

296. 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.

297. 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 that have been brought to their attention. We also enquire whether management has any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Internal Audit and Investigations. The additional terms of reference governing external audits include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

298. UNICEF reported 19 cases (2017: 20 cases) of fraud or presumptive fraud closed during the year 2018 by the Office of Internal Audit and Investigations and 184 cases of fraud or presumptive fraud relating to emergency cash transfer project cases closed during the year 2018, which were investigated by an independent organization engaged by UNICEF. The total financial loss on cases substantiated by the Office of Internal Audit and Investigations during 2018 amounted to $437,754, of which $14,987 was recovered. The investigations by the independent organization for project-specific cases in the cash-based transfer projects substantiated a fraudulent

transaction loss amounting to the equivalent of $84,461, of which $84,359 was recovered. The total loss for cases closed by the Office of Internal Audit and Investigations and cases investigated by the independent organization was $522,215, of which $99,346 was recovered.

## D. Acknowledgement

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

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

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
(Lead Auditor)

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

24 July 2019

## Annex

### Status of implementation of recommendations up to the year ended 31 December 2017

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2013 | A/69/5/Add.3, chap. II, para. 69 | The Board recommends that UNICEF require its country offices to apply fully justified budget assumptions in preparation for the resource estimation for activities in the multi-year/rolling workplans. | Guidance on the preparation of multi-year/ rolling workplans for country offices has been strengthened to include the development of assumptions for budget preparation. A results-based management training module has been developed and successfully rolled out. A workplan guidance document was developed and issued in the fourth quarter of 2017.<br>UNICEF has developed and implemented a new budget formulation tool to streamline and facilitate resources estimation processes. During the second half of 2018 and the first half of 2019, the budget formulation tool was rolled out and go-live training completed for all regions and headquarters divisions. Accompanied by related policies and procedures that were developed and made available to all staff on the tool's SharePoint site, the tool was rolled out as planned during the fourth quarter of 2018. Uptake by offices is as planned, in line with the related country programme document periods. | The Board noted that the budget formulation tool had been rolled out across UNICEF offices. The Board will verify the implementation and utilization of the tool in the context of the recommendation during the next audit and considers the recommendation to be under implementation. | | X | | |
| 2 | 2014 | A/70/5/Add.3, chap. II, para. 69 | The Board recommends that (a) steps be taken to improve the completion rate of activities under the integrated monitoring and evaluation plan; (b) the country offices continue their efforts to ensure timely finalization of annual workplans and follow up release of funds to implementing | Further to the issuance of revised guidance on annual workplans and annual management plans in the UNICEF Programme Policy and Procedure Manual during the fourth quarter of 2015, UNICEF implemented PRIME, a software platform to replace manual integrated monitoring and evaluation plans. PRIME requires multiple aspects of quality assurance throughout the year, ensuring that integrated monitoring and evaluation plan activities are realistic, thus improving their completion rate. | In view of the action taken, the recommendation is considered implemented. | X | | | |

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|---|
| | | | partners; and (c) the system and procedure for timely preparation and submission of annual management plans to the regional offices be strengthened to improve the governance of country offices. | During 2018, in line with the new evaluation policy, a refinement of the system was undertaken to integrate PRIME with other evaluation information platforms, namely the evaluation and research database and the evaluation management response tracking system. This effort is aimed at providing a comprehensive, integrated information system for planning, managing and reporting on monitoring and evaluation activities.<br>The evaluation information systems integration is a new information system that integrates functionalities for all evaluation and research phases. Merging the evaluation and research database, PRIME and the evaluation management response tracking system into a single system, the evaluation information systems integration has simplified the legacy systems into one unified workflow for the planning and implementation of evaluation activities. Piloting and roll-out at the field level was finalized during the first quarter of 2019, after an intense period of testing and several webinars to familiarize users with the new capabilities of the system. | | | | | |
| 3 | 2015 | A/71/5/Add.3, chap. II, para. 14 | The Board recommends that UNICEF consider (a) consolidating at the corporate level an annual integrated budget containing figures from all the budgets approved by the Executive Board; and (b) include budgeted amounts for various activities under each outcome at the appropriate business unit level. | Part (a) of the recommendation is implemented, as acknowledged by the Board in its 2016–2018 reports.<br>Regarding part (b) of the recommendation, UNICEF has prepared a clear framework in line with IPSAS that articulates the annualization of amounts from the various budget sources and is supported by the integrated results and resources framework.<br>UNICEF has developed and implemented a new budget formulation tool to streamline and facilitate resources estimation processes. During the second half of 2018 and the first half of 2019, the budget formulation tool was rolled out and go-live training | The Board will carry out verification of the action reported against part (b) of the recommendation during the next audit and considers the recommendation to be under implementation. | | X | | |

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
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| | | | | completed for all regions and headquarters divisions. Accompanied by related policies and procedures that were developed and made available to all staff on the tool's SharePoint site, the tool was rolled out as planned during the fourth quarter of 2018. Uptake by offices is as planned, in line with the related country programme document periods. | | | | | |
| 4 | 2015 | A/71/5/Add.3, chap. II, para. 90 | The Board recommends that UNICEF ensure that (a) regional and country offices take necessary steps to prepare realistic integrated monitoring and evaluation plans and improve their completion rate of activities; and (b) follow the procedure prescribed in the UNICEF Programme Policy and Procedure Manual with respect to the preparation and implementation of annual workplans and annual management plans in order to enable their timely execution. | The Field Results Group issued the UNICEF procedure on the annual country office management plan and country management teams. All country and regional offices are expected to comply with the specific responsibilities in the procedure.<br>A new evaluation information systems integration system has been deployed to all country offices in 2019, after an intense period of testing and several webinars to familiarize users with the new capabilities of the system. All legacy systems were integrated into the new platform.<br>The evaluation information systems integration is a new information system that integrates functionalities for all evaluation and research phases. It will merge the evaluation and research database, PRIME and the evaluation management response tracking system into a single system and will simplify the legacy systems into one unified workflow for the planning and implementation of evaluation activities. | In view of the action taken, the recommendation is considered implemented. | X | | | |

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| 5 | 2015 | A/71/5/Add.3, chap. II, para. 105 | The Board recommends that UNICEF consider (a) putting in place a fund tracking system to establish links between planned and actual expenditure against the appropriate planning level (outcome, output, activity); (b) review the existing guidance and other resource material for their improvement and better utilization; and (c) align output indicators with focus areas and activities towards achievement of outputs under the outcome entitled "Education". | UNICEF has developed and implemented a new budget formulation tool that links budgeted and actual expenditure at the activity, output and outcome levels to facilitate effective budget management and expenditure monitoring and to streamline and facilitate resources estimation processes. During the second half of 2018 and the first half of 2019, the tool was rolled out and go-live training completed for all regions and headquarters divisions. Accompanied by related policies and procedures that were developed and made available to all staff on the tool's SharePoint site, the tool was rolled out as planned during the fourth quarter of 2018. Uptake by offices is as planned, in line with the related country programme document periods. | The Board noted the updated response of UNICEF and will verify the status of its work in the context of the recommendation during the next audit, and considers this recommendation to be under implementation. | | X | | |
| 6 | 2015 | A/71/5/Add.3, chap. II, para. 114 | The Board recommends that the Supply Division follow up with country offices and third parties to review the causes of delay and make sincere efforts to ensure the timely receipt of vaccine arrival reports. | In accordance with its commitment, UNICEF has implemented various efforts to enhance the timely receipt of vaccine arrival reports. During 2017, the Supply Division completed a review of the Supply Manual in addition to the policy in the guidelines of the World Health Organization on the international packaging and shipping of vaccines. On the basis of the review conducted, UNICEF published guidance to ensure the provision of clear and consistent guidelines to UNICEF country offices for the submission of vaccine arrival reports.<br>Furthermore, in September 2017, UNICEF defined and established a key performance indicator to monitor the achievement of the timely receipt of vaccine arrival reports within three working days. This indicator was implemented and is being used to inform country offices on their performance in the | The Board noted the action taken by the Supply Division in the context of the specific recommendation and considers this recommendation implemented. | X | | | |

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| | | | | timely receipt of vaccine arrival reports, and will also be used to develop mitigation strategies, where needed, to improve performance.<br>Management continues to support specific offices experiencing significant and consistent delays in the receipt of vaccine arrival reports through analysis and the development of action plans to improve timeliness. Management is pleased to report that a 12 per cent improvement has already been experienced from similar efforts in Pakistan, Nigeria and Bangladesh in 2018 compared with 2017.<br>As a result of the actions taken, aggregated data as of the third quarter of 2018 shows notable improvement by UNICEF in this area, with 72 per cent of vaccine arrival reports received within three days, compared with 45 per cent at the end of the third quarter of 2017. Management considers this recommendation implemented and requests its closure. | | | | | |
| 7 | 2016 | A/72/5/Add.3, chap. II, para. 25 | The Board recommends that UNICEF implement the guideline on identifying the operational costs that should be met from the programme budget and the institutional budget. | As part of its integrated budget planning process for the period 2018–2021, UNICEF ensured that appropriate assumptions were applied with regard to office structures and funding sources. The criteria for the review were based on the agreed-upon guidance approved by executive management. This is the first step towards a more comprehensive process of continuous review and consideration of post levels and structures to ensure that UNICEF has a coherent funding typology.<br>The budget formulation tool is a web-based application that will replace the integrated budget costing system and employs results-based-budgeting principles to help UNICEF to enhance its ability to link results to resources. It uses the results structure in | The Board noted the progress indicated by UNICEF and will verify it during the next audit. The recommendation is considered to be under implementation. | | X | | |

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| | | | | VISION to help country offices to build their budgets. Guidance and tools have been developed and made available to all staff on the tool's SharePoint site, to help country offices to build budgets, as highlighted in the responses to recommendation Nos. 1, 3 and 5 above.<br>UNICEF implemented the guideline and applied the appropriate criteria and typology for post costs as part of the 2018–2021 integrated budget.<br>For non-post costing, the budget formulation tool aggregates data from the output level to the country programme level.<br>Offices apply a bottom-up resource estimation methodology. In the budget formulation tool, information is estimated by strategy and cost category at the output level, aggregated to the outcome and further aggregated to the country programme level. For this, there is guidance on the methodology for non-post costing in the budget formulation tool readiness package.<br>UNICEF management considers this recommendation implemented. | | | | | |
| 8 | 2016 | A/72/5/Add.3, chap. II, para. 31 | The Board recommends that UNICEF (a) continue to provide necessary technical guidance and operational support to the National Committees so that all the National Committees implement Joint Strategic Plans aligned with the UNICEF Strategic Plan; and (b) enhance its governance to achieve the targets of private sector fundraising. | With regard to part (a) of the recommendation, the Private Fundraising and Partnerships Division has fully incorporated the provision of necessary technical guidance and operational support to the National Committees to facilitate their implementation of Joint Strategic Plans aligned with the UNICEF Strategic Plan 2014–2017.<br>The Division continued to provide the necessary technical guidance and operational support to the National Committees to ensure delivery in line with the targets set for the final year of the 2014–2017 planning period. | In view of the action taken in the context of the specific issue highlighted, the recommendation is considered implemented. | X | | | |

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| | | | | Regular visits and regular remote and in-country technical assistance has been provided to National Committees to assist in the delivery of targets outlined in each Joint Strategic Plan and facilitate the review of the 2017 results in accordance with the Plan.<br>The Division undertook an assessment of the Joint Strategic Plan process in 2016, which informed the decision to move to an online platform for the Plan to improve monitoring and reporting, as well as alignment with the new UNICEF Private Sector Plan 2018-2021: IMPACT for Every Child.<br>With regard to part (b) of the recommendation, the Private Fundraising and Partnerships Division considers its governance over the achievement of National Committee fundraising targets to be strong. The market development team operates a “point person” system, providing one-to-one support to a portfolio of markets, calling on specialist support where needed and giving oversight, strategic and technical input during the year and especially as part of the development of new Joint Strategic Plans. Results are reviewed on a quarterly basis and input given to markets to revise programmes or to adapt structures as deemed appropriate. Top-performing markets undergo an alignment process before each Joint Strategic Plan is implemented and also a midyear review with the market development team. Furthermore, as National Committees are legally separate entities to UNICEF, UNICEF does not and cannot exert direct control over their delivery against fundraising targets. | | | | | |

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| 9 | 2016 | A/72/5/Add.3, chap. II, para. 36 | The Board recommends that UNICEF engage with the National Committees and follow up with them to achieve the desired contribution rate of 75 per cent of gross proceeds set in the cooperation agreement for the National Committees. | UNICEF closely monitors the contribution rate of every National Committee and strongly encourages each of them to meet the desired contribution rate of 75 per cent of gross proceeds. The Joint Strategic Plans for those Committees that have not yet achieved this target include a road map for reaching the 75 per cent contribution rate.<br>This demonstrates the efforts by the Private Fundraising and Partnerships Division and the relevant National Committees to abide by the cooperation agreement and reduce retention as much as possible. Given each Committee's individual context, it is not achievable for all to reach 75 per cent in 2019 or in the next few years. UNICEF accepts this, and the road map is used to document the mutually agreed timeline for improving the contribution rate. Given that it has provided the documented evidence of the agreed-upon road map for improvement, which demonstrates its engagement and follow-up with the National Committees, UNICEF requests that this recommendation be closed. | The Board continued to note weakness in the system where National Committees are not able to maintain the contribution rate of 75 per cent. In view of this, the recommendation is considered to be under implementation. | | X | | |
| 10 | 2016 | A/72/5/Add.3, chap. II, para. 57 | The Board recommends that UNICEF reconcile the different targets fixed by the Strategic Plan, the budget and the Joint Strategic Plan and proactively monitor revenue generation through the different income channels. | Through the end of 2017, the Private Fundraising and Partnerships Division has been monitoring and reconciling the revenue targets in different channels, including in the context of prioritizing the private sector income streams. Considerable effort has been put into ensuring alignment of existing plans, including the Strategic Plan 2014–2017, and has also ensured alignment of new plans (UNICEF Strategic Plan, IMPACT Plan, Joint Strategic Plans, private sector plans and result assessment module key performance indicators). In addition, UNICEF provided access to the tools and reports used to monitor revenue generation. | In view of the action taken in the specific context of the issue highlighted, the recommendation is considered implemented. | X | | | |

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| 11 | 2016 | A/72/5/Add.3, chap. II, para. 62 | The Board recommends that UNICEF formulate an appropriate mechanism to enhance the level of contribution from potential income channels such as corporate donors. The strategy needs to be finalized before the implementation of the next Private Fundraising and Partnerships Plan. | The Private Fundraising and Partnerships Division finalized its plan for 2018–2021 (the IMPACT Plan). In the plan for 2014–2017, pledges and corporate donors had been prioritized as lead fundraising channels. The process of developing the new Private Fundraising and Partnerships Plan for 2018–2021 included assessments of the potential of various fundraising channels. Strategies are further elaborated in the impact plan. | In view of the action taken in the specific context of the issue highlighted, the recommendation is considered implemented. | X | | | |
| 12 | 2016 | A/72/5/Add.3, chap. II, para. 68 | The Board recommends that UNICEF strengthen implementation of the harmonized approach to cash transfers to achieve the targets. | The harmonized approach to cash transfers has been implemented in all country offices that transfer cash to implementing partners. Robust reporting mechanisms have been put in place for country offices, regional offices and headquarters to monitor the level of implementation of the harmonized approach and identify areas of weaknesses. The Harmonized Approach to Cash Transfers Policy and Procedures Manual has been issued with various supporting guidelines and system tools to assist country offices in effectively implementing the harmonized approach to cash transfers framework. UNICEF has met and exceeded the indicator targets that are set at a global level. Based on the 2017 year-end harmonized approach to cash transfers status report, globally UNICEF country offices achieved 158 per cent of the minimum required programmatic visits and 105 per cent of the minimum required spot checks. All regions showed improvement over the prior year. The top 25 country offices all met the programmatic requirements and only 6 of them missed the financial one, typically because of a lack of access and timing of the assurance activities. | The Board noted the status explained by UNICEF. However, the Board's report contains examples of various issues relating to the implementation of the harmonized approach to cash transfers framework across offices visited during audit and, in view of this, considers the recommendation to be under implementation. | | X | | |

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| 13 | 2016 | A/72/5/Add.3, chap. II, para. 74 | The Board recommends that UNICEF expedite the cost benefit analysis of the harmonized approach to cash transfers framework. | UNICEF conducted and completed a cost benefit analysis of the harmonized approach to cash transfers framework. The report is in draft phase pending final review. The final report will be completed in 2018. | In view of the action taken for the preparation of the report, the recommendation is considered implemented. | X | | | |
| 14 | 2016 | A/72/5/Add.3, chap. II, para. 84 | The Board recommends that in order to mitigate the risk of disputes or improper payments to alternate payees, UNICEF develop a suitable mechanism wherein the implementing partner's authorization of an alternate payee is clearly recorded. | The risk of improper payments is minimized through proper segregation of duties. Country office staff select the payee in the VISION system, but they can only select those payees that have been added to the vendor master file by staff of the Global Shared Services Centre. Payees are only added to the vendor master file with proper authorization.<br>To further strengthen the existing controls, UNICEF developed a suitable mechanism by means of a procedure on alternative and permitted payees for implementing partners. It clearly details the requirements for alternative payee updates to the vendor master file and for implementing partners to provide documented authorization. This exercise is part of an update of direct cash transfer-related policies and procedures, which was completed by the end of 2018. | In view of the action taken in the specific context of the issue highlighted, the recommendation is considered implemented. | X | | | |
| 15 | 2016 | A/72/5/Add.3, chap. II, para. 95 | The Board recommends that in order to meet the challenges posed by intrinsic and extrinsic factors, UNICEF ensure the risk assessment and risk reporting exercise by the applicable offices at least once every year. | During 2016, UNICEF evaluated and reformulated the organization's approach to enterprise risk management and risk reporting. UNICEF determined that the enterprise risk management process needed a significant revamp to make the reporting on the assessment more relevant and timely. As evidenced by the risk assessments conducted in 2017 and planned to be conducted annually, UNICEF offices perform risk assessments annually, report their risk profiles in the enterprise risk management tool (inSight) and are instructed to update their risk assessments as often as necessary. | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |

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| 16 | 2016 | A/72/5/Add.3, chap. II, para. 99 | The Board recommends that UNICEF ensure that the proposed new enterprise risk management policy is appropriately crafted to incorporate the organization's functional requirements and at the same time ensure that incongruities are avoided. | UNICEF has redrafted the current regulatory content of the enterprise risk management policy to address the incongruities noted. The updated policy is expected to be published in late 2018, in conjunction with the development and implementation of the enterprise governance, risk and compliance strategy of the Division of Financial and Administrative Management and the technology platform to support it. | The Board noted that the new enterprise risk management risk policy and procedures were being drafted. Therefore, the recommendation is considered to be under implementation. | | X | | |
| 17 | 2016 | A/72/5/Add.3, chap. II, para. 105 | The Board recommends that in addition to continuing with the good practice of providing ad hoc support from headquarters, there should be a regular and formal training programme for risk liaison personnel on risk management. | UNICEF has developed training materials for risk personnel on risk management. The training will be delivered by the end of 2018. | The Board noted that the new enterprise risk management risk policy and procedures were being drafted. Therefore, the recommendation is considered to be under implementation. | | X | | |
| 18 | 2016 | A/72/5/Add.3, chap. II, para. 111 | The Board recommends that UNICEF ensure the formulation of risk tolerance and risk appetite at appropriate operational levels. | UNICEF will articulate a risk tolerance and risk appetite statement at the organizational level in linkage with its financial regulations and rules as part of the updated enterprise risk management policy to be developed. | The Board noted that the new enterprise risk management risk policy and procedures were being drafted. Therefore, the recommendation is considered to be under implementation. | | X | | |

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| 19 | 2016 | A/72/5/Add.3, chap. II, para. 125 | The Board recommends that UNICEF ensure periodic review of vendor master records and remove all inconsistencies. | During 2016, vendor maintenance was centralized at the Global Shared Services Centre. As shared with the Board, during the second quarter of 2017, the Centre removed over 38,000 inactive records from the master data management records and a further 1,500 duplicates. Thereafter, each new record processed at the Centre is checked for possible duplicates according to standard operating procedures that are in place. Additionally, the Centre performs annual data clean-up and archiving exercises, which further remove the risk of duplicate records, as well as long-term inactive vendors.<br>Management already conducts periodic reviews of vendor master records at the Centre at least semi-annually. The removal of inconsistencies is also in place at UNICEF. The Centre has regularly conducted clean-ups of finance records and has succeeded in removing thousands of duplicates, as evidenced. The recommended action is already in place and is part of ongoing management efforts. The Centre will conduct a duplicate clean-up exercise in June 2019. | The Board continued to note weakness in the maintenance of the vendor master database. Verification of the results of the planned exercise in June 2019 will be carried out during the next audit. The recommendation is considered to be under implementation. | | X | | |
| 20 | 2016 | A/72/5/Add.3, chap. II, para. 133 | The Board further recommends that UNICEF develop the long-term agreement management system, including constant monitoring of its expiry, timely renewal and entering the agreement with better prices for regularly purchased items. | UNICEF has streamlined the tools for tender planning by updating and reviewing the strategic tender calendar, which includes long-term agreement expiration dates and planned actions regarding the need for extension/tendering and serves as a standing agenda in monthly programme group meetings. Non-strategic tenders are reviewed at the level of Supply Division centres and in unit meetings to ensure adequate planning.<br>In addition, UNICEF has developed a monitoring system for the expiration of long-term agreements, which is included in the supply dashboard in inSight. As | In view of the action taken by UNICEF in the context of the issues highlighted, the recommendation is considered implemented. | X | | | |

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| | | | | acknowledged in the Board's report for the year ended 31 December 2017, the recommendation was already partially implemented and closed by the Board. The only pending item was the release of the monitoring system for long-term agreements for goods and services, which was launched in February 2018.<br>The monitoring system is updated on a daily basis, allowing for constant monitoring. With 92 per cent of the Supply Division's procurement performed under long-term agreement, all frequently procured items are considered covered. | | | | | |
| 21 | 2016 | A/72/5/Add.3, chap. II, para. 138 | The Board recommends that UNICEF country offices ensure that the exemption on taxes, levies, tolls or duties are availed of on supplies and equipment as provided under the cooperation agreement with the host country. | UNICEF has implemented this recommendation to ensure that all exemptions on taxes and tolls are availed of in accordance with its cooperation agreements. New closure activity requesting compliance with host country agreements on value added tax (VAT) (either the exemption or the reimbursement modality) was implemented as part of the 2017 closure. Country offices confirm compliance with the respective cooperation agreement on an annual basis. The first annual confirmation was effective for the year ended 31 December 2017. | In view of the action taken, the recommendation is considered implemented. | X | | | |
| 22 | 2016 | A/72/5/Add.3, chap. II, para. 159 | The Board recommends that UNICEF review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to improve timely delivery. | UNICEF amended its guidance and procedures, with an emphasis on screening and agreeing sales orders with realistic target arrival dates with country offices and the importance of issuing purchase orders with realistic target arrival dates.<br>Amendments include additional available contractual remedies in the case of non-performance by a supplier. | In view of the action taken in the specific context of the issue, the recommendation is considered implemented. | X | | | |

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| 23 | 2016 | A/72/5/Add.3, chap. II, para. 170 | The Board recommends that UNICEF ensure the timely receipt of vaccine arrival reports. | In accordance with its commitment, UNICEF has implemented various initiatives to enhance the timely receipt of vaccine arrival reports. During 2017, the Supply Division completed a review of the Supply Manual in addition to the policy in the guidelines of the World Health Organization on the international packaging and shipping of vaccines. On the basis of the review conducted, UNICEF published guidance to ensure the provision of clear and consistent guidelines to UNICEF country offices for the submission of vaccine arrival reports.<br>Furthermore, in September 2017, UNICEF defined and established a key performance indicator to monitor the achievement of the timely receipt of vaccine arrival reports within three working days. This indicator was implemented and is being used to inform country offices on their performance in the timely receipt of vaccine arrival reports, and will also be used to develop mitigation strategies, where needed, to improve performance.<br>Management continues to support specific offices experiencing significant and consistent delays in the receipt of vaccine arrival reports through analysis and the development of action plans to improve timeliness.<br>As a result of the actions taken, aggregated data as of the third quarter of 2018 shows notable improvement by UNICEF in this area, with 72 per cent of vaccine arrival reports received within three days, compared with 45 at the end of the third quarter of 2017. Management considers this recommendation implemented and requests its closure. | The Board noted the action taken by the Supply Division to improve the timely receipt of vaccine arrival reports. However, there were cases of delayed receipt and non-receipt of vaccine arrival reports, which need action by the concerned country and regional offices, and in view of this, the recommendation is considered to be under implementation. | | X | | |

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| 24 | 2016 | A/72/5/Add.3, chap. II, para. 184 | The Board recommends that UNICEF identify reasons for the detention of containers for long periods and provide guidance to the country and regional offices to reduce the container detention time. | During the first half of 2018, UNICEF completed an analysis of the root causes of container detention. On the basis of the analysis conducted, the Supply Division developed guidance and updated the Supply Manual in November 2018. The updates provide guidance to country offices in mitigating root causes of demurrage to help to reduce container detention time. The updates were accompanied by templates and workshops to support offices on this matter.<br>UNICEF additionally developed a reporting mechanism to facilitate the continuous review by management of container movements globally and monitoring by the Supply Division and regional and country offices. The report is provided to offices on a biweekly basis and to management on a quarterly basis.<br>Finally, during the fourth quarter of 2018, UNICEF defined and implemented the requirements to incorporate container information and tracking as part of the second phase of the development of the electronic data interchange for enhanced reporting. | The Board continued to note weakness in the system regarding the timely return of empty containers. In view of this, the recommendation is considered to be under implementation. | | X | | |
| 25 | 2016 | A/72/5/Add.3, chap. II, para. 193 | The Board recommends that UNICEF generate and circulate division-wise month-end reports on open travel authorizations to create a monitoring mechanism so as to minimize the delays in trip closure. | While UNICEF agrees that delays in trip closure should be minimized, it disagrees with the recommendation to produce and distribute individual reports to some 150 offices owing to the high transaction costs that would involve. The trip closure information is already included in UNICEF management dashboards. Furthermore, UNICEF has implemented the improvements and expects these changes to result in a significant reduction in the delays in trip closure. It will monitor the effect of these improvements and then assess whether additional measures are required. | The Board continued to note weaknesses in the system related to open travel authorizations beyond the permissible limit and also noted the steps taken by management to improve the status. Therefore, the recommendation is considered to be under implementation. | | X | | |

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| 26 | 2016 | A/72/5/Add.3, chap. II, para. 199 | The Board recommends that UNICEF put in place a system check for exploring alternatives to travel by way of using technology before authorizing travel. | UNICEF implemented a system of confirmation that travellers have explored other alternatives to travel prior to any travel. A new functionality has been added to VISION which requires all staff members creating a travel authorization to certify that all alternatives to travel have been considered, including utilizing technology. It is only upon a staff member's certification that all alternatives have been explored that the system will allow the staff member to proceed and create a travel authorization. | In view of the action taken, the recommendation is considered implemented. | X | | | |
| 27 | 2016 | A/72/5/Add.3, chap. II, para. 208 | The Board recommends that UNICEF continue to collect data from all the country offices that are implementing the infant and young child feeding programme and ensure the completeness of the data for all the parameters. | UNICEF will collect data from country offices, as described below, but, for reasons beyond its control, UNICEF is unable to ensure the completeness of data for all the parameters. The data collection will be implemented through further improvements in the nutrition dashboard (NutriDash), which is developed and maintained by an outside consultant and collects data about nutrition programmes on an annual basis. This web-based platform will be strengthened with the implementation of the following two activities: (a) sustainability – the UNICEF Nutrition Section is already working closely with the business partner of the Information and Communications Technology Division to develop different scenarios for the long-term transition of the NutriDash platform to UNICEF, ensuring its sustainability. After a review by the Division and the Nutrition Section, the most feasible and cost-effective scenario will be implemented; (b) data visualizations and transparency – a consultant has been hired to improve data visualizations of nutrition programmes globally. Draft visualizations of the infant and young child feeding module have already been developed. | In view of the action taken, the recommendation is considered implemented. | X | | | |

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| | | | | As of the first quarter of 2018, progress towards strengthening this web-based platform has been made in the areas of sustainability, data visualization and transparency. Dashboards will be finalized and made available to UNICEF staff in 2018. | | | | | |
| 28 | 2016 | A/72/5/Add.3, chap. II, para. 224 | The Board recommends that UNICEF use the lessons learned from the Millennium Development Goals for effective implementation of the Sustainable Development Goals. | The Sustainable Development Goals monitoring framework is considerably more complex and ambitious than that of the Millennium Development Goals. There are more indicators that can be disaggregated to monitor progress with regard to different groups, such as women and minorities, and subnational areas, among other things.<br>Based on the experience of the Millennium Development Goals, UNICEF has learned that ensuring a complete baseline and periodic monitoring of the Sustainable Development Goals will require:<br>(a) systematic coordination among different organizations that support data monitoring to identify and help to close data gaps; (b) the prioritization of data monitoring support to countries that are least able to generate data on their own; (c) new data collection methods to be used in environments where traditional methods (surveys, administrative data) are not feasible (for example, in conflict settings); (d) greater commitment from countries themselves to support the monitoring of the Sustainable Development Goals; and (e) strengthened capacity of countries to conduct credible data monitoring.<br>UNICEF is committed to doing everything it can in pursuit of these five strategies and has begun new efforts to support them. These efforts have now been firmly embedded throughout a number of corporate strategies and commitments. They include prioritizing evidence generation as a core strategy and | The Board noted that in the current Strategic Plan 2018–2021, UNICEF has mapped the Sustainable Development Goals as impact indicators of each of the five goal areas of the Plan. It has also mapped its outcome and output indicators with result areas so as to delineate the contribution made by UNICEF towards the 2030 Agenda. Implementation of the plan and monitoring thereof will be reviewed by the Board along with the status of action taken in this regard through future progress reports. The Board therefore considers this recommendation to be under implementation. | | X | | |

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| | | | | function in support of ensuring the achievement of results of the new UNICEF Strategic Plan 2018–2021 through specific key performance indicators, which will be monitored and reported upon on an annual basis. They are also prioritized through dedicated resources, capacities and plans as core areas of accountability and deliverables among headquarters divisions tasked with harnessing the role of evidence in driving change and contributing to supporting countries in implementing the 2030 Agenda. While the overall milestone for implementation would be the end of the four-year strategic plan period, UNICEF has also set intermediary targets, which would be monitored on an annual basis.<br>UNICEF used the lessons from the Millennium Development Goals period for measurement, programming and advocacy for the Sustainable Development Goals cycle. They are now solidified as one of five key outcomes for the Data, Research and Policy Division, that all countries establish a baseline for key Sustainable Development Goal child indicators, drawing on new ways to generate data, using multiple indicator cluster surveys more strategically, mobilizing new data partnerships and developing data platforms. In addition, UNICEF will produce a flagship publication on the status of implementation of the Sustainable Development Goals as they relate to children on an annual basis. | | | | | |

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| 29 | 2016 | A/72/5/Add.3, chap. II, para. 236 | The Board recommends that UNICEF review the Charter of the Office of Internal Audit and Investigations to ensure adherence to the International Standards for the Professional Practice of Internal Auditing. | UNICEF will review and revise the Charter of the Office of Internal Audit and Investigations in response to recent changes in the International Standards for the Professional Practice of Internal Auditing, with the support of the Audit Advisory Committee and in coordination with the other United Nations audit functions.<br>UNICEF is reviewing the Charter. With the new Director of the Office of Internal Audit and Investigations now on board, the Office looks forward to completion by 31 December 2019. | As the revised Charter has not been prepared, the recommendation is considered to be under implementation. | | X | | |
| 30 | 2016 | A/72/5/Add.3, chap. II, para. 243 | The Board recommends that the Office of Internal Audit and Investigations prepare and implement its annual workplan to adhere to the five-year audit cycle in accordance with the Charter of the Office of Internal Audit and Investigations. | The Charter of the Office of Internal Audit and Investigations requires the Office to develop and implement a risk-based annual workplan with the aim of ensuring that, inter alia, all UNICEF country offices are audited within a five-year cycle. The Charter also requires, in line with auditing standards, that the workplan be flexible and adaptable to the emerging trends and issues in the organization, so the planned audit work will necessarily change as the year progresses to reflect the evolving risk profile and assurance needs of UNICEF. All amendments to the workplan, and the impact thereof, are reported to the Executive Director and the Audit Advisory Committee to ensure that the coverage by the Office is adequate to provide the necessary assurance on governance, risk management and control, and support the annual opinion. This assurance has included appropriate coverage of the high and very high-risk areas of UNICEF through routine audits as well as thematic and headquarters audits.<br>While UNICEF disagrees with the Board's conclusion that the Office of Internal Audit and Investigations is not in compliance with its Charter, it agrees with the need to review | As the revised Charter has not been finalized, the recommendation is considered to be under implementation. | | X | | |

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| | | | | the Charter, including the five-year audit cycle, to ensure that it properly reflects the current and future assurance needs of UNICEF and facilitates an effective and efficient risk-based internal audit. The Office is currently revisiting its Charter with the support of the Audit Advisory Committee.<br>As noted in the response to recommendation No. 29, UNICEF is reviewing the Charter. With the new Director of the Office of Internal Audit and Investigations now on board, the Office looks forward to completion by 31 December 2019. | | | | | |
| 31 | 2017 | A/73/5/Add.3, chap. II, para. 15 | The Board recommends that UNICEF review all multi-year donor agreements and decide whether their stipulations satisfy the criteria of a condition. | UNICEF continues to review contribution agreements as grants are created and to develop a documented mechanism for identifying exceptions and agreements with potential conditions for revenue recognition. | The Board noticed an issue in the review carried out by UNICEF in one case and will further examine the detailed checklists prepared by UNICEF for the review of all agreements during the next audit. The recommendation is considered to be under implementation. | | X | | |
| 32 | 2017 | A/73/5/Add.3, chap. II, para. 19 | The Board recommends that UNICEF suitably disclose its accounting policy for recognition of in-kind revenue. | For 2017, all in-kind contributions were recognized and disclosed in the financial statements on the basis of receipt, which is the most common approach. UNICEF considers such disclosure to be in line with IPSAS requirements. UNICEF will, however, revisit the IPSAS policy position and the policy disclosure in the notes to the financial statements for the year ended 31 December 2018, which are prepared in the first quarter of 2019. | In view of the action taken, the recommendation is considered implemented. | X | | | |

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| 33 | 2017 | A/73/5/Add.3, chap. II, para. 21 | The Board recommends that UNICEF disclose the net assets of institutional and regular resource programme segments as distinct segments. | The institutional budget of UNICEF is an allocation of its regular resource funds to cover institutional costs and any unused funds returned to regular resources. UNICEF combined the net assets of institutional and regular resource programme segments and disclosed them under the institutional segment. UNICEF agrees to move the combined figures to the regular resource segment, but it would be inappropriate for them to be shown separately.<br>A revised presentation is included in note 36 to the financial statements for the year ended 31 December 2018, and the recommendation should therefore be closed. | The Board noted the reply of UNICEF and will further examine the proposed treatment in the financial statements during the next audit. The recommendation is considered to be under implementation. | | X | | |
| 34 | 2017 | A/73/5/Add.3, chap. II, para. 28 | The Board recommends that UNICEF depict contributions receivable at their fair value in compliance with IPSAS. | UNICEF agrees to continue to monitor the impact of the discounting of receivables on an annual basis and to make adjustments when that impact is considered material. The materiality framework was implemented and an assessment was carried out and concluded that the amounts were not material in 2018. | The Board is of the view that showing the fair value of receivables is a requirement under IPSAS and therefore considers the recommendation is to be under implementation. | | X | | |
| 35 | 2017 | A/73/5/Add.3, chap. II, para. 37 | The Board recommends that UNICEF explain the material differences between actual amounts and budgeted amounts in the financial statements in accordance with the requirement of IPSAS. | UNICEF provided a variance analysis in chapter IV of the present report, in the section entitled "Financial statement discussion and analysis". This disclosure is in line with the applicable IPSAS standard. Nonetheless, UNICEF agreed to provide supplementary explanations for material differences between actual amounts and budgeted amounts in the 2018 financial statements. | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |

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| 36 | 2017 | A/73/5/Add.3, chap. II, para. 48 | The Board recommends that UNICEF review and ensure compliance with the internal control mechanism in the travel management and related processes. | UNICEF anticipates improved compliance with the internal control mechanism globally upon the implementation of new certification measures that include three functionalities enhanced in VISION: (a) a formal warning mechanism for staff having more than two trips open; (b) automated reminders for open travel authorizations in VISION; and (c) a "hard stop" (i.e., an automatic control that would not allow the system to process any further travel authorizations) on new travel authorizations when more than three authorizations are already open. UNICEF also plans to implement required system enhancements to improve other internal control mechanisms related to travel. | The Board continued to note weakness in the system relating to open travel authorizations. Therefore, the recommendation is considered to be under implementation. | | X | | |
| 37 | 2017 | A/73/5/Add.3, chap. II, para. 49 | The Board further recommends that UNICEF make travellers and managers aware about their duties and roles as envisaged in the travel policy. | UNICEF staff are aware of their duties and roles as envisaged in the travel policy. Moreover, global broadcast messages serve as reminders to staff of their responsibility to comply with the travel policy. In addition, there are ongoing training sessions for staff responsible for managing travel, in order to improve compliance rates. However, management will continue to communicate these duties and roles to staff and ensure adherence to the travel policy. | The Board noted the action taken, in view of which the recommendation is considered implemented. | X | | | |
| 38 | 2017 | A/73/5/Add.3, chap. II, para. 50 | The Board further recommends that UNICEF review its policy of releasing 100 per cent of daily subsistence allowance and expensing it on creation of a trip. | UNICEF is reviewing its policy on the release of 100 per cent of the daily subsistence allowance. UNICEF is planning that for non-staff, the policy will be updated to advance only 80 per cent of the daily subsistence allowance. For staff, emphasis will be placed on the completion by travellers of their trip certifications within the compliance period, with those failing to do so risking the deduction of travel advances from their salary. | As UNICEF is still reviewing the policy, the recommendation is considered to be under implementation. | | X | | |

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| 39 | 2017 | A/73/5/Add.3, chap. II, para. 55 | The Board recommends that UNICEF get a verification of compatibility and customization process of VISION, including the travel management functionality, done. | UNICEF observes rigorous application development and life-cycle standards in every instance of solutions management and delivery. In this regard, tightly controlled and applied applications development processes are carried out.<br>In 2016, UNICEF engaged an external consultancy organization that conducted a partial review of custom-developed solutions in preparation for future improvements to such systems. The code review exercise provided useful inputs for actions that have been incorporated into the ongoing enhancement of the UNICEF Systems Applications and Products (SAP) solution landscape.<br>UNICEF does not believe that completing a verification of the compatibility and customization process with respect to VISION will add value, since such a process was recently conducted, in 2016. However, the elements listed in the audit findings on the travel process can be resolved through enhancements to the system and training for users. In this regard, UNICEF has planned to make the required enhancements to the travel management system by the fourth quarter of 2018, subsequent to ongoing upgrades to the SAP system, which are targeted for completion during the second half of 2018. | In view of the status of action being planned, the recommendation is considered to be under implementation. | | X | | |
| 40 | 2017 | A/73/5/Add.3, chap. II, para. 61 | The Board recommends that UNICEF complete the review of the user access management guide and the segregation of duties rules and update them in a time-bound manner. | UNICEF is working on the updates of the user access management guide and the segregation of duties rules. | As the user access management guide is being updated, the recommendation is considered to be under implementation. | | X | | |

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| 41 | 2017 | A/73/5/Add.3, chap. II, para. 62 | The Board further recommends that UNICEF update the segregation of duties violation report to reflect the mitigation of segregation of duties conflict by the Global Shared Service Centre process and to incorporate transaction-level monitoring. | UNICEF agreed with the recommendation and is progressing with implementation. | As the action is under way, the recommendation is considered to be under implementation. | | X | | |
| 42 | 2017 | A/73/5/Add.3, chap. II, para. 77 | The Board recommends that UNICEF ensure compliance with the procedures for hiring consultants. | In July 2018, the Division of Human Resources issued revised procedures to further strengthen the management of consultants and individual contractors, which continues to be decentralized. The new procedures provide greater clarity to ensure a common understanding and compliance among offices. The Division will remind offices on a regular basis to ensure compliance with the procedures. | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |
| 43 | 2017 | A/73/5/Add.3, chap. II, para. 78 | The Board further recommends that UNICEF ensure that VISION is updated with the latest information and all supporting documents are uploaded on a real-time basis. | UNICEF notes that, owing to the varied contexts in which it operates, its offices will continue to keep documents both physically and electronically, in accordance with its document retention policy and guidelines. The Division of Human Resources issued revised procedures in July 2018 to further strengthen the management of consultants and individual contractors. UNICEF will continue to work and support offices in strengthening their knowledge of this policy and will also provide guidance to offices in the implementation of and compliance with the applicable procedures, including those on the retention of supporting documents. | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |

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| 44 | 2017 | A/73/5/Add.3, chap. II, para. 89 | The Board recommends that UNICEF periodically interact, guide and direct National Committees that are consistently delaying submission of audited financial statements and certified final revenue and expenditure reports. | The reasons for late submission of the audited financial statements of National Committees are known, and are due primarily to the fact that they must be approved by their respective boards, which happens at a later period in the year. Management is satisfied that for reporting and other needs, UNICEF has the information necessary for the timely closure of accounts in the revenue and expenditure reports. The audited financial statements are not a necessity for the closure of accounts. Management agrees to negotiate with the National Committees on earlier submission dates for the audited financial statements during the renegotiation of the cooperation agreement, which will also cover the timing of the board sessions to allow for the timely submission of the financial statements. | The Board continued to note instances of delayed submission of financial statements by the National Committees. In view of this, the recommendation is considered to be under implementation. | | X | | |
| 45 | 2017 | A/73/5/Add.3, chap. II, para. 92 | The Board recommends that UNICEF engage with the National Committees for appropriate management of their investments and review their investment policy. | UNICEF has reviewed the investment policies of the National Committees and is comfortable that the investment policies respect the cooperation agreement. On an annual basis, UNICEF also reviews the audited financial statements of the National Committees, which includes a review of the investments held, and discusses them with the respective National Committees if questions arise.<br>The clause of the cooperation agreement that relates to the management of funds and assets was not violated by any of the National Committees mentioned by the auditors, since it allows for investments that are otherwise in accordance with existing national charity standards. No cases were identified in which the National Committees were not in compliance with national charity standards and their investment policies. The clause restricts investment in speculative assets, and no cases were identified in which investments made by the National Committees were speculative. | The Board noted that the investments were made in high-risk alternatives, and considers this recommendation to be under implementation. | | X | | |

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| 46 | 2017 | A/73/5/Add.3, chap. II, para. 104 | The Board recommends that UNICEF analyse the reasons for low contributions and then formulate an appropriate strategy to enhance the level of contributions from potentially important income channels such as corporate donors. | UNICEF does not accept this recommendation as it prescribes action that has already been implemented. UNICEF has undertaken a significant situation analysis. The 2018–2021 IMPACT Plan is the realization of the extensive analysis conducted and the result of the strategy devised.<br>UNICEF is currently implementing the IMPACT Plan, in relation to which systems are in place to monitor progress and take corrective action as necessary, while focusing efforts on the channels that will maximize return on investment.<br>The original recommendation requires the analysis and formulation of an appropriate strategy, which has been fully implemented. | The Board continued to note low contributions from the important channels during the year 2018 and noted the context of the issues highlighted in the recommendation. In view of this, the recommendation is considered to be under implementation. | | X | | |
| 47 | 2017 | A/73/5/Add.3, chap. II, para. 110 | The Board recommends that UNICEF further strengthen its efforts in fundraising activities to get the desired response from donors to handle emergency situations. | UNICEF continues to make numerous efforts to mobilize resources for emergency purposes, which include maintaining strong relations with donors, attending international meetings and humanitarian summits to strengthen networking and advocacy, and producing public advocacy, press releases and communication initiatives to sensitize public and private audiences with regard to emergencies. Appeals are based on the stated needs in country and regional contexts and are aligned with the inter-agency assessment and planning processes. While the Humanitarian Action for Children global appeal continues to be underfunded, overall fundraising efforts have yielded more funds (in absolute terms) each year for the past 11 years, with slight dips in 2011 and 2012.<br>Moreover, in the past five years, the best-funded UNICEF appeals have coincided with the organization's largest appeals. Therefore, it is the smaller, less visible and often forgotten crises that face the largest funding gaps, making fundraising efforts by the | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |

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| | | | | organization even more essential. In this regard, other UNICEF funding mechanisms, in particular, the Central Emergency Response Fund and the global humanitarian thematic fund, are extremely important as they are largely used to cover gaps in these smaller, less visible and most underfunded crises. | | | | | |
| 48 | 2017 | A/73/5/Add.3, chap. II, para. 116 | The Board recommends that UNICEF strengthen the mechanism for monitoring donor reports and ensure timely submission of all donor reports. | UNICEF agrees to further strengthen its monitoring of donor reports in order to improve their timeliness and quality. | Since the donor reporting portal is under development, the recommendation is considered to be under implementation. | | X | | |
| 49 | 2017 | A/73/5/Add.3, chap. II, para. 117 | The Board further recommends that UNICEF update information on submission of donor reports in VISION. | UNICEF is rolling out a new donor reporting portal, which will increase the visibility of narrative and financial donor reporting through UNICEF, simplify the review and clearance process and contribute to the timely submission of cleared reports to donors. | Since the donor reporting portal is under development, the recommendation is considered to be under implementation. | | X | | |
| 50 | 2017 | A/73/5/Add.3, chap. II, para. 131 | The Board recommends that UNICEF review and strengthen the internal control and monitoring system over cash transfers to implementing partners and fully adhere to the laid down policy for these cash transfers. | UNICEF has been strengthening its internal control framework on cash transfers to implementing partners. In August 2018, UNICEF issued a revised procedure on the harmonized approach to cash transfers to implementing partners, specifying instructions, roles and responsibilities relating to the management of cash transfers to implementing partners. Enhancements were made to the systems, management reports and dashboards related to implementing partners in order to enforce compliance with the procedural requirements and enable the management in country and regional offices and at headquarters to provide effective monitoring and oversight. | The Board continued to note instances of weaknesses in the implementation of harmonized approach to cash transfers assurance plan. Therefore, the recommendation is considered to be under implementation. | | X | | |

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| 51 | 2017 | A/73/5/Add.3, chap. II, para. 144 | The Board recommends that UNICEF update the vendor database with the results of evaluations/ re-evaluations and the recommendations of the Vendor Review Committee on a real-time basis. | UNICEF considers this recommendation implemented, since it updates the vendor database on a real-time basis, and its policies on vendor evaluation and review include a provision for the Director of the Supply Division to approve waivers to allow procurement from blocked vendors in exceptional circumstances due to exigencies and other strategic organizational needs, and where results for children would otherwise be impeded.<br>UNICEF requests the closure of this recommendation. As stated, management has fully implemented the recommendation as vendor evaluations are updated to the vendor database in real time. | The Board noted the action taken, in view of which it considers the recommendation implemented. | X | | | |
| 52 | 2017 | A/73/5/Add.3, chap. II, para. 150 | The Board recommends that UNICEF country offices claim and actively pursue the VAT refunds due. | UNICEF continues to utilize tax and duty exemptions available to it as much as possible to avoid payment of taxes such as VAT. However, as exemptions are not always possible, VAT payments are reclaimed, similar to other United Nations entities. Noting that this recommendation was made in relation to observations in the Sri Lanka and Ghana country offices, UNICEF is pleased to report that the offices have already taken action.<br>The continued efforts by UNICEF in the active pursuit of the recovery of VAT are further evidenced by recoveries of $12,883 as of March 2018, for Sri Lanka, and $94,140 as of July 2018, for Ghana. | The Board has reviewed the issue of VAT refunds afresh for UNICEF as a whole in the present report. In view of the progress made, the recommendation is considered implemented for the Sri Lanka and Ghana country offices. | X | | | |
| 53 | 2017 | A/73/5/Add.3, chap. II, para. 159 | The Board recommends that UNICEF follow the timeline for release of pharmaceutical and other stock from restricted to unrestricted stock after required quality checks. | UNICEF reviewed the process for the quality assurance and release of pharmaceutical and other stock materials into warehouse inventory and identified areas for further review and enhancement. As a result, UNICEF developed a dashboard to facilitate the effective monitoring of the | In view of the action taken, the recommendation is considered implemented. | X | | | |

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| | | | | arrival, quality assurance and release of stock materials into the warehouse.<br>To ensure the timely goods release of pharmaceutical and other stock from restricted to unrestricted stock after the scheduled quality check is carried out, the following actions (relating to both pharmaceutical and other stock materials) were implemented in the fourth quarter of 2018:<br>(a) Additional resources were allocated to conduct inspections of goods released;<br>(b) Changes to the quality inspection report were implemented to accurately calculate the key performance indicator for goods release;<br>(c) A new dashboard was developed to allow optimal monitoring of goods release performance.<br>UNICEF requests the closure of this recommendation on the basis of the enhancements stated above. | | | | | |
| 54 | 2017 | A/73/5/Add.3, chap. II, para. 172 | The Board recommends that UNICEF prescribe a definite timeline for closure of contracts and also frame specific key performance indicators for monitoring closure of contracts. | The prescription of a definite time frame for the closure of contracts may not be feasible, as the timing of such closure varies depending on circumstances and may also be contingent on factors external to UNICEF. However, UNICEF is continuing to improve the timeliness of the closure of contracts, as shown by the following implemented actions:<br>(a) Effective January 2018, management has sent quarterly reminders to contract owners in the supply community to close open contracts. UNICEF has further analysed existing key performance indicators and established a new key performance indicator for contract closure (90 days after the validity end date); | Although UNICEF has not set timelines for the closure of contracts, it has taken action to improve the process of monitoring and closure of contracts. In view of this, the recommendation is considered implemented. | X | | | |

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| | | | | (b) Effective December 2018, the key performance indicator is captured in VISION and reflected in inSight for monitoring the closure of contracts.<br>UNICEF further reviewed and revised the Supply Manual to include guidance on contract closure regarding the requirement for performance evaluation. The updates were completed and effective by the end of 2018. | | | | | |
| 55 | 2017 | A/73/5/Add.3, chap. II, para. 173 | The Board further recommends that UNICEF analyse the reasons for negative balances in contracts for which the validity period has expired and take suitable action to address the issue. | UNICEF analysed the reasons for contracts with negative balances in the supply dashboard. The negative balances noted were related to the technical calculations relating to non-United States dollars contracts in the inSight dashboard and the definition of open and closed contracts in the inSight report. During 2018, management revised and corrected the dashboard in order to reflect accurate contract balances. Since January 2018, quarterly reminders have been sent to contract owners in the supply community to close open contracts.<br>An analysis has been completed on key performance indicators and the establishment of a key performance indicator for contract closure (90 days after the validity end date) is now in process and is expected to be captured in VISION and reflected in inSight from December 2018.<br>Draft guidance has been finalized on the policy on contracts requiring performance evaluation, and is expected to be launched by the end of 2018. | In view of the action taken, the recommendation is considered implemented. | X | | | |

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| 56 | 2017 | A/73/5/Add.3, chap. II, para. 179 | The Board recommends that UNICEF country offices levy liquidated damages against suppliers that fail to meet the supply timeline. | UNICEF acknowledges this recommendation and has implemented actions to address it. The Afghanistan country office regularly imposes liquidated damages where relevant and appropriate on a case-by-case basis, considering the context of each transaction. In 2018, the office substantially increased the frequency of such charges, but in a process that recognizes the difficulties faced by all suppliers in a conflict country. The country office has reviewed the one contract noted by the auditors and maintains that its original decision not to claim liquidated damages on this specific contract remains appropriate. The contractor was requested by the office to change both the delivery modality and time owing to very serious security and conflict issues: liquidated damages in such a context would not be appropriate. In Sri Lanka, the country office has implemented regular monitoring of open purchase orders and contracts, including the monitoring of late deliveries of goods and services on a weekly basis. In cases of delay, the office works with suppliers to understand the reasons for late deliveries and documents the appropriate action. The cases of delays and recommended actions are approved by management and, in cases where liquidated damages are imposed, a letter of unsatisfactory performance is issued to the supplier and the supplier's profile is updated accordingly. | In view of the action reported by UNICEF, the recommendation is considered implemented in the context of the recommendation made. | X | | | |

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| 57 | 2017 | A/73/5/Add.3, chap. II, para. 183 | The Board recommends that UNICEF country offices ensure that the procurement procedure related to emergency supplies be completed and supplies delivered within the stipulated timelines. | While acknowledging that there could be a different understanding of what is meant by "emergency supplies", UNICEF believes that the recommendation has been implemented. UNICEF acknowledges that, for a few of the emergency supplies referred to in the report of the Board for 2017, the procurement period was unusually long. The reason was that extensive discussions between UNICEF and government counterparts were required to identify the right needs and specifications in the evaluation of the quoted products. Further improvements have been made, including the establishment of: (a) an emergency supply plan within the emergency preparedness platform (in the first quarter of 2018); (b) long-term agreements for the most critical supplies and services (in the second quarter of 2018); and (c) a qualified vendor list for the local procurement of potential emergency supplies (in the second quarter of 2018). | The Board continued to note instances of delay in the delivery of emergency supplies and considers the recommendation to be under implementation. | | X | | |
| 58 | 2017 | A/73/5/Add.3, chap. II, para. 190 | The Board reiterates is recommendation that UNICEF review cases of delay and take appropriate action in accordance with the terms and conditions of the contract to ensure timely delivery. | UNICEF has taken significant action to implement this recommendation. The Supply Division conducts regular follow-up on reasons for delayed deliveries. A weekly follow-up is conducted for critical deliveries, while monthly and quarterly follow-ups are carried out for all other orders by procurement centres and management, respectively.<br>Additionally, in April 2017, the Supply Division launched additional monitoring tools, including a system alert to identify orders with upcoming delivery dates as well as delayed deliveries, thereby allowing for the proactive identification of bottlenecks and follow-up with suppliers and freight forwarders and supporting the timely | In view of the action taken in the specific context of the issue raised, the recommendation is considered implemented. | X | | | |

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| | | | | execution of the delivery and the improvement of processes.<br>With regard to the guidance, procedures and monitoring processes that are already in place to ensure the timely delivery of supply orders, including the methodical review of the causes of order delays at the management level, UNICEF firmly believes that the improvements seen in the timeliness of delivery over the past four years are evidence that the recommendation has been implemented. Among the key improvements are the fact that in 2017, 78 per cent of all orders by the Supply Division were delivered on time to the consignee, compared with 77 per cent in 2016, 76 per cent in 2015, 71 per cent in 2014 and 57 per cent in 2013.<br>Recommendation No. 22 has identical wording to the present recommendation, and since that recommendation is considered implemented, so should this reiteration. As detailed in the comments in the management letter, UNICEF has demonstrated review, action and significant and consistent improvement in the timeliness of deliveries. | | | | | |
| 59 | 2017 | A/73/5/Add.3, chap. II, para. 197 | The Board recommends that UNICEF, the regional offices and the Supply Division identify countries where vaccine arrival reports are regularly delayed and formulate country-specific strategies for monitoring timely receipt of vaccine arrival reports. | UNICEF requests closure of this recommendation on the basis of the action evidenced in recommendation Nos. 6 and 23 above. In addition to the progress described in those recommendations, management has developed country-specific strategies and engagement in the Supply Division. | The Board notes the action taken in the Supply Division. However, the Board also continued to note instances of delay in the receipt of vaccine arrival reports and considers the recommendation to be under implementation for pending action at the level of other internal stakeholders in UNICEF. | | X | | |

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| 60 | 2017 | A/73/5/Add.3, chap. II, para. 206 | The Board reiterates its recommendation that UNICEF identify reasons for detention of containers for long periods and provide guidance to the country and regional offices to reduce the container detention time, and further recommends that the Supply Division expedite the analysis of the root causes for the detention of containers, which affects the efficacy of supply chain management functions. | Management requests closure of this recommendation as it has been implemented as worded. The detailed response to recommendation No. 24 above highlights that management is continuously analysing the reasons for undue delay in the return of containers and providing information to regional and country offices to enable specific actions to prevent demurrage charges, and is providing guidance to regional and country offices through both webinars and policy and procedure updates. | In view of the action taken in the specific context of the issue raised, the recommendation is considered implemented. | X | | | |
| 61 | 2017 | A/73/5/Add.3, chap. II, para. 213 | The Board recommends that UNICEF clearly link the Strategic Plan and the annual workplan during the operationalization of the UNICEF Strategic Plan 2018–2021. | UNICEF has implemented this recommendation through the development of a new office management plan for the Programme Division, which is aligned with the Strategic Plan 2018–2021. | In view of the action taken, this recommendation is considered implemented. | X | | | |
| 62 | 2017 | A/73/5/Add.3, chap. II, para. 220 | The Board recommends that the Afghanistan country office involve third-party monitoring to get an assurance on the quality of work done under programmatic activities. | UNICEF recognizes third-party monitoring as a vital area and has invested in a mixture of complementary assurance activities to ensure that the most effective methodology is applied in each circumstance, including third-party monitoring. A working group has been set up to ensure that current third-party monitoring mechanisms and other assurance activities are integrated into an efficient countrywide assurance process.<br>In addition, a programmatic visit template regarding the harmonized approach to cash transfers has been designed to ensure effective review by management of third-party monitoring activities. The security | In view of the action taken, the recommendation is considered implemented. | X | | | |

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|---|
| | | | | situation in Afghanistan prohibits programme staff, both international and national, from physically monitoring many aspects of programme work in a significant proportion of the country. UNICEF has therefore established a modality with a long-term agreement, under which third-party monitors are trained in gathering programmatic data and evidence in the field. Additional third-party monitors will be added as new long-term agreements are arranged. At present, the polio programme is in the process of initiating a third-party monitoring process, while contracts are being drawn up for other third-party monitoring processes, prioritizing programme work in overlapping geographical areas. In parallel to this, the country office has established a complex network of extenders, contracted through long-term agreements, under which different categories of technical experts are utilized in undertaking qualitative assessments; independent audit firms are contracted to undertake harmonized approach to cash transfers assurance work, such as scheduled and special audits, plus spot checks; and the office has invested in 10 physical office premises spanning all provinces and in 2018 is reinforcing the security of all its offices to enable greater presence of its staff, including international staff, to interact more closely with local third-party monitors and extenders. | | | | | |

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|---|
| 63 | 2017 | A/73/5/Add.3, chap. II, para. 229 | The Board recommends that the Supply Division prescribe a specific timeline for closure of complaints. | UNICEF agrees with this recommendation. It is completing a study of average timelines between the date when complaints are identified and when corrective actions are implemented. On the basis of that study, the divisional procedure on the management of complaints will be updated to include standard timelines for the closure of complaints. The updated guidance is targeted for introduction by the fourth quarter of 2018. | The Board noted the action taken, and considers the recommendation implemented. | X | | | |
| 64 | 2017 | A/73/5/Add.3, chap. II, para. 230 | The Board further recommends that the Supply Division review all open complaints, ensure timely implementation of corrective actions, prioritize handling of cases indicating financial loss and ensure timely closure of all complaints in the complaint system. | The status of open complaints and complaints involving financial loss (contained in an operating error report) is systematically reviewed with solution owners and other stakeholders to ensure that all complaints are being addressed in a timely manner. This is done continually through monthly and quarterly reports, regular and ad hoc follow-ups of operating error reports and quarterly presentations at the Supply Division management team meetings.<br>In addition, a new software application tool for logging and monitoring complaints has been developed in order to streamline the process of handling complaints by better monitoring the steps of the process.<br>UNICEF requests closure of this recommendation. | The Board noted the action taken, and considers the recommendation implemented. | X | | | |

| No. | Audit report year | Report reference | Recommendation of the Board | UNICEF response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 65 | 2017 | A/73/5/Add.3, chap. II, para. 243 | The Board recommends that the UNICEF Ghana and Burkina Faso country offices and the West and Central Africa Regional Office periodically review and expedite implementation of planned activities to ensure that the targets mentioned against the outcomes are achieved on time. | The UNICEF West and Central Africa Regional Office is continuously monitoring planned activities of all country offices across the region. The regional planning, monitoring and evaluation team has been reinforced to provide extensive quality assurance and oversight in reviewing the results assessment module of country offices and to support country offices to improve the quality of programming and result formulation. Furthermore, the Regional Office launched a quality review and the results will certainly improve the programming process in the region. | In view of the reply and action taken, the recommendation is considered implemented. | X | | | |
| 66 | 2017 | A/73/5/Add.3, chap. II, para. 245 | The Board further recommends that the UNICEF Ghana and Burkina Faso country offices and the West and Central Africa Regional Office review the ratings of various outcomes/outputs and indicators so as to avoid discrepancies in ratings and to ensure that the users get a correct performance report. | The UNICEF Field Results Group recently issued guidance on key performance indicator definitions and grading criteria that will further clarify the ratings used by offices for various outcomes, outputs and indicators. The guidance will help to alleviate discrepancies in ratings. The West and Central Africa Regional Office has established a system to review the results assessment module twice a year (midyear and end of year review).<br><br>The Field Results Group has defined grading criteria for the key performance indicators, which the West and Central Africa Regional Office is applying. The Regional Office has sensitized country offices on compliance with the grading system and is reviewing compliance. | In view of the reply and action taken, the recommendation is considered implemented. | X | | | |
| | **Total** | | | | | **34** | **32** | **–** | **–** |
| | **Percentage** | | | | | **52** | **48** | **–** | **–** |

# Chapter III
# Certification of the financial statements

## Letter dated 29 March 2019 from the Comptroller of the United Nations Children's Fund addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 113.5, I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in these financial statements.

I acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements;

The financial statements have been prepared in accordance with the International Public-Sector Accounting Standards and include certain amounts that are based on management's best estimates and judgments;

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties.

UNICEF internal auditors continually review the accounting and control systems. The management provided the United Nations Board of Auditors and UNICEF internal auditors with full and free access to all accounting and financial records.

The recommendations of the United Nations Board of Auditors and UNICEF internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

(*Signed*) Thomas **Asare**
Comptroller
UNICEF

# Statement by management on internal control over financial reporting

**29 March 2019**

1. Management, through the UNICEF Financial Regulations and Rules, approved by the Executive Board, is responsible for establishing and maintaining adequate internal control over financial reporting for UNICEF. To carry out its operations in an orderly, ethical, efficient and effective way, UNICEF adopted the Internal Control-Integrated Framework (2013) of the Committee of Sponsoring Organizations of the Treadway Commission.

2. Through an established regulatory framework, the Comptroller ensures that the UNICEF financial records are maintained to permit accurate and timely financial reporting.

3. At UNICEF, internal control over financial reporting includes those policies and procedures that:

(a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets;

(b) Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and that revenue and expenses of the organization are being made only in accordance with appropriate authorizations by management;

(c) Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use and disposition of its assets that could have a material effect on the financial statements.

4. In accordance with the UNICEF Financial Regulations and Rules and its policy on fraud, all cases of suspected or reported actual fraud are investigated by the investigations function under the Office of Internal Audit and Investigations. The Internal Audit function has a mandate to provide independent assurance to management and the Executive Board with regard to UNICEF operations and activities. The Office of Internal Audit and Investigations is a key component of the independent internal oversight system of UNICEF, and is critical to the functioning of the organization's sound control environment.

5. UNICEF establishes committees that provide an oversight function to key business processes, such as the Contracts Review Committee, the Property Survey Board, the Financial Advisory Committee and central review bodies. UNICEF also works with other United Nations agencies and partners to review assessments of the public financial management environment within which UNICEF will provide cash transfers. Additional oversight activities are also carried out by external entities, such as the United Nations Board of Auditors, the Audit Advisory Committee, the Advisory Committee on Administrative and Budgetary Questions and the Joint Inspection Unit.

6. The above oversight, governance and internal control framework gives management assurance regarding the effectiveness of internal control over financial reporting.

(*Signed*) Thomas **Asare**
Comptroller
UNICEF

# Chapter IV
# Financial overview

## Financial statement discussion and analysis

### Introduction

1. The United Nations Children's Fund (UNICEF) was established by the General Assembly of the United Nations in 1946. UNICEF is headquartered in New York and maintains a presence in 190 countries, territories and areas, including at other headquarters offices in Belgium, Denmark, Italy, Japan, Hungary, the Republic of Korea and Switzerland and at regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

2. UNICEF helps Governments and other partners overcome the obstacles that poverty, violence, disease and discrimination place in the path to realizing children's rights. UNICEF mobilizes political will and material resources to help countries, particularly developing countries, ensure a "first call for children" and build the capacity of countries to form appropriate policies and deliver services for children and their families.

3. This financial statement discussion and analysis should be read in conjunction with the UNICEF audited financial statements for 2018, but does not form part of the statements. The present financial statements were prepared for the calendar year 2018 in accordance with the UNICEF Financial Regulations and Rules and International Public Sector Accounting Standards (IPSAS), included in chapter V of the present document. This discussion and analysis is intended to provide readers of the financial results with a more holistic understanding of the meaning of the numbers and to inform stakeholders as to how financial resources are being managed.

### Overview of operations and the operating environment

4. The governing body of UNICEF is the Executive Board, which provides intergovernmental support and oversight to the organization in accordance with the overall policy guidance of the General Assembly and the Economic and Social Council. The Board comprises representatives from 36 States Members of the United Nations, elected to three-year terms by the Council. The day-to-day activities of UNICEF, as at 1 January 2018, are led and managed by Henrietta Fore, the Executive Director of UNICEF, who is accountable to the Executive Board for all aspects of the organization's operations.

5. The activities of UNICEF are fully financed by voluntary contributions from Governments and intergovernmental and private organizations, as well as individuals. Some of those contributions are earmarked for specific programmes and projects, while unearmarked resources are granted to UNICEF to allocate according to a formula approved by the Executive Board that favours countries where children are in greatest need.

6. Throughout the world in 2018, children and young people faced many challenges. Most notable were the abundance of conflicts, natural disasters, epidemics and other crises that exposed children and young people to violence, hardships, sickness and deprivation. They included the regional migration crisis in Latin America, deteriorating situations in conflict-affected and fragile contexts, for example in Afghanistan, Mali, the Sudan, the Syrian Arab Republic and Yemen, and major natural disaster in the East Asia and Pacific regions.

## Objectives and strategies

7. The financial year under review is the first of the UNICEF Strategic Plan 2018–2021, which is anchored in the Convention on the Rights of the Child. The Plan contains a single results framework architecture for UNICEF, comprising five programme goals, three cross-cutting priorities, 25 results areas, seven change strategies and four organizational performance focus areas. It charts a course towards attainment of the Sustainable Development Goals and the realization of a future in which every child has a fair chance in life. It sets out measurable results for children, especially the most disadvantaged, including in humanitarian situations, and defines the change strategies and enablers that support their achievement.

8. The year 2018 witnessed the launch of Generation Unlimited, a new global partnership designed to ensure that all of the world's 2 billion young people aged 10–24 years are in education, learning, training or employment by 2030. Generation Unlimited brings together Governments, international and local organizations and young people to identify and scale up the best solutions for three major challenges: access to secondary-age education; acquisition of employability skills; and empowerment, especially of girls.

9. UNICEF is focused on strengthening its organizational performance through a number of change strategies: (a) programming at-scale results for children; (b) winning support for the cause of children from decision-makers and the wider public; (c) developing and leveraging resources and partnerships for children; (d) harnessing the power of business and markets for children; (e) having the different United Nations agencies work together; (f) fostering innovation and programming, as well as advocacy processes and practices; and (g) harnessing the power of evidence as a driver for change for children.

10. UNICEF supports the development of policy and capacity and the strengthening of systems at the national and subnational levels as tools to guarantee that the most disadvantaged children are reached. In 2018, UNICEF country offices invested almost $1.15 billion in actions related to the institutional strengthening of national systems, while 52 UNICEF country offices had evidence-based system-strengthening strategies in place. By the end of 2018, a further eight high-burden countries had institutionalized community health workers into their formal health systems. System strengthening was also identified as a core strategy in supporting Governments to improve learning outcomes and child protection systems.

11. In 2018, UNICEF enhanced its ability to deliver results for children and young people by winning support for the cause of children, and by becoming an even stronger force for advocacy, campaigning, fundraising and communications for children and young people. This was achieved through prioritized and joint efforts between national committees, regional and country offices and headquarters. In total, 96 per cent of UNICEF country offices secured and improved child-focused policies and participated in integrated campaigns connecting global, regional and national efforts.

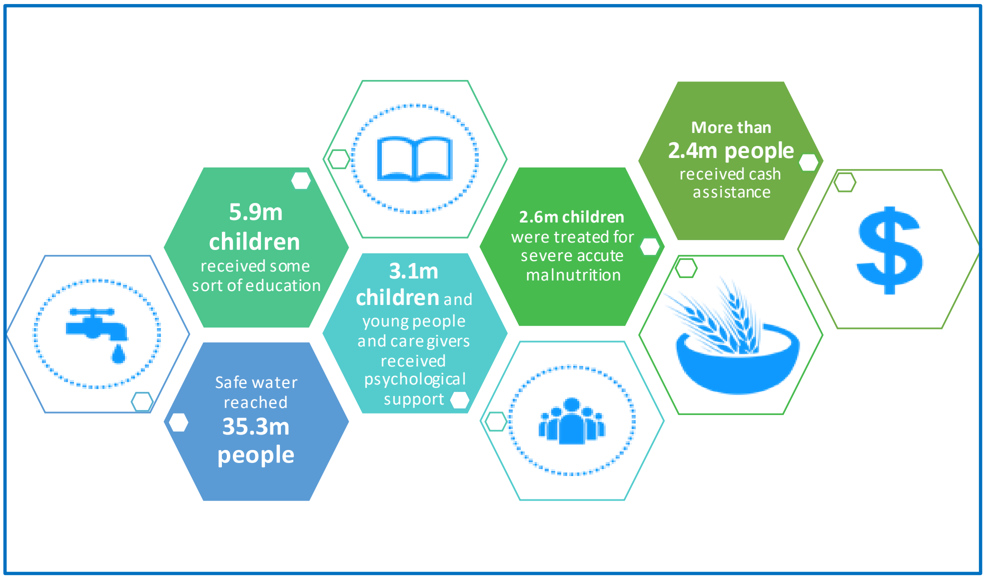
12. The Strategic Plan appreciates the critical role of the business sector, including foundations, to create an impact for children and your people worldwide. In 2018, UNICEF deepened its engagement with business, making a strategic shift to integrate more holistically its partnerships with business.

13. UNICEF also remains fully committed to the reforms of the United Nations development system and the implementation of General Assembly resolution 72/279. In 2018, the organization adopted a wide range of measures in support of the reform, including by providing in-kind staff support and a financial commitment, and by driving a culture of change.

14. One critical inter-agency partnership was the close collaboration with the United Nations Population Fund (UNFPA), the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and the United Nations Development Programme (UNDP) on the Spotlight Initiative, which aims to end violence against women and girls. UNICEF also joined forces with the United Nations Human Settlements Programme (UN-Habitat) in 2018 to develop guidance on safe cities and to produce global guidance on child-responsive public spaces. UNICEF teamed up with UN-Women to promote gender mainstreaming and gender parity in the United Nations system as a member of the inter-agency network on gender equality and the empowerment of women. UNICEF spearheaded the launch of the Generation Unlimited partnership with partners such as UNDP, the International Labour Organization, UNFPA, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Global Compact, the United Nations Secretariat, the Envoy of the Secretary-General on Youth and the World Bank.

**Programmatic results**

Figure IV.I
**Key development and humanitarian results**




15. In 2018, UNICEF continued to lead the nutrition, education and water, sanitation and hygiene clusters and the Child Protection Area of Responsibility, using these roles to conduct advocacy and facilitate inter-cluster coordination and inter-agency action planning. In Afghanistan, nearly 229,000 children and young people in drought-affected areas were admitted for severe acute malnutrition treatment, and over 925,000 people received access to water, including in drought-affected areas.

16. In the Democratic Republic of the Congo, UNICEF provided basic water, sanitation and hygiene services to more than 828,000 people affected by conflict and natural disasters and responded to the unprecedented cholera and Ebola outbreaks by providing water, sanitation and hygiene response packages to nearly 2.4 million people in Ebola-prone areas. In Ghana, UNICEF, in partnership with the Government and donors, launched the Basic Sanitation Fund in Accra, Tamale and Ho to give small loans to households to build toilets.

17. In 2018, UNICEF country offices invested almost $1.15 billion in actions related to the institutional strengthening of national systems, while 52 UNICEF country offices had evidence-based system-strengthening strategies in place.

## Financial statements and five-year trend analysis

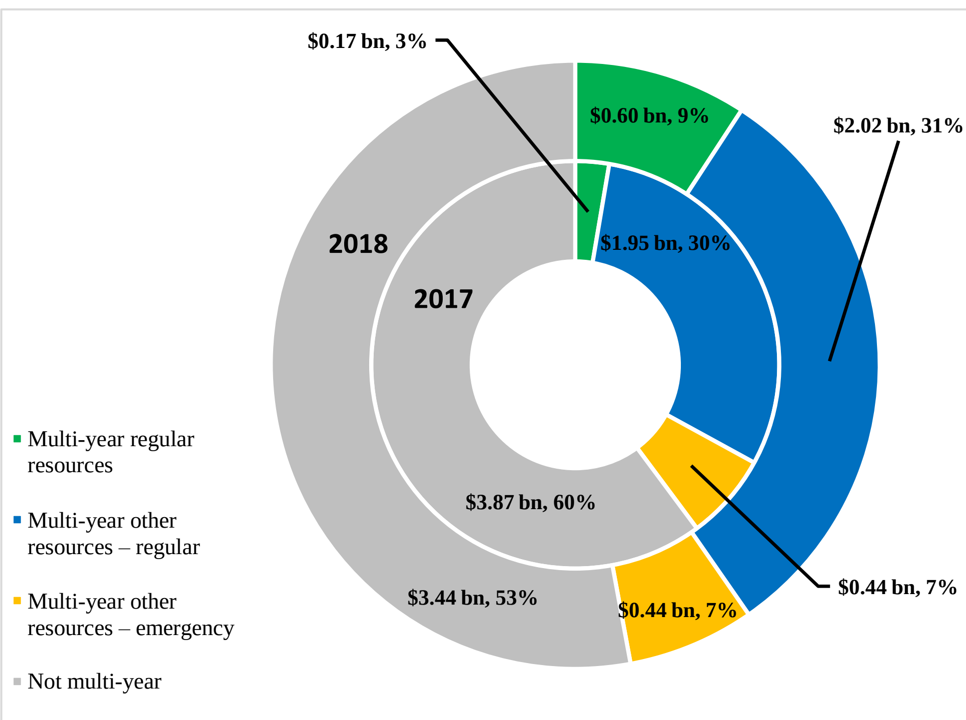
### Financial performance: revenue

18. To fulfil the 2018–2021 Strategic Plan, UNICEF will continue to strengthen a variety of robust, diverse and innovative funding mechanisms, including accelerating and maximizing longer-term, flexible and predictable funding and leveraging resources and partnerships for children and young people.

19. UNICEF also increased its base of supporters who volunteer, advocate and donate. The organization has so far reached 79.7 per cent of the 100 million supporters its aims to engage by 2021, including 67.1 million digital supporters through social media. Global channels, such as Facebook (34.9 million) and Twitter (14.6 million), were the top performers. The Global Volunteer Initiative enabled offices to institutionalize innovative approaches to engage supporters, for a higher impact in and with communities.

20. In 2018, UNICEF had a total revenue of $6.68 billion, compared with its target of $5.80 billion and its 2017 total revenue of $6.58 billion. Of the total revenue from voluntary contributions, $3.06 billion related to other resources contributions for programmatic activities where, in agreement with donors, implementation is expected over a period of more than two years. Multi-year funding allows for certainty in planning for development activities and is reflected as part of UNICEF reserves until spent. This is further discussed in the section on UNICEF reserves and net assets below (see paras. 47–49).

Figure IV.II
**Voluntary contributions revenue**

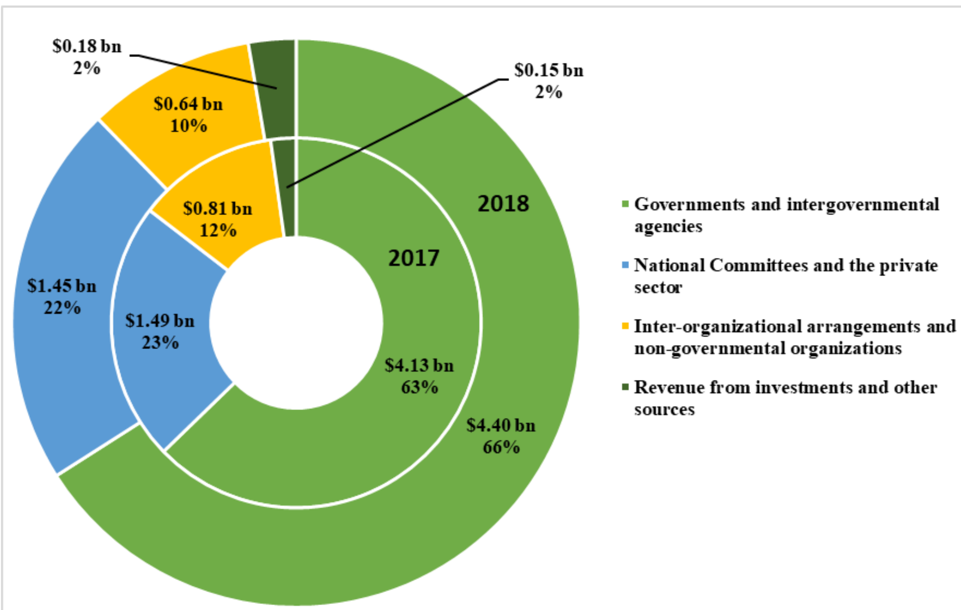


21. Governments and inter-governmental agencies continued to be the largest donors, contributing $4.40 billion in revenue in 2018 (2017: $4.13 billion[11]), representing an increase of $277.63 million, or 7 per cent.

22. Revenue from inter-organizational arrangements and non-governmental organizations (NGOs) represented 10 per cent of the total, down $174.97 million to $638.13 million (2017: $813.10 million). This was mainly owing to a $520.32 million contribution from the World Bank that was recognized as 2017 revenue and that continued to fund cash assistance to approximately 1.4 million people in Yemen, with a further $140 million contribution agreement registered in 2018 for the same activity.

23. Revenue from individuals, private sector fundraising and UNICEF National Committees – which consist of 33 independent NGOs that promote children's rights in industrialized countries and raise funds for UNICEF programmes worldwide – accounted for 22 per cent (2017: 23 per cent) of total revenues.

Figure IV.III
**Revenue by source**

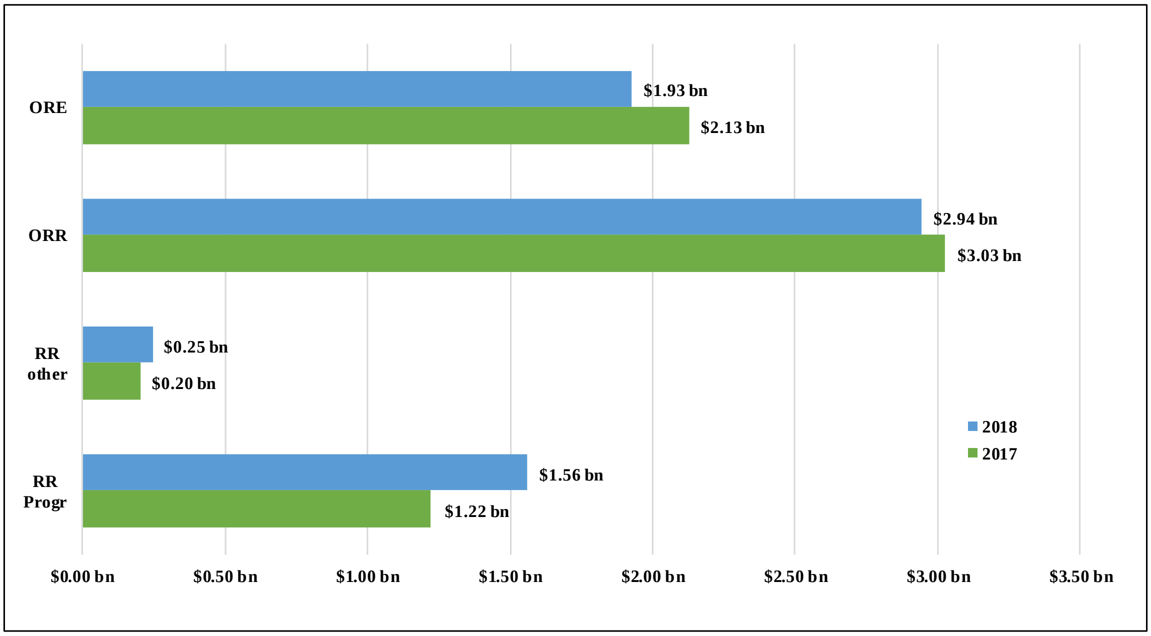



24. Revenue for UNICEF includes an increase in unearmarked regular resources for programmatic activities of $1.56 billion, or 23 per cent of total revenue, which gives UNICEF maximum flexibility within the confines of its Financial Regulations and Rules; as well as earmarked other resources, both regular ($2.94 billion) and emergency ($1.93 billion), which are earmarked for specific programmes and projects.

25. Total revenue from other resources – regular includes $505.19 million or 8 per cent of total revenues (2017: $372.82 million or 6 per cent) for thematic funding, which UNICEF has flexibility to use within a specified thematic area, for example, education based on where the needs are greatest and the greatest impact can be made.

[11] The 2017 figures for Governments and inter-governmental agencies have been updated to reflect the change of donor groupings, which is effective 1 January 2018. This is consistent with the revised 2018 presentation.

Figure IV.IV
**Total revenue by segment**




*Note*: Other resources – regular include investment revenue, trust funds, fundraising retentions and contributions to management costs.

26. Revenue in 2018 from other resources – regular was down by $86.39 million, or 3 per cent, to $2.94 billion (2017: $3.03 billion), mainly owing to the above-mentioned decrease in such revenue from the World Bank. In total, other resources – regular still accounted for almost half of the total revenue (44 per cent).

27. Revenue in 2018 from other resources – emergency was down by $196.82 million, or 9 per cent, to $1.93 billion (2017: $2.13 billion), representing 29 per cent of total revenue (see table 1 below).

Table IV.1
**Five-year trend in revenue**
(Thousands of United States dollars)

| | *2014* | *2015* | *2016** | *2017* | *2018* |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Regular resources – programme | 1 146 673 | 1 021 543 | 1 139 977 | 1 220 417 | 1 561 315 |
| Regular resources – non-programme | 42 317 | 45 918 | 50 665 | 57 683 | 66 641 |
| Other resources – regular | 2 263 982 | 2 055 402 | 1 859 076 | 3 026 270 | 2 941 001 |
| Other resources – emergency | 1 579 448 | 1 780 489 | 2 015 180 | 2 126 629 | 1 926 293 |
| **Total voluntary contributions** | **5 032 420** | **4 903 352** | **5 064 898** | **6 430 999** | **6 495 250** |
| Other revenue | 107 113 | 71 174 | 74 486 | 74 046 | 79 846 |
| Investment revenue | 29 755 | 35 031 | 51 911 | 71 699 | 100 662 |
| **Total revenue** | **5 169 288** | **5 009 557** | **5 191 295** | **6 576 744** | **6 675 758** |

* 2016 revenue from voluntary contributions was restated owing to a change in accounting policy.

28. Revenue from other resources – emergency represents the contribution agreement made in response to the organization's humanitarian action for children appeals. Over the five-year period, there was an initial increase in such revenue as a percentage of total revenue as a result of several emergencies to which UNICEF responded in 2014 to 2016. Over the past two years, the trend reversed, with revenue from other resources – regular accounting for a larger portion of the total revenue. A substantial proportion of the increase in such revenue in 2017 was attributable to the $520.32 million contribution from the World Bank for humanitarian development in Yemen, relating to programme activities in an emergency response context.

29. Revenue from regular resources – programme increased slightly over the five-year period, from $1.15 billion in 2014 to $1.56 billion in 2018, but remained largely constant as a portion of total revenues over that period.

30. Despite making up a small proportion of total revenue, investment revenue has more than tripled, from $29.76 million in 2014 to $100.66 million in 2018, largely driven by the performance of term deposits. In 2014, the deposits of $1.45 billion earned a return of $7.60 million (0.5 per cent) and in 2018 the deposits of $2.75 billion earned a return of $54.66 million (2 per cent).

31. Similarly, cash and cash equivalents held have seen interest rates increasing from close to zero to 2 per cent, resulting in income of $17.08 million in 2018 compared with $1.09 million in 2017, with treasury-managed cash holdings nearly halving from $1.29 billion in 2014 to $798.99 million in 2018. In addition, after-service health insurance funds were outsourced in 2016 to external fund managers, yielding an income of $8.53 million by 2018, which has been reinvested with the funds.

32. Other revenue, mostly from handling fees for procurement services, remained stable over the past three years after declining in 2015. The decrease from 2014 and 2015 levels reflects a strategic business decision to shift from the in-house management of gifts and cards to the licensing model now in use, thus reducing the costs associated with that income channel, resulting in a better net contribution to UNICEF overall.

### Foreign exchange impact: revenue

33. With approximately 78 per cent of the organization's voluntary contributions in currencies other than the United States dollar, currency valuations and foreign exchange fluctuations affect the amount of revenue recorded. Appreciation of the United States dollar in 2018 resulted in realized and unrealized foreign exchange losses of $75.14 million (2017: gain of $124.71 million), relating mainly to euro and pound sterling nominated contributions, with losses of $25.20 million and $19.94 million, respectively. In accordance with the UNICEF Financial Regulations and Rules, such foreign exchange gains and losses are reflected against revenue.

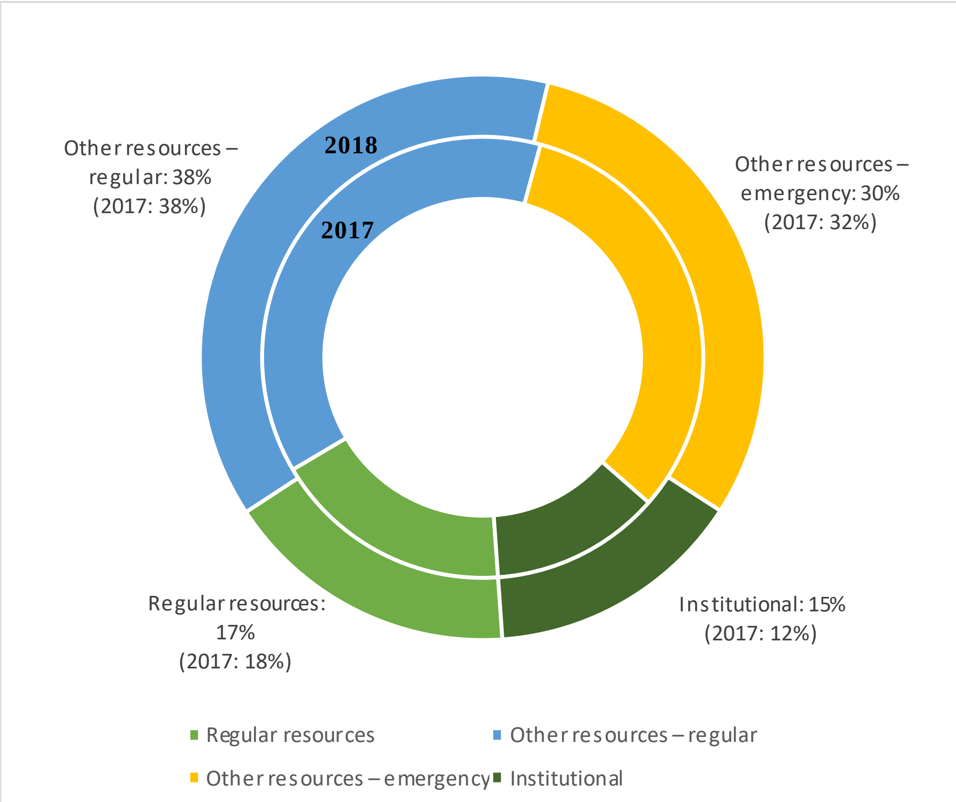
34. Foreign exchange losses of $3.07 million were recorded against total revenue from regular resources (2017: gain of $11.92 million). In 2018, the foreign exchange losses on revenue from other resources – both regular and emergency – were $58.31 million (2017: gain of $81.23 million) and $13.76 million (2017: gain of $31.56 million), respectively.

35. UNICEF also actively managed foreign currency risk through forward contracts, external investments and natural hedges. In 2018, those activities recorded small foreign exchange losses of $4.61 million, compared with gains of $59.95 million recorded in 2017. These are included under net gains of $16.68 million (2017: $75.28 million) in the financial statements as they do not relate directly to specific contributions agreements.

**Financial performance: expenses**

36. The organization's total expenses for 2018 were $5.97 billion (2017: $5.86 billion), with $5.29 billion relating to programmatic activities. Expenses by funding source are shown in the figures below.

Figure IV.V
**Expenses by segment**




37. The organization's total expenses mainly comprised $2.26 billion (2017: $2.22 billion), or 38 per cent, for cash assistance to implementing partners and beneficiaries; $0.99 billion (2017: $1.09 billion), or 17 per cent, for transfer of programme supplies; and $1.42 billion (2017: $1.31 billion), or 24 per cent, for employee benefits.

38. Cash-based transfers for programme implementation continued to be scaled up, particularly in countries and locations responding to humanitarian crises. Cash-based assistance increased slightly by $38.52 million in 2018 compared with 2017, based largely on increased transfers to implementing partners in Lebanon (by $23.42 million) and Turkey (by $40.64 million), as well as increases in both cash direct transfers to beneficiaries and implementing partners in Yemen (by $42.46 million). Those increases were offset by reductions totalling $71.91 million in Iraq, Nepal and Sierra Leone, where the value of transfers halved compared with 2017.

39. Other significant expenses included $431.20 million (2017: $473.69 million) for programme-related professional and expert services and $157.50 million for travel-related expenses for programme and administrative activities (2017: $149.85 million). Travel-related expenses accounted for 3 per cent of the total expenses in both 2017 and 2018.

40. The top 10 programmatic countries by expenses account for 40 per cent of total expenses for UNICEF ($2.38 billion) and are almost fully funded from earmarked contributions, with only $242.82 million of funding from regular resources used by those countries. This reflects the organization's response to humanitarian crises, with other resources – emergency constituting the most resources spent in Lebanon of $261.69 million, Jordan of $168.56 million, Yemen of $161.17 million, Turkey of $146.85 million and South Sudan of $125.63 million.

Table IV.2
**Five-year trend for expenses**
(Thousands of United States dollars)

| | *2014* | *2015* | *2016* | *2017* | *2018* |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Cash assistance | 1 512 034 | 1 766 374 | 1 971 636 | 2 224 658 | 2 263 176 |
| Transfer of programme supplies | 851 497 | 1 117 930 | 1 139 096 | 1 086 237 | 986 908 |
| Employee benefits | 1 129 549 | 1 185 784 | 1 207 855 | 1 310 272 | 1 416 290 |
| Depreciation and amortization | 18 597 | 22 587 | 26 623 | 18 800 | 21 914 |
| Other expenses | 737 316 | 658 029 | 677 270 | 746 885 | 847 621 |
| Other programme-related expert services | 305 676 | 341 603 | 422 247 | 473 688 | 431 201 |
| Finance costs | 3 547 | 3 342 | 3 124 | 2 893 | 2 647 |
| **Total expenses** | **4 558 216** | **5 095 649** | **5 447 851** | **5 863 433** | **5 969 757** |

41. Overall, total expenses increased in all five years (see table 2 above), with an average of 8 per cent being recorded to date. The highest increases were recorded in 2014 and 2015, at 11 per cent and 12 per cent, respectively. A smaller increase of 7 per cent was recorded in 2016, followed by 8 per cent in 2017. However, 2018 expenses were nearly stable compared with 2017, increasing only 2 per cent.

42. On average, cash assistance expenses increased 11 per cent year on year over the five-year period. This reflects the fact that the majority of the increases in responses have been through cash-transfer modalities working with implementing partners, while the transfer of programme supplies, after an initial increase from 2014 to 2016, declined since then, with a move towards the provision of cash to beneficiaries.

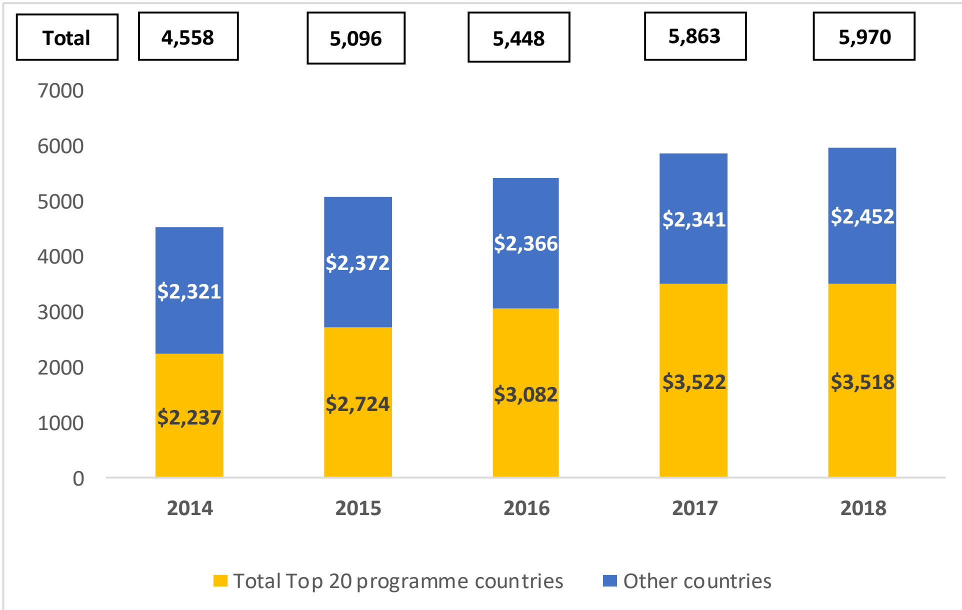
43. Employee benefits increased steadily over the five-year period but generally at a slower pace than total expenses, representing between 22 and 25 per cent of the total expenses each year.

44. Expenses related to the transfer of programme supplies were distributed primarily in Yemen, with an increase of $43.06 million being recorded there. Programme supplies recorded an overall decrease over the five-year period, while an increase was recorded for cash assistance.

45. Expenses related to other programme-related expert service increased 11 per cent over the five-year period, despite recording a decrease in 2018 compared with 2017. Those expenses increased by 14 per cent in 2014 and 12 per cent in 2015, then increased sharply to 24 per cent in 2016 and again by 12 per cent in 2017. That was followed by a decrease of 9 per cent in 2018. Such expenses include technical support provided by external consultants to implement programmes, including evaluation services, studies and research survey services and other services related to programme activities. Nigeria and Pakistan continued to record the largest increases, related to the polio eradication programming.

Figure IV.VI
**Total expenses for 20 largest programme countries**
(Millions of United States dollars)




46. The largest 20 programmatic countries accounted for 59 per cent of organizational expenses in 2018, compared with 49 per cent in 2014, reflecting a steady increase over the five-year period. That trend is explained largely by the scaled-up response in countries surrounding the Syrian Arab Republic as the humanitarian crisis deepened, for example, in Yemen, where expenses rose from $99.48 million in 2014 to $405.23 million in 2018 (307 per cent). Similarly, in Lebanon, expenses rose from $107.36 million in 2014 to $335.62 million in 2018, an increase of more than 200 per cent.

## UNICEF overall surplus and net assets

47. As noted in paragraph 20 above, 47 per cent of the voluntary contributions of UNICEF are for multi-year programmes, where revenue is generally recognized when an agreement is signed and expenses are incurred over the planned programme period of two years or more, hence revenue and expenses often appear in different years. For example, of the total expenses of $5.97 billion in 2018, $2 billion related to multi-year earmarked contributions where revenue had been recognized in prior years.

48. In addition, revenue from earmarked contributions for programmatic activities with a planned duration of less than two years also have expenses of $1.57 billion in the year where recognition of revenue occurred in the prior year.

49. UNICEF recorded a surplus of $722.68 million in 2018 (2017: $788.59 million), which is added to the organization’s net assets (reserves), representing guaranteed funding available for programme activities in future years in line with donor agreements and intentions.

### Financial position

50. As at the end of 2018, the total assets of UNICEF were $10.51 billion (2017: $9.95 billion), as shown in table 3 below.

Table IV.3
**Statement of financial position: assets**
(Thousands of United States dollars)

| | 2018 | 2017 | Variance: United States dollars | Variance: Percentage |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 995 259 | 883 578 | 111 681 | 13 |
| Receivables (current and non-current) | 3 398 522 | 2 756 843 | 641 679 | 23 |
| Advances of cash assistance | 771 424 | 732 676 | 38 748 | 5 |
| Inventories | 370 191 | 356 275 | 13 916 | 4 |
| Investments (current and non-current) | 4 114 670 | 4 217 328 | (102 658) | (2) |
| Other assets (current and non-current) | 605 796 | 768 660 | (164 864) | (21) |
| Property and equipment | 243 144 | 233 177 | 9 967 | 4 |
| Intangible assets | 6 162 | 4 159 | 2 003 | 48 |
| **Total assets** | **10 505 168** | **9 952 696** | **552 472** | **6** |

### Cash and investments

51. A significant portion of the assets that UNICEF manages in support of its institutional and programmatic activities comprises cash and investments of $5.11 billion (2017: $5.10 billion). Most of the cash and investment assets are low-risk investments in fixed income instruments, such as bonds and term deposits.

52. UNICEF has a responsibility to ensure that its funds are invested in a way that supports short-term liquidity to meet institutional and programmatic needs and promotes the long-term sustainability of the organization's operations to support the implementation of the Strategic Plan. The investment philosophy and strategies assure preservation of capital by minimizing exposure to undue risk of loss or impairment while maintaining a reasonable expectation of fair return or appreciation.

53. UNICEF manages its investment portfolio risk using various short- and long-term financial instruments. The short-term investment strategy is designed to focus on safety and liquidity while capturing reasonable rates of return, by investment in highly rated financial assets in cash and cash equivalents, short-term investments and emerging markets. The longer-term strategy is based on investing primarily in traded bonds.

### Available cash

54. The UNICEF Financial Regulations and Rules indicate that, to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. There have been no changes in the way UNICEF manages its capital in 2018.

55. UNICEF is required to hold a prudent level of liquidity for regular resources, defined as the equivalent to expenses covering operations for three to six months, historically about $300 million to $600 million. In addition, UNICEF holds reserves for long-term employee liabilities, such as after-service health insurance and other Board-approved purposes, which totalled $745.40 million (2017: $687.62 million) at the end of the year.

56. The available cash for regular resources, after taking into account payables and other commitments as well as cash reserves, was $531.54 million at the end of 2018.

The available cash was $1.61 billion for other resources – regular, after considering commitments, and $376.43 million for other resources – emergency.

**Receivables**

57. The funding partners of UNICEF provide multi-year agreements that are essential for forward planning and demonstrate the long-term commitment by donors to achieve results for children. Receivables of $3.33 billion (2017: $2.71 billion) mainly comprise multi-year contributions for programmatic activities in 2019 and subsequent years. Other assets of $605.80 million (2017: $768.66 million) pertain mainly to procurement services activities, as discussed in note 11 of the financial statements.

**Cash advances**

58. Cash advances to implementing partners for which implementation reports had not been received at year-end increased by $38.75 million to $771.42 million in 2018 (2017: $732.68 million), consistent with the overall increase in cash transfers. There are no significant old outstanding cash advances either individually or in total. Balances over nine months overall account for less than 1 per cent of the total cash advances.

**Inventories**

59. UNICEF holds inventory for programmatic purposes, to distribute to beneficiaries and implementing partners. The total UNICEF inventory worldwide was valued at $370.19 million (2017: $356.28 million) at year-end. Inventory was held in 175 locations in 59 countries and in the Supply Division hub in Copenhagen. The organization's inventory, which includes items such as therapeutic food, children's clothing, medical and sanitation supplies, is either held for short periods as it is intended to be used for programme activities or as "pre-positioned" stand-by stock to aid fast response at the onset of an emergency. In 2018, $51.42 million (2017: $50.10 million) was held as "pre-positioned", the remaining inventory being either in transit to country offices ($96.64 million, compared with $79.58 million in 2017) or held in warehouses in the field ($197.70 million, compared with $198.32 million in 2017).

60. The inventory held in Supply Division hubs and warehouses was valued at $52.96 million (2017: $53.22 million).

61. In addition, included as part of the inventory at year-end were costs of incomplete programme construction for new facilities that had not yet been handed over to Governments and communities, mainly comprising water supply, hygiene and sanitation systems ($14.13 million), cold chain stores ($3.50 million) and new schools ($3.01 million) in Africa, the Middle East and South Asia.

**Liabilities**

62. Under IPSAS, liabilities are defined as present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. UNICEF had total liabilities of $3.04 billion (2017: $3.36 billion) at year-end, largely relating to after-service employee benefits of $1.53 billion (2017: $1.64 billion) and funds held on behalf of others of $803.51 million (2017: $1.17 billion). Liabilities are detailed in table 4 and paragraphs 63 and 64 below.

Table IV.4
**Statement of financial position: liabilities**
(Thousands of United States dollars)

| | 2018 | 2017 | Variance: United States dollars | Variance: Percentage |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Accounts payable | 339 341 | 274 262 | 65 079 | 24 |
| Contributions received in advance (current and non-current) | 62 287 | 29 401 | 32 886 | 112 |
| Funds held on behalf of others | 803 506 | 1 171 871 | (368 365) | (31) |
| After-service health insurance and other employee benefits (current and non-current) | 1 532 289 | 1 638 022 | (105 733) | (6) |
| Other liabilities and provisions (current and non-current) | 302 297 | 245 368 | 56 929 | 23 |
| **Total liabilities** | **3 039 720** | **3 358 924** | **(319 204)** | **(10)** |

### After-service health insurance and other long-term employee benefit liabilities

63. UNICEF provides its staff with after service health insurance benefits as well as other employee benefits. A valuation carried out by an external firm in February 2019 estimated employee benefit liabilities to be $1.41 billion (2017: $1.52 billion), and this has been recognized as a liability in full in the financial statement of UNICEF (see note 18).

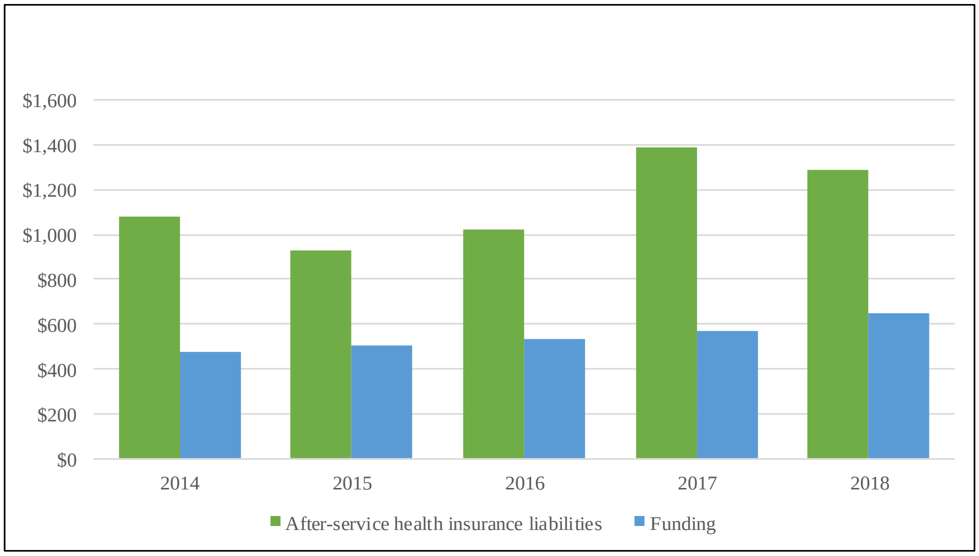
64. After-service health insurance and other employee benefits decreased by $105.73 million, driven by the results of the actuarial study of the rollover valuation carried out by the external firm. Actuarial gains of $197.90 million were recorded, compared with a loss of $316.63 million in 2017.

Table IV.5
**After-service health insurance and separation reserves**
(Millions of United States dollars)

| | *After-service health insurance* | *MIP* | *End of service* | *Death benefit* | *Workers' compensation* | *Total* |
|---|---|---|---|---|---|---|
| 2017 Liability | (884.78) | (505.71) | (107.10) | (1.99) | (16.01) | (1 515.60) |
| 2018 Liability | (818.35) | (468.82) | (105.05) | (1.83) | (14.71) | (1 408.76) |
| Funding position | 527.88 | 122.10 | 91.12 | – | – | 741.10 |
| Percentage funded | 65 | 26 | 87 | – | – | 53 |

65. UNICEF has accumulated $741.10 million (2017: $682.03 million) in its after-service health insurance, separation and other reserves towards meeting these obligations and continues to set aside additional funds, primarily through payroll surcharges. Total funding improved in 2018 – at 53 per cent compared with 45 per cent in 2017 – largely owing to the results of the actuarial valuation. Actuarial gains and losses cause the funding position and liability to fluctuate year on year. Figure VII below shows the trend over past five years for after-service health insurance.

Figure IV.VII
**After-service health insurance liability and related funding**
(Millions of United States dollars)




66. In 2016, UNICEF engaged an external investment manager to manage the after-service health insurance funds set aside in the related insurance reserve, with the objective of earning returns that contribute to the long-term funding of the after-service health liability. At the end of the year, the value of the investments managed by the external fund manager was $454.03 million (2017: $480.06 million).

67. UNICEF also held $92.69 million (2017: $98.80 million) in assets related to forward contract derivatives as part of the after-service health insurance investments managed by the external investment manager, along with offsetting forward contracts in loss of $93.16 million (2017: $100.57 million), resulting in a net loss position of $0.47 million (2017: $1.77 million).

### Budgetary performance

68. The statement of comparison of budget to actual allocated amounts spent for the year ended 31 December (statement V) compares UNICEF budgets, which are approved by the Executive Board, to the actual amounts incurred against them. Unlike the other financial statements, which are prepared under the IPSAS full-accrual basis, statement V is prepared and presented on a modified cash basis. Note 4 of the financial statements contains the definitions of the various budget classifications.

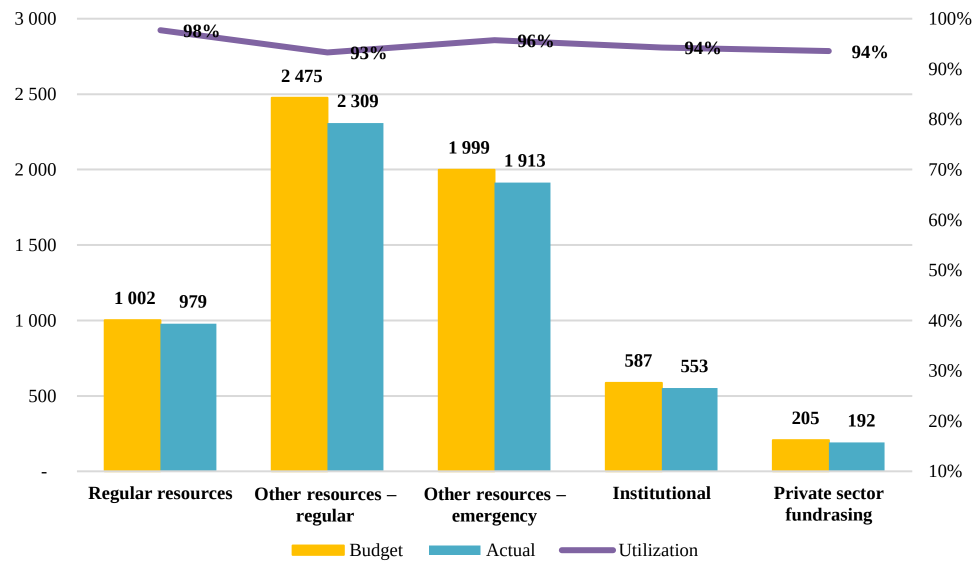
### Changes from original to final budget

69. The UNICEF budgets for the various programmes are approved by its Executive Board, subject to availability of funding. The original budget comprises the approved amounts for both regular resources and other resources initially allocated for the current year. The final budget represents the contributions received against the Board-approved ceiling and planned for the calendar year.

### Actual budget expenditures

70. The total budget utilized in 2018 was $5.95 billion, or 95 per cent of final budget. Overall in 2018, across the different budget categories, utilization was high, ranging from 93 per cent for other resources – regular to 98 per cent utilization for regular resources.

Figure IV.VIII
**Budget to actual performance**
(Millions of United States dollars)




### Regular resources

71. Regular resource-funded actual budgetary expenditures were $884.22 million for country programmes and $61.18 million for global and regional programmes, with a final budget utilization of 98 per cent for regular resources overall.

72. Regular resources also include the Emergency Programme Fund which provides a mechanism for the Executive Director to activate the UNICEF response to emergencies in advance of receiving contributions from funding partners up to a maximum of $75 million at any given time. The actual budget utilization of the Fund is equal to the final budget allotments advanced from the Fund to support humanitarian actions for which contributions had not yet been made by donors. The utilized 2018 budget of $33.32 million is fully reimbursable when contributions become available.

73. During 2018, Emergency Programme Fund allocations of $66.70 million were issued to country offices, in addition to $14.90 million carried over from 2017 in the form of residual budgets and commitments. Overall returns to the fund from offices in 2018 were $49.10 million, as contributions were raised.

### Other resources – regular

74. Other resources – regular comprise country, regional and global programmes. The final budget for 2018 for these was $2.47 billion, with actual expenditures incurred of $2.31 billion.

75. Other resource contributions are received for programmatic activities that take place over multi-year periods, and budgets associated with the related grants are issued throughout the year when contributions agreements are signed with donors and then phased to the years the activities are expected to take place. Contribution agreements are sometimes signed very close to year-end, resulting in budgets being released but with phasing and expenditures incurring the following year. This accounts for $14.81 million of the final budget for 2018, with a contribution to a

country programme having been received on 27 December 2018 for $11.38 million, of which $10.63 million was included in the final budget.

76. Since 2018 was the start of a new strategic plan period, there were delays in recruitments as offices tried to finalize the funding and programmes in order to start implementation of defined activities. Some country offices experienced periods of vacancies that affected the progress of project implementation.

77. In one country programme, the economic crisis, high inflation, devaluation of the local currency and fuel shortages greatly affected the office in 2018. This had a negative impact on all activities on the ground and hence continued to delay project implementation. The office also experienced shortages of resources (e.g. vaccines) and delays in the signing of the cost-sharing agreement, which delayed the procurement process. That, coupled with the rainy season in most parts of the country, affected the transportation and distribution of bed nets. In addition, the implementation plan for the cold chain related to yellow fever of the Gavi, the Vaccine Alliance was later revised to commence implementation in January 2019.

78. In one country programme, the volatile economic conditions and existence of the parallel market significantly affected the prices and availability of core commodities, such as cement, which is required for construction projects. The office also experienced delays in the disbursement of funds to implementing partners because of the changes in monetary policy. New bank accounts had to be set up by both UNICEF and implementing partners in order to facilitate the transfer of funds for programme implementation. The office also experienced delays in having programme documents approved, as government officials were actively participating in the national elections held in 2018. Furthermore, owing to a cholera outbreak, activities and some funds needed to be reprogrammed in order to refocus on critical life-saving activities.

### Other resources – emergency

79. Other resources – emergency contributions were received in response to a humanitarian emergency through UNICEF humanitarian action for children appeals, and the final budget represents those contributions received from donors without central management allocations. Instead, the final budget is issued and those contributions recorded in the same way as other resources – regular when contribution agreements are signed.

80. The final other resources – emergency budget for 2018 was $2 billion, with actual expenditures of $1.91 billion, or 96 per cent of the total. The largest individual variance contributing to the difference related to a level-3 country emergency, where a donation of $10.12 million was received on 27 December 2018 and expenditures occurred in 2019.

81. Similar to other resources – regular, sometimes events beyond the control of UNICEF do not allow those activities the funding has been earmarked for to be carried out as planned. For example, the Supply Division received a $9 million contribution from a donor specifically to engage with pharmaceutical companies to develop a specific new diagnostics tool, yet the manufacturers experienced delays in reaching the product stage for the new innovation and no expenditures were incurred until early 2019.

### Institutional

82. The institutional budget represents funds used for development effectiveness activities, management activities, special purpose activities and the United Nations

development coordination activities. The utilized institutional budget in 2018 was $553.29 million, or 94 per cent of the final budget.

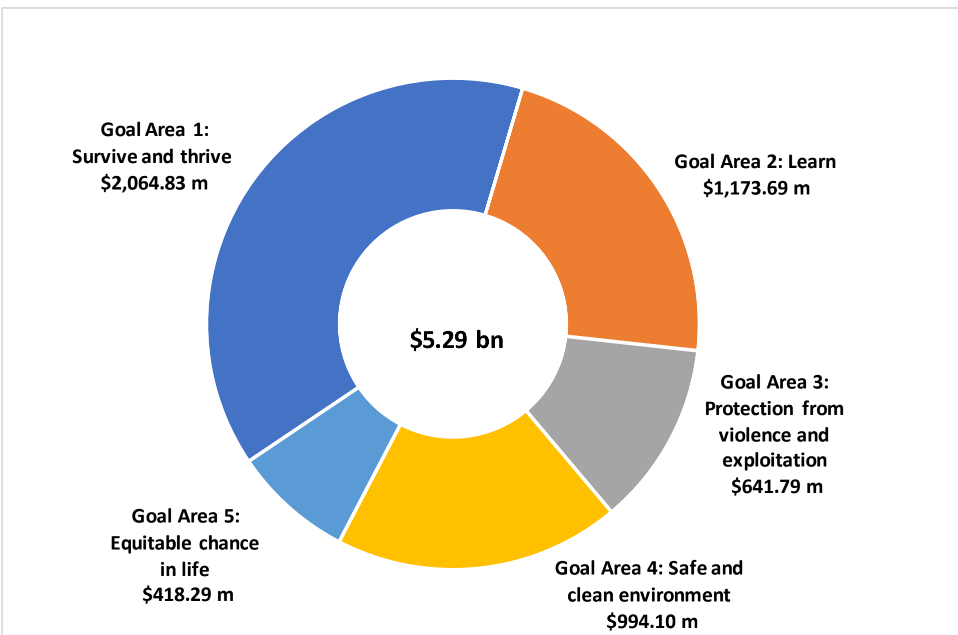
83. Management costs were 98 per cent utilized, with actual expenditures of $372.60 million (final budget $381.66 million).

84. Development effectiveness was 92 per cent utilized, with actual expenditures of $150.19 million (final budget $162.63 million). The $12.44 million variance was attributable largely to savings on vacant posts. One division recorded vacancy savings of $0.97 million, driven mostly by its large size. For that division, the vacancy rates were on average 10 per cent or lower month-on-month for the year. In another division, almost half of its posts were vacant for the first five months of the year until they were filled, resulting in a variance of $0.85 million.

85. The actual expenditure for private-sector fundraising and partnership activities was $192.22 million, or 94 per cent (final budget $205.50 million). Expenditure on fundraising activities by UNICEF country offices was $37.80 million, compared with final ceilings of $42.80 million, resulting in savings of $5 million. A further $5 million was saved compared with planned post costs through the abolishment of certain posts and the establishment of new posts for only a portion of the year. In total, 32 per cent of the posts for private fundraising activities were vacant at one point during the year for more than one month, contributing further to the variance.

86. The new strategic plan for the period 2018–2021 commenced in 2018. The programme expenditure related to the five goal areas are presented in figure IX below.

Figure IV.IX
**Programme expenditure by goal areas, 2018**




## Forward-looking statements disclosure

87. The management discussion and analysis include forward-looking statements and information about the outlook, direction, operations and future financial results of UNICEF that are subject to risks, uncertainties and assumptions.

### Outlook for 2019 and beyond

88. The year 2018 marked the first year of the UNICEF 2018–2021 Strategic Plan. The Plan was developed to advance the mission of UNICEF in a rapidly changing world, setting out specific and measurable results for children and young people and the organization, and defining the change strategies and enablers required. Furthermore, the plan was developed in the context of the United Nations development system reforms and supports implementation of those reforms.

89. The Strategic Plan aims to increase the ability of UNICEF to deliver results for children in four key ways: (a) aligning the organization's resources around common goals and strategies; (b) supporting its ability to make strategic choices; (c) creating more effective communication about its work for every child to win more support for the cause of children; and (d) strengthening its accountability framework.

90. Protections from sexual exploitation and abuse received renewed attention in 2018, with partners continuing to coalesce around this shared agenda. At the Inter-Agency Standing Committee, the Executive Director championed the issues of protections from sexual exploitation and abuse and sexual harassment. It is expected that 2019 should see a further acceleration of programmes on protections from sexual exploitation and abuse in all countries with humanitarian response plans and refugee response plans.

91. UNICEF humanitarian programmes address the urgent needs of children affected by crises in the short and medium term, while its development programmes contribute to reducing their needs, vulnerabilities and risks in a sustainable and longer-term manner. Both therefore contribute to delivering the Sustainable Development Goals for the world's most disadvantaged children. In the light of recently reaffirmed international commitments to improve aid effectiveness and efficiency, UNICEF is strengthening and systematizing its approach to better link humanitarian and development programming.

92. To fulfil the 2018–2021 Strategic Plan, UNICEF will continue to strengthen a variety of robust, diverse and innovative funding mechanisms, including accelerating and maximizing longer-term, flexible and predictable funding and leveraging resources and partnerships for children and young people.

93. UNICEF has recently conducted internal reviews that have led to the development of new and updated tools for risk-informed programming, preparedness and working in fragile and crisis-affected contexts, all of which focus on reaching the furthest left behind and building resilience. It has also developed an executive directive to systematically link humanitarian and development in different contexts, building on good practices already implemented. UNICEF will continue to explore new partnerships, to invest in solutions and innovative financing that provide more predictable and sustainable services to children and their communities in humanitarian and fragile contexts.

94. In 2016, further commitments were made to address growing humanitarian needs by promoting new ways of working that strengthen the linkage between humanitarian and development aid, prioritizing the needs and vulnerabilities of those who have been left furthest behind by development progress, including disadvantaged children and young people. Efforts are also under way to increase and support investments in the institutional capacities of local and national responders in humanitarian programming, including preparedness, response and coordination.

95. UNICEF will continue to increase its support for existing systems for decentralized services, information systems and supply-chain management. The

decentralization of humanitarian and development programmes will channel more aid through local organizations and local governments.[12]

96. On the agenda item on repositioning the United Nations development system in the context of the quadrennial comprehensive policy review, which becomes effective in 2019, a member of staff from UNICEF was appointed as head of the transition team in support of the work of the team in the Executive Office of the Secretary-General.

## Risk management framework and key enterprise risks

### Risk management framework

97. The UNICEF enterprise risk management framework is a consistent and systematic process of continuously identifying, assessing, responding to, monitoring and communicating top risks and positive opportunities to the organization's senior management and those charged with governance. The robust internal control framework at UNICEF integrates risk management to provide reasonable assurance that the organizational Strategic Plan and results for children are achieved. Senior management, through the Office of the Comptroller, is accountable for comprehensive enterprise risk management and the effectiveness of the internal control framework. The enterprise risk management and internal control frameworks are integral to providing assurance as to the accuracy and reliability of financial reporting, governance, risk and control, as well as the prevention and detection of fraudulent activities. UNICEF management is responsible for ensuring compliance with all applicable regulatory requirements, internal control frameworks and risk management practices.

98. UNICEF maintains and enhances a strong and experienced operations function at the country office, regional office and headquarters levels. Operations continue to implement management controls and risk management practices to optimize the use of resources. The robust operations function is at the forefront of risk mitigation as the first and second lines of defence, especially at the country office level. The Comptroller provides functional leadership of the critical first and second lines of defence, to ensure management control. UNICEF mitigates significant risks to an acceptable level by developing detailed mitigation action plans that are monitored at the enterprise level. In 2018, the job description of senior operations staff was revised to refocus work on strategic issues and risk management, from the country office, regional office and up to headquarters divisions levels.

99. UNICEF continually improves its systems and processes for risk management to ensure results for children and value for money are achieved. The management of organizational risks is critical to ensure achievement of the Strategic Plan goals. In 2018, UNICEF developed a corporate tool for governance, risk and compliance that automates and streamlines risk-assessment processes within the organization and highlights areas of concern to be addressed on a proactive and ongoing basis. UNICEF manages several risks that are regularly reviewed, prioritized and addressed. Key developments in the risks that UNICEF monitors closely at the enterprise level are described below.

### New developments in enterprise risks

*Fraud waste and misuse of resources*

100. The risk of fraud and the misuse and misappropriation of funds remains a key risk in the context in which UNICEF operates. UNICEF is committed to mitigating the risk of fraud and the misuse and misappropriation of funds and in June 2018

[12] See UNICEF document UNICEF/2019/EB/3, available from www.unicef.org/about/execboard/files/2019-EB3-Humanitarian_action-EN-2018.12.06.pdf.

launched a comprehensive anti-fraud strategy, including specific guidance for managers and staff on how to prevent, detect and respond to such threats, while enhancing existing risk-mitigation and response mechanisms. UNICEF has trained and will continue to train staff on various components of the anti-fraud strategy and has developed a mandatory online fraud awareness course, to be completed by all staff in 2019. UNICEF is collaborating with other agencies of the United Nations to develop specific fraud training for implementing partners, expected to be launched in 2019. The Office of Internal Audit and Investigations examines cases of suspected fraud and of misuse and misappropriation of resources and takes immediate action where fraud is detected. The organization is also enhancing its mechanisms for recovering funds lost due to fraud, misuse and misappropriation.

*Misconduct and wrongful and negligent behaviour towards others*

101. Misconduct and wrongful and negligent behaviour towards others is a key risk that was modified in 2018 to capture the full scope of issues that UNICEF mitigates. Within this broad definition, other forms of misconduct and wrongful and negligent behaviour towards others include harassment (non-sexual), the sexual exploitation and abuse of children, the non-safeguarding of children, discrimination and retaliation. UNICEF will continue to address sexual harassment and abuse of authority by staff, vendors and implementing partners. Mandatory, organization-wide training has been rolled out on the prevention of sexual exploitation and abuse and on the prevention of sexual harassment and abuse of authority. UNICEF has enhanced its investigation capacity to ensure reported issues are investigated thoroughly and addressed in a timely manner. The Executive Director and senior management have expressed strongly and unequivocally that sexual harassment and abuse of authority will not be tolerated at UNICEF. This message has been communicated through the "Not here" campaign, which has seen swift and tangible changes that guarantee a safe environment for all who work at and with UNICEF.

102. The Executive Director requested the Evaluation Office to undertake an independent review of the response of UNICEF to protection from sexual exploitation and abuse. In addition, an independent panel of experts was appointed in May 2018 to undertake a review of the approach of UNICEF to protection from sexual exploitation and abuse. The results of that review were presented in February 2019 at the first regular session of the Executive Board (E/ICEF/2019/5). Key findings are included for management implementation, presented under four core chapters and 32 action points for implementation.

*Information technology and information security*

103. Information technology and information security risks remain a key area that UNICEF is mitigating. There has been an increase in information technology security and cyber risks to UNICEF systems, staff, partners and beneficiaries. Through its Information and Communications Technology Division, UNICEF is reviewing new and evolving digital content practices to use the latest tools to mitigate risks. The Division conducts regular information security assessments to stay one step ahead of the risks and continues to enhance the enforcement of compliance with the information security management system framework. The Division has expanded the security awareness programme and contributed to the refinement of the UNICEF child safeguarding policy to cover possible security vulnerabilities. UNICEF has also launched a mandatory training course on information security to ensure that all staff are aware of the key issues for mitigating the risk.

*Cash-based transfers*

104. UNICEF continues to scale up the cash-based transfer modality of programme implementation, partnering with other United Nations agencies and international

financial institutions. This innovative funding approach has exposed UNICEF to risks related to cash-based transfer systems, processes, and security. UNICEF leverages in technology and best practices in information security to manage this key enterprise risk. UNICEF is enhancing its technological capabilities through the development of an organization-wide cash-based transfer strategy and the enhancement of existing infrastructure, including data management, information systems, financial policies and procedures. UNICEF has successfully implemented comprehensive fraud risk mitigation processes in a major cash transfer project that was managed and implemented by a specialized project management unit. The lessons learned from that project will be essential in designing risk management strategies for future cash-based transfer modalities of programme implementation.

105. In 2018, UNICEF was represented in the working group on common treasury services that worked to discuss the possibility of leveraging treasury harmonization initiatives and the opportunity of a study to facilitate and enhance the collaborative cash-coordination dialogue within the United Nations system.

# Chapter V

## Financial statements for the year ended 31 December 2018

### United Nations Children's Fund

### I. Statement of financial position as at 31 December

(Thousands of United States dollars)

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 995 259 | 883 578 |
| Contributions receivable | 7.A | 2 188 478 | 1 737 309 |
| Other receivables | 7.B | 67 123 | 47 091 |
| Advances of cash assistance | 8 | 771 424 | 732 676 |
| Inventories | 9 | 370 191 | 356 275 |
| Investments | 10 | 3 546 819 | 3 716 240 |
| Other assets | 11 | 604 029 | 766 843 |
| **Total current assets** | | **8 543 323** | **8 240 012** |
| **Non-current assets** | | | |
| Contributions receivable | 7.A | 1 141 215 | 970 971 |
| Other receivables | 7.B | 1 706 | 1 472 |
| Investments | 10 | 567 851 | 501 088 |
| Property and equipment | 12 | 243 144 | 233 177 |
| Intangible assets | 13 | 6 162 | 4 159 |
| Other assets | 11 | 1 767 | 1 817 |
| **Total non-current assets** | | **1 961 845** | **1 712 684** |
| **Total assets** | | **10 505 168** | **9 952 696** |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 14 | 339 341 | 274 262 |
| Contributions received in advance | 15 | 60 730 | 27 431 |
| Funds held on behalf of third parties | 16 | 803 506 | 1 171 871 |
| Other liabilities | 17 | 191 854 | 183 790 |
| Employee benefits liabilities | 18 | 122 261 | 121 606 |
| Provisions | 19 | 50 468 | 21 351 |
| **Total current liabilities** | | **1 568 160** | **1 800 311** |
| **Non-current liabilities** | | | |
| Contributions received in advance | 15 | 1 558 | 1 970 |
| Employee benefits liabilities | 18 | 1 410 028 | 1 516 416 |
| Other liabilities | 17 | 59 974 | 40 227 |
| **Total non-current liabilities** | | **1 471 560** | **1 558 613** |
| **Total liabilities** | | **3 039 720** | **3 358 924** |
| Accumulated surpluses | 20 | 6 741 110 | 6 076 212 |
| Reserves | 20 | 724 338 | 517 560 |
| **Net assets** | | **7 465 448** | **6 593 772** |

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

## United Nations Children's Fund

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

(Thousands of United States dollars)

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Revenue** | | | |
| Voluntary contributions | 21 | 6 495 250 | 6 430 999 |
| Other revenue | 22 | 79 846 | 74 046 |
| Investment revenue | 23 | 100 662 | 71 699 |
| **Total revenue** | | **6 675 758** | **6 576 744** |
| **Expenses** | | | |
| Cash assistance | 25 | 2 263 176 | 2 224 658 |
| Transfer of programme supplies | 25 | 986 908 | 1 086 237 |
| Employee benefits | 26 | 1 416 290 | 1 310 272 |
| Depreciation and amortization | 12, 13 | 21 914 | 18 800 |
| Other expenses | 27 | 847 621 | 746 885 |
| Other programme-related expert services | 28 | 431 201 | 473 688 |
| Finance costs | 23 | 2 647 | 2 893 |
| **Total expenses** | | **5 969 757** | **5 863 433** |
| Gains net | 24 | 16 675 | 75 282 |
| **Net surplus** | | **722 676** | **788 593** |

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

## United Nations Children's Fund

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

(Thousands of United States dollars)

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Net assets as at 1 January** | 20 | **6 593 772** | **6 093 168** |
| Actuarial gains/(losses) recognized directly in net assets | 20 | 197 896 | (316 630) |
| Changes in fair value of available-for-sale financial assets | 20 | (48 896) | 28 641 |
| Net surplus for the period | 20 | 722 676 | 788 593 |
| **Net assets as at 31 December** | 20 | **7 465 448** | **6 593 772** |

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

## United Nations Children's Fund

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

(Thousands of United States dollars)

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net surplus | 20 | 722 676 | 788 593 |
| Adjustments to reconcile surplus to net cash flows | | | |
| Depreciation and amortization | 12,13 | 21 914 | 18 800 |
| Net gain on sale or disposal of property, equipment | 24a | (1 821) | (965) |
| Unrealized loss/(gain) on foreign exchange | | 89 784 | (147 612) |
| Impairments, write-offs | 27 | 4 220 | 19 216 |
| Investment revenue presented as investing activities | 23 | (100 662) | (71 699) |
| Contributions in kind — net | 21 | (72 431) | (42 766) |
| Actuarial gain/(loss) on employee benefit liabilities | 20 | 197 896 | (316 630) |
| Unrealized (gain)/loss on investments | 20 | (48 896) | 28 641 |
| Other adjustments | | 8 599 | 170 510 |
| Changes in assets | | | |
| (Increase)/decrease in inventories | 9 | (13 916) | 12 127 |
| Increase in contributions receivable | 7.A | (621 413) | (514 585) |
| Increase in other receivables | 7.B | (20 267) | (7 026) |
| (Increase)/decrease in advances from cash assistance | 8 | (38 747) | 18 581 |
| Decrease/(increase) in other assets | 11 | 162 864 | (286 816) |
| Changes in liabilities | | | |
| Increase in accounts payable | 14 | 65 079 | 9 375 |
| Increase/(decrease) in contributions received in advance | 15 | 32 886 | (13 087) |
| (Decrease)/increase in funds held on behalf of third parties | 16 | (368 365) | 353 971 |
| (Decrease)/increase in employee benefit liabilities | 18 | (105 733) | 401 749 |
| Increase/(decrease) in provisions | 19 | 29 118 | (1 472) |
| Increase in other liabilities | 17 | 27 811 | 48 195 |
| **Net cash (used in)/generated by operating activities** | | **(29 404)** | **467 100** |
| **Cash flows from investing activities** | | | |
| Purchases of investments | | (5 658 243) | (5 470 896) |
| Maturities and sale of investments | | 5 760 901 | 4 711 178 |
| Interest revenue | 20 | 95 634 | 67 214 |
| Dividend revenue | 20 | 5 029 | 4 485 |
| Purchases of property and equipment | 12 | (33 523) | (32 249) |
| Proceeds on sale of property and equipment | | 5 523 | 2 585 |
| Purchases of intangible assets | 13 | (4 262) | (22) |
| Disposals of intangible assets | | – | 3 |
| **Net cash generated/(used in) by investing activities** | | **171 059** | **(717 702)** |

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Cash flows used in financing activities** | | | |
| Central Emergency Response Fund loan | 17 | (4 000) | (4 000) |
| Payment of finance lease liabilities | 17B | (6 728) | (6 728) |
| **Net cash used in financing activities** | | **(10 728)** | **(10 728)** |
| Effect of exchange rate changes on cash and cash equivalents | | (19 246) | 11 380 |
| **Net increase/(decrease) in cash and cash equivalents** | | **111 681** | **(249 950)** |
| **Cash and cash equivalents** | | | |
| Beginning of year | 6 | 883 578 | 1 133 528 |
| End of year | 6 | 995 259 | 883 578 |

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

## United Nations Children's Fund

### V. Statement of comparison of budget to actual amounts for the year ended 31 December

(Thousands of United States dollars)

| | *Note* | *Original budget* | *Final budget* | *Actual on comparable basis* | *Difference between final and actual* |
|---|---|---|---|---|---|
| **Regular resources** | | | | | |
| Country programmes | 5 | 840 802 | 896 260 | 884 224 | 12 036 |
| Global and regional programmes | 5 | 58 374 | 72 644 | 61 184 | 11 460 |
| **Emergency programme fund** | | **75 000** | **33 323** | **33 323** | – |
| **Total regular resources** | | **974 176** | **1 002 227** | **978 731** | **23 496** |
| **Other resources – regular** | | | | | |
| Country programmes | | 1 460 397 | 2 249 111 | 2 126 015 | 123 096 |
| Global and regional programmes | | 200 465 | 225 704 | 183 196 | 42 508 |
| **Total other resources – regular** | | **1 660 862** | **2 474 815** | **2 309 211** | **165 604** |
| **Total country programmes** | | **2 301 199** | **3 145 371** | **3 010 239** | **135 132** |
| **Total global and regional programmes** | | **258 839** | **298 348** | **244 380** | **53 968** |
| **Other resources – emergency** | **5** | **1 480 000** | **1 998 585** | **1 912 941** | **85 644** |
| **Total programmatic** | | **4 115 038** | **5 475 627** | **5 200 883** | **274 744** |
| **Institutional budget** | | | | | |
| Development effectiveness | | 173 523 | 162 632 | 150 188 | 12 444 |
| Management | | 385 477 | 381 657 | 372 603 | 9 054 |
| Special purpose: capital investments | | 19 226 | 32 764 | 23 312 | 9 452 |
| United Nations development coordination | | 12 087 | 9 756 | 7 185 | 2 571 |
| **Total institutional** | | **590 313** | **586 809** | **553 288** | **33 521** |
| **Special purpose: private fundraising and partnerships** | | **223 000** | **205 495** | **192 219** | **13 276** |
| **Grand total** | | **4 928 351** | **6 267 931** | **5 946 390** | **321 541** |

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

## United Nations Children's Fund
## Notes to the 2018 financial statements

### Note 1
### Reporting entity

1. The United Nations Children's Fund (UNICEF) was established by the General Assembly in its resolution 57 (I), which mandated UNICEF to advocate for the protection of children's rights, to help meet their basic needs and to expand their opportunities to reach their full potential. The governing body of UNICEF is the Executive Board, which provides intergovernmental support and oversight to the organization in accordance with the overall policy guidance of the General Assembly and the Economic and Social Council.

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

3. UNICEF is headquartered in New York and maintains a presence in 190 countries, territories and areas, including at other headquarters offices in Belgium, Denmark, Hungary, Italy, Japan, the Republic of Korea and Switzerland, as well as regional offices in Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

### Note 2
### Statement of approval of the Executive Director

The financial statements were certified by the Comptroller on 29 March 2019 as required by the UNICEF Financial Regulations and Rules, and transmitted for issue by the Executive Director on 31 May 2019.

### Note 3
### Basis of preparation

### A. Basis of measurement

1. The financial statements have been prepared on a full-accrual method of accounting under International Public-Sector Accounting Standards (IPSAS). The accounting policies have been applied consistently throughout the reporting period. UNICEF applies the historical cost principle, except for the following material items, in its statement of financial position:

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

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

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

### B. Foreign currency translation

*Functional and presentation currency*

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

*Transactions and balances*

4. Foreign currency transactions are translated into United States dollars at the prevailing United Nations operational rate of exchange at the time of the transaction.

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

## C. Use of estimates and critical judgments

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

6. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Examples of estimates include: valuation and impairment of investments; useful lives of tangible and intangible assets; inventory valuation; collectability of receivables; provisions and adjustments of advances of cash assistance; and contingencies. Examples of assumptions include: determining when investment impairments are other-than-temporary; and discount and inflation rates applied to employee benefits liabilities.

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

(a) Note 18, Employee benefits liabilities: UNICEF participates in a defined-benefit pension plan and other benefit plans. IPSAS requires that management measure the defined-benefit obligations and annual costs under such plans, using assumptions that are long-term in nature and reflect the organization's best judgment and estimates. UNICEF reviews key assumptions on an annual basis with its independent actuaries using relevant experience, in conjunction with market-related data. The key assumptions include the rate of compensation increase, the discount rate and the longevity of plan members. The management assumption with the greatest potential impact on the organization's defined-benefit obligation is the discount rate. The discount rate is determined by reference to the yield of a portfolio of high-quality fixed-income instruments (rated AA or higher), which has the same duration as the plan's defined-benefit obligation;

(b) Note 33, Contingencies: legal proceedings covering a wide range of matters are or may be pending or threatened in various jurisdictions against UNICEF. Provisions are recorded for pending matters when it is determined that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Owing to the inherently uncertain nature of the matters, the ultimate outcome or actual cost of settlement may materially vary from estimates.

8. There were no material changes in 2018 to the basis of estimates and judgments applied.

## D. Change in accounting policy

9. The IPSAS Board published IPSAS 39: Employee benefits. That replaced IPSAS 25: Employee benefits, with an effective application date for annual financial statements covering periods beginning on or after 1 January 2018. UNICEF adopted IPSAS 39 for its 2018 financial statements.

10. The main differences between IPSAS 39 and IPSAS 25 are in the recognition and presentation of actuarial gains and losses arising from the defined-benefit plans. IPSAS 39 requires disclosure for defined-benefit plans according to the characteristics and risks associated with them. Actuarial gains and losses must also be fully recognized in the period they occur. The latter has no impact on UNICEF since actuarial gains are already recognized directly to actuarial gains and losses reserve in net assets during the period in which they arise.

11. In accordance with IPSAS 39 and IPSAS 3: Accounting policies, changes in accounting estimates and errors, the new standard has been applied retrospectively. No restatement of comparative financial statements is applicable to UNICEF as a result of its adoption of IPSAS 39. However, the impact on the disclosure of IPSAS 39 is reflected in note 18, Employee benefits liabilities, as well as additional disclosures in note 34, Related parties, on post-employment benefits associated with key management personnel in UNICEF.

## E. Future accounting changes

12. In October 2018, the IPSAS Board issued the final pronouncement on improvements to IPSAS in 2018. No substantive changes to IPSAS will have an impact on UNICEF financial statements to date.

## Note 4
## Significant accounting policies

### Financial assets

1. UNICEF classifies financial assets into the following categories: financial assets at fair value through surplus or deficit; loans and receivables; and available-for-sale financial assets. The designation depends on the purpose for which the financial assets are acquired and is determined at initial recognition. In 2016, UNICEF engaged an external investment manager to manage the after-service health insurance funds set aside in the after-service health insurance reserve, with the objective of earning returns that will contribute to the long-term funding of the after-service health insurance liability (see note 10, Investments). Financial assets in the externally managed portfolio follow the same accounting treatment as existing financial instruments. UNICEF does not classify any financial assets as held-to-maturity.

| *Major financial asset type* | *Classification* |
|---|---|
| Cash and cash equivalents (with original maturities of 3 months or less) | Loans and receivables |
| Term deposits (with original maturities greater than 3 months) | Loans and receivables |
| Contributions receivables | Loans and receivables |
| Other receivables | Loans and receivables |
| Promissory notes | Loans and receivables |
| Traded bonds | Available-for-sale |
| Equities | Available-for-sale |
| Structured deposits | Fair value through surplus or deficit |

| *Major financial asset type* | *Classification* |
|---|---|
| Forward exchange contracts in gain | Held for trading (fair value through surplus or deficit) |

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

*Financial assets at fair value through surplus or deficit*

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

4. UNICEF regularly enters into contracts for structured deposits. A structured deposit is a hybrid financial instrument that has an embedded option along with a fixed-term deposit. The fixed-term deposit is deemed the host. These structured deposits include embedded derivatives. UNICEF designates such hybrid financial instruments at fair value through surplus or deficit in their entirety. As a result, UNICEF does not need to separate these embedded derivatives and account for them separately.

5. Furthermore, UNICEF holds foreign exchange forward contracts (free-standing derivatives) which are valued with reference to the prevailing United Nations operational rate of exchange. UNICEF uses derivatives only to manage foreign exchange risk. These derivatives are contracted only with creditworthy counterparties pre-approved by the UNICEF Financial Advisory Committee, which renders advice to the Comptroller on matters of investments of funds not needed for immediate requirements of UNICEF.

6. UNICEF does not apply hedge accounting to its foreign exchange forward contracts. If they are not closed out, derivatives with a positive fair value are reported as derivative instruments within other current assets while derivatives with a negative fair value are reported as derivative instruments within other current liabilities in the statement of financial position. Gains and losses from changes in the fair value of derivatives are recognized in net gains and (losses) in the statement of financial performance. All financial assets at fair value through surplus or deficit are classified as current assets (see note 29, Financial instruments).

*Loans and receivables*

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

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

9. Unused transfers of cash assistance due from implementing partners represent the organization's claims to the unused cash assistance funds remaining with

implementing partners after the completion or termination of a project. They are recorded as "other receivables" and are recovered from implementing partners.

10. Prepayments are issued where agreements with UNICEF and the supplier or service provider requires payment up front. Prepayments are recorded as a current asset until goods and/or services associated with the prepayments are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

11. UNICEF provides interest-free advances to staff for up to 12 months for specified purposes, in accordance with the Staff Rules and Staff Regulations of the United Nations. The advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value.

*Available-for-sale financial assets*

12. Available-for-sale financial assets are non-derivative financial assets composed of traded bonds (both internally and externally managed) and externally managed equities and investment funds. They are initially recorded at fair value and subsequently are reported at fair value, with any resultant fair value gains or losses recognized directly in net assets except for impairment losses, foreign currency exchange differences and interest calculated using the effective-interest method. When an available-for-sale financial asset is de-recognized, the gain or deficit accumulated in net assets is reclassified as surplus or deficit.

13. Interest on available-for-sale fixed income investments and dividends on available-for-sale equity investments are recognized in the statement of financial performance during the period earned and when the right to receive the dividend payments is established, respectively.

14. Available-for-sale financial assets are included in non-current investments unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period (see note 10, Investments).

**Impairment of financial assets – assets carried at amortized cost**

15. At the end of each reporting period, UNICEF assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. UNICEF considers impairment of financial assets at a specific asset level.

16. A financial asset or a group of financial assets is impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. No collective impairment is made.

17. The amount of the loss is measured as the difference between the carrying amount of the asset and the estimated recoverable amount. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of financial performance and reflected in an allowance account in the statement of financial position.

18. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as receipt of funds), the reversal of the previously recognized impairment loss is recognized in the statement of financial performance.

19. UNICEF contributions receivable relate to contractual amounts agreed to be paid by donors such as Governments, intergovernmental organizations (such as the

European Union) and other United Nations agencies. Therefore, impairments of contributions receivable are rare and are considered on a case-by-case basis.

### Impairment of financial assets – assets classified as available-for-sale

20. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from accumulated surplus (deficit) and recognized in the statement of financial performance.

### Advances of cash assistance to implementing partners

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

22. Reporting by implementing partners of the utilization of cash assistance is due within six months. The failure by an implementing partner to report on the utilization of cash assistance within nine months, or breach of performance obligation, triggers an inquiry by UNICEF. As required, those amounts, as well as any unused funds, are reclassified from advances of cash assistance to other receivables (unused transfers of cash assistance due from implementing partners). The impairment of receivables is disclosed in note 7, Contributions receivable and other receivables.

### Inventory

23. Inventory held for programme distribution, such as programme supplies, is stated at the lower of cost or current replacement cost. Cost is determined using a weighted average cost formula.

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

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

### Property and equipment

26. Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. This includes costs that are directly attributable to the acquisition of assets and the initial estimate of dismantling and site restoration costs. Where an asset is received as contribution in kind, the fair value as at the date of acquisition is deemed to be its cost.

27. Property and equipment include right-to-use arrangements that meet the criteria for recognition. An equivalent liability is established if the arrangement has

conditions attached to it. The liability is released to revenue at the same time as the value of the asset is consumed through depreciation or impairment.

28. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNICEF and the cost of the item can be measured reliably. Repairs and maintenance, which do not qualify for capitalization, are charged to surplus or deficit in the period during which they are incurred.

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

30. Temporary and portable buildings at UNICEF, referred to also as "prefabs and containers used for storage or accommodation and office use", vary in their design, size, shape, configuration and durability. Taking into account the significant variations noted in design, nature of use and costs, the useful lives of containers and prefabs were concluded as being 10 years for those that are storage type and 25 years for those that are office use and accommodation type.

31. Estimated useful lives are as follows:

| *Property and equipment class* | *Useful life* |
|---|---|
| Permanent buildings | 50 years |
| Temporary and portable buildings | 10–25 years |
| Leasehold building and land improvements | Shorter of the lease term or useful life of the asset |
| Infrastructure, information technology and communications equipment | 10 years |
| Office information technology and computer equipment | 3 years |
| Transportation equipment | 8 years |
| Furniture and fixtures | 10 years |
| Other equipment | 5 years |

32. The gain or loss arising from the disposal of an item of property or equipment is the difference between the sale proceeds and the carrying amount of the asset and is recognized in other revenue or expenses within surplus or deficit.

33. UNICEF capitalizes costs to upgrade, expand or improve an existing own or leasehold property, or construct a new physical property that is intended to be used by UNICEF. Construction in progress is stated at cost and not depreciated till completion of works, eligible costs have been fully accumulated and the new asset is ready for use.

### Assets held for sale

34. UNICEF applies judgment to determine whether an asset is available for immediate sale in its present condition and whether its sale is highly probable and

therefore should be classified as held for sale at the balance sheet date. Conditions that support a highly probable sale include the following: (a) an appropriate level of management is committed to a plan to sell the asset or disposal group; (b) an activity to locate a buyer and complete the plan has been initiated; (c) the asset has been actively marketed for sale at a price that is reasonable in relation to its current fair value; and (d) the sale of the asset is expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

35. Assets classified as held for sale are valued at the lower of either the carrying amount or the fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent remeasurements are included in the statement of financial performance. No depreciation is charged on assets held for sale.

### Intangible assets

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

37. Amortization of intangible assets is recognized in surplus or deficit on a straight-line basis over the estimated useful lives of the related assets. Software is amortized over periods ranging from 3 to 10 years. Other rights and licences are amortized over the shorter of the licence or rights period and 2 to 6 years (see note 13, Intangible assets).

### Impairment of non-cash generating assets

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

39. Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the impairment value has decreased or no longer exists. An impairment deficit from previous years is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have existed, net of depreciation or amortization, if no impairment deficit had been recognized (see note 12, Property and equipment).

### Financial liabilities

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

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

41. Accounts payable and accruals arising from the purchase of goods and services are recognized when supplies are delivered or services consumed. Liabilities are stated at the invoice amounts, less the payment discounts if eligible at the reporting date. Where invoices are not available at the reporting date, the liability is estimated and recorded. Financial liabilities measured at amortized cost, due within 12 months of the date of the statement of financial position, are classified as current liabilities. Otherwise, they are classified as non-current liabilities (see note 14, Accounts payable and accrued liabilities, note 15, Contributions received in advance, note 16, Funds held on behalf of third parties, and note 17, Other liabilities).

42. Forward exchange contracts in a loss position are classified as held for trading. Financial liabilities held for trading are initially recorded at fair value, with any subsequent realized and unrealized gains or losses recognized in the statement of financial performance. Transaction costs are expensed as they are incurred. At year end, the balance of forward exchange contracts in loss is closed out. If they are not closed out, derivatives with a negative fair value are reported as derivative instruments within other current liabilities in the statement of financial position.

### Funds held on behalf of third parties

43. Funds held on behalf of third parties represent liabilities in respect of assets held by or for UNICEF under agency agreements.

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

45. A liability is not reported for goods held on behalf of a third party under supported deliveries arrangements where UNICEF provides logistical services (see note 16, Funds held on behalf of third parties).

### Employee benefits

46. UNICEF recognizes the following categories of employee benefits:

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

*Short-term employee benefits*

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

*Post-employment benefits*

48. Post-employment benefits are those payable after completion of or separation from employment, excluding termination payments.

*Defined-contribution plan*

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

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

*Defined-benefit plans*

51. The defined-benefit plans of UNICEF include after-service health insurance and certain end-of-service entitlements. After-service health insurance is part of the scheme of social security for staff established by the Secretary-General in accordance with staff regulation 6.2. The organization's obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

52. The plan exposes UNICEF to actuarial risks associated with changes in key actuarial assumptions, including discount rate, medical trend rate, life expectancy and length of service. Those risks also include uncertainty in mortality tables without reliable death registration data. There is also a risk that the liability may not be sufficient to meet the obligations. For this, the funding reserve and external funding mechanisms have been put in place.

53. The obligation is discounted to determine its present value and stated at the end of the reporting period, less the fair value of plan assets, together with adjustments

for unrecognized past-service costs. The calculation is performed annually by a qualified independent actuary using the projected-unit credit method. The benefits expense for these plans principally represents the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

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

55. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to actuarial gains and losses reserve in net assets during the period in which they arise (see note 20, Net assets). All other changes in the liability for such obligations are recognized in surplus or deficit in the period during which they arise.

*Other long-term employee benefits*

56. Other long-term employee benefits obligations are those that do not fall due wholly within twelve months after the end of the period in which employees provide the related service. These benefits comprise home leave and compensation for death and injury attributable to the performance of duties. These obligations are valued periodically using a qualified actuary.

57. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to actuarial gains and losses reserve in net assets during the period in which they arise (see note 20, Net assets). All other changes in the liability for these obligations are recognized in surplus or deficit during the period in which they arise.

*Termination benefits*

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

**Leases**

59. UNICEF leases certain property and equipment. Leases of property and equipment where UNICEF substantially assumes all the risks and rewards of ownership are classified as finance leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

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

obligations, net of finance charges, are included in other liabilities (see note 17, Other liabilities).

62. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of incentives received from the lessor, if any) are recognized on a straight-line basis under other expenses in the statement of financial performance over the period of the lease (see note 27, Other expenses).

### Provisions

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

64. A provision for the return of unused funds to donors is reported for unused balances where the donor agreement requires unused funds to be returned and where it is probable that funds will be returned as opposed to being reprogrammed. A provision for returns of unused funds is reported only if there are funds to be returned after the receivable has been fully written down. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis. The expense arising from reporting a provision (or reducing any receivable) for unused funds is presented in the statement of financial performance as a reduction of revenue from voluntary contributions.

65. Other provisions include that for medical insurance for active employees, and an estimate of a provision for the write-down of contribution receivables. The write-down provision is computed where the donor has not disbursed all the cash to UNICEF, and it is expected that, based on past experience, donors may reduce the initial agreement value in the future (see note 19, Provisions).

### Revenue recognition

*Voluntary contributions*

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

67. Voluntary contributions are received from governments, intergovernmental agencies, National Committees for UNICEF, other United Nations organizations, other NGOs and individuals.

68. Voluntary contributions may be subject to terms in a binding agreement imposed upon the use of the resource (termed earmarked funds or other resources) or may be free of specific terms allowing UNICEF to direct such resources according to its mandate (termed unearmarked funds or regular resources).

69. With regard to contributions, UNICEF recognizes revenue in full, including for unconditional multi-year voluntary contributions at the time the agreement is signed. Subject to the review processes in place to identify voluntary contributions with conditionality, these earmarked contributions that have stipulations and restrictions rather than conditions as prescribed by IPSAS 23 are recognized at the time of signing of the contribution agreement.

70. Contributions received in advance of a specified period consist of cash contributions which were received before the formal conclusion of the contribution agreement and are to be used by UNICEF in future periods specified by donors.

71. Revenue from voluntary contributions is shown net of:

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

(b) Provisions for the return of unused funds to donors and provisions for write-down;

(c) Realized and unrealized gains and losses on foreign exchange as UNICEF does not assume the risk of foreign exchange on contribution revenue consistent with its Financial Regulations and Rules (see note 21, Revenue from voluntary contributions).

*Pledges*

72. Pledges of donations to UNICEF are received at an annual pledging conference. UNICEF does not recognize pledges as assets or revenue until they are enforceable at the earlier of written confirmation of the pledge or receipt of funds. Once enforceable, the asset and related revenue are recognized consistent with the revenue recognition policy for voluntary contributions referred to above. Until that time, the pledges are disclosed as contingent assets in note 33, Contingencies.

*Contributions in kind*

73. UNICEF receives contributions of right-to-use office space and other facilities from Member States. These right-to-use contributions are measured at the fair value of the operating lease payments that would have been paid by UNICEF in a commercial lease arrangement. The in-kind revenue is recorded in the statement of financial performance as part of voluntary contributions; the corresponding expense is recorded based on nature as part of rent or other premises related expenses (see note 27, Other expenses).

74. Contributions in-kind received or receivable of goods, such as programme supplies for distribution to partners or equipment for use by UNICEF, are initially measured at their fair value at the date of receipt. Fair values of non-monetary assets are determined by reference to observable market values or by independent appraisal. UNICEF recognizes goods in kind as assets when the goods are received or, in rare circumstances, at the timing of signing of a binding agreement.

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

*Revenue from exchange transactions*

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

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

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

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

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

(d) Licensing income is recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to UNICEF, and the amount of revenue can be measured reliably (see note 21, Revenue from voluntary contributions, and note 22, Other revenue).

## Recognition of expenses

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

*Transfers of cash assistance and programme supplies*

79. In fulfilling its mandate, UNICEF transfers cash and programme supplies to Governments, NGOs and other third parties ("implementing partners"). In the case of transferred supplies, an expense is recorded when the control of goods is transferred to an implementing partner. Transfers of cash assistance are initially reported as an advance on the statement of financial position where there are performance obligations imposed on the implementing partner and are expensed when UNICEF is satisfied that those performance obligations are met. An accrual against advances is recorded at year-end for expenses incurred by implementing partners reported to but not processed by UNICEF (see note 8, Advances of cash assistance, and note 25, Transfer of programme supplies and cash assistance).

## Commitments

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

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

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

(c) Cash transfers to implementing partners;

(d) Other non-cancellable commitments.

## Contingencies

*Contingent liabilities*

81. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recorded during the period in which the change of probability occurs (see note 33, Contingencies).

## Segment reporting

82. Operating segments are reported in a manner consistent with internal reporting on strategic decision-making on resource allocation and assessment of financial performance provided to the Executive Director of UNICEF. For UNICEF, the relevant segments are labelled institutional, regular resources – programme; regular resources – non-programme; other resources – regular; other resources – emergency; and trust funds.

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

## Budget

84. UNICEF budgets, which are approved by the Executive Board, permit expenditures to be incurred. UNICEF has classified its budgets as: (a) country programme budgets; (b) emergency appeal budgets; (c) Global and Regional Programme budget; (d) Emergency Programme Fund; (e) institutional budget; and (f) Private Fundraising and Partnerships budget.

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

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

87. The institutional budget is also broken down by cost classification, which comprises the following categories as disclosed in statement V:

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

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

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

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

88. An original budget as defined by IPSAS is "the initial approved budget for the budget period". Multi-year budgets need to be broken into annual allocations in order to identify the original budget for each year.

89. The Executive Board approved the use of the Emergency Programme Fund to pre-finance urgent humanitarian actions when contributions have not yet been made by donors but are expected to be raised through emergency appeals. The Emergency Programme Fund approval from the Executive Board gives UNICEF the authority to allot up to $75 million for emergencies.

90. For UNICEF, within the context of statement V, the original annual budget is the amount originally approved or, if multi-year budget, allocated to the financial year. The other resources – emergency original budget is based on the planned financial estimates of expected resources available for the following year.

91. The final budget is defined as:

(a) The original budget as defined above;

(b) All subsequent changes to the budget approved by the Executive Board or in accordance with a delegated authority from the Board.

92. The other resources – emergency final budget represents the budgets issued on the basis of donor emergency contributions, and any residual budgets that have been carried forward from prior years.

93. While the organization's financial statements are prepared under the IPSAS full-accrual basis, UNICEF budgets are prepared and managed on a modified cash basis. The most significant differences are as follows:

(a) Revenue: the actual budget does not include revenue. The difference pertaining to revenue is shown under "presentation differences" in the reconciliation between budget actuals and net cash flows;

(b) Expenses: budget actuals are recorded on a modified cash basis in contrast with expenses in the financial statements that are prepared under the IPSAS full-accrual basis. The difference is presented under "basis differences" under the category "operating" in the reconciliation between budget actuals and net cash flows;

(c) Assets: advances of cash assistance, inventory and property and equipment appear as actuals in the budget. However, these items appear on the statement of financial position of the financial statements and not under expenses. The difference that arises between actuals and expenses as a result of this is presented under "basis differences" under the category "operating" in the reconciliation between budget actuals and net cash flows;

(d) Funds held on behalf of third parties: the budget does not include funds held on behalf of third parties, and this is presented under "entity differences" in the reconciliation between budget actuals and net cash flows;

(e) Investing and financing activities: purchases, maturities and sales of investments, interest received, purchases of property and equipment and intangibles, proceeds from the sale of property and equipment and payment of finance lease liabilities are not included in the budget. These are presented under "basis differences" under the categories "investing" and "financing" in the reconciliation between budget actuals and net cash flows.

## Note 5
## Comparison to budget

1. Actual on comparable basis from statement V presented in the table below are reconciled with the amounts presented in the statement of cash flows.

(Thousands of United States dollars)

| | *Operating* | *Investing* | *Financing* | *Exchange rate changes* | *2018* | *2017* |
|---|---|---|---|---|---|---|
| Total actual amount on comparable basis as presented in the budget and actual comparative statement | (5 946 390) | – | – | – | (5 946 390) | (5 835 387) |
| Basis differences | (390 407) | 171 059 | (10 728) | – | (230 076) | (1 356 658) |
| Exchange rate changes on cash and cash equivalents | – | – | – | (19 246) | (19 246) | 11 380 |
| Entity differences | (368 365) | – | – | – | (368 365) | 353 971 |
| Presentation differences | 6 675 758 | – | – | – | 6 675 758 | 6 576 744 |
| **Net cash flows from the statement of cash flows** | **(29 404)** | **171 059** | **(10 728)** | **(19 246)** | **111 681** | **(249 950)** |

*Changes from original to final budget*

2. Since UNICEF is voluntarily funded, the budgets approved by the Executive Board for the various programmes are subject to availability of funding. The original budget comprises the amounts for both regular resources and other resources originally allocated for the current year. The final budget represents the actual contributions received against the Board approved ceiling and planned for the calendar year. In 2018, the total final budget of $6.27 billion is significantly higher than the total original budget of $4.93 billion. The difference is driven mainly by funding received from both regular resources – other as well as more emergency appeals than the original budget approval amount. Regular resources funding also slightly exceeded the original target.

3. The Executive Board approved the use of the Emergency Programme Fund to pre-finance urgent humanitarian actions when contributions have not yet been made by donors but are expected to be raised through emergency appeals. The Fund approval is $75 million and also subject to availability of funding. The final budget of $33.32 million for the Fund represents resource requirements for humanitarian actions for which contributions have not yet been raised.

*Changes from final to actual budget*

4. Statement V documents the various budget to the actual amounts incurred against them. Both budgets and actuals (cash and budgetary commitments) are calculated on the same modified cash basis. A total amount of $111.68 million was the difference between the amounts presented in the statement of cash flows under full accrual basis and those presented in statement V on a modified cash basis. The difference consisted of the following: (a) a net of $29.40 million in operating activities, mostly related to presentation, entity and basis differences; (b) a net of $171 million basis difference, related to investment activities; (c) a net of $10.73 million related to basis difference in financing activities; and (d) a net of $19.25 million of exchange rate changes.

5. The total final budget for all resources was $6.27 billion (original budget: $4.93 billion). The actual expenditures on a comparable basis were $5.95 billion,

giving a total variance of $321.54 million (or 5 per cent). The difference between the final budget and the actual was mainly due to variances on the following budget lines: (a) regular resources – programme of $23.50 million; (b) other resources – regular of $165.60 million; (c) other resources – emergency of $85.64 million; (d) institutional budget of $33.52 million; and (e) private fundraising and partnerships of $13.28 million.

6. The variance of $165.60 million for other resources – regular was attributable mainly to delays in finalizing the funding at the beginning of the Strategic Plan 2018–2021, which caused delays in the recruitment of expertise and in commencing the implementation of activities. In some offices, local conditions, such as the economic crisis, greatly affected the commencing of programmatic activities, especially those programmes with a large component of national ownership and government cost-sharing. Implementation plans for major programmatic activities were later revised with the agreement of national Governments to commence at the beginning of 2019. In some countries, changes and volatility in monetary policies and national elections delayed work with implementing partners, and hence the activities were rephased to 2019. Finally, approximately $19.49 million of the variance was largely due to agreements received in late December with associated programmatic activities expected to take place starting with the current year and future periods.

7. The other resources – emergency variance of $85.64 million was mainly due to the timing of contributions of at least $10.19 million in late December (the final budget for that budget line is released when contribution agreements are received from donors) and of funding for new medical supplies of $9.94 million (the arrangement with the manufacturer was delayed).

8. The variance in the institutional budget of $33.52 million was mainly due to vacancies that arose during the year, with some being filled in the later part of the year, reflecting the period of time between a position becoming vacant and the recruitment of a replacement. This applied to the variance for the development effectiveness budget line of $12.44 million and the management budget line of $9.05 million. The special purpose: capital investment budget line variance of $9.45 million related mainly to information technology projects, premises construction and enhancements in security, which are ongoing, with some activities being deferred to 2019. Regarding the special purpose: private fundraising and partnership budget line of $13.28 million, some posts were abolished and replaced with new posts, reflecting the new focus on fundraising activities, and leading to savings during the period when recruitments were made for the new posts.

9. Further detailed explanations of the material differences between the original and final budgets, as well as between final budgets and actual amounts, are presented in the financial overview for the year ended 31 December 2018.

## Note 6
## Cash and cash equivalents

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Cash at bank and on hand – convertible | 158 233 | 189 162 |
| Cash at bank and on hand – non-convertible | 38 039 | 38 016 |
| Cash at bank in money market demand accounts | 126 085 | 147 697 |
| Term deposits and other (90 days or less) | 672 902 | 508 703 |
| **Total cash and cash equivalents** | **995 259** | **883 578** |

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

2. Included within the UNICEF cash balances is $11.21 million (2017: $16.14 million) of cash managed by the external investment manager for the after-service health insurance investment portfolio.

## Note 7
## Contributions receivable and other receivables

### A. Contributions receivable

(Thousands of United States dollars)

| | *Governments and inter-governmental agencies* | *Inter-organizational arrangements* | *National committees* | *Other organizations* | *2018* | *2017* |
|---|---|---|---|---|---|---|
| **Gross current receivables** | | | | | | |
| Unearmarked – regular resources | 158 441 | 90 | 237 269 | 19 | 395 819 | 288 651 |
| Earmarked – other resources | 1 492 697 | 200 655 | 82 853 | 16 454 | 1 792 659 | 1 448 658 |
| **Total current contributions receivable** | **1 651 138** | **200 745** | **320 122** | **16 473** | **2 188 478** | **1 737 309** |
| **Gross non-current receivables** | | | | | | |
| Unearmarked – regular resources | 244 895 | – | 680 | – | 245 575 | 51 630 |
| Earmarked – other resources | 843 499 | 36 105 | 500 | 15 536 | 895 640 | 919 341 |
| **Total non-current contributions receivables** | **1 088 394** | **36 105** | **1 180** | **15 536** | **1 141 215** | **970 971** |
| **Total contributions receivable** | **2 739 532** | **236 850** | **321 302** | **32 009** | **3 329 693** | **2 708 280** |

1. Ageing of receivables as well as the organization's exposure to credit and currency risks related to those receivables is disclosed in note 30, Financial risk management.

### B. Other receivables

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Current other receivables** | | |
| Receivables from licensing cards and products | 2 917 | 4 288 |
| Value-added tax receivables | 39 111 | 32 913 |
| Receivables from staff members | 6 181 | 6 842 |
| Receivables from other United Nations agencies | 18 818 | 8 075 |
| Unused transfers of cash assistance due from implementing partners | 9 893 | 4 939 |
| Other | 95 | 1 542 |
| Impairment | (9 892) | (11 508) |
| **Total current other receivables** | **67 123** | **47 091** |
| **Non-current other receivables** | **1 706** | **1 472** |

| | *2018* | *2017* |
|---|---|---|
| **Total other receivables** | **68 829** | **48 563** |

2. The exposure of UNICEF to credit and currency risks related to other receivables is disclosed in note 30, Financial risk management.

## Note 8
## Advances of cash assistance

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Advances of cash assistance by region** | | |
| East Asia and Pacific | 36 031 | 31 768 |
| Europe and Central Asia | 33 321 | 39 452 |
| Eastern and Southern Africa | 156 110 | 175 814 |
| Latin America and Caribbean | 31 793 | 31 169 |
| Middle East and North Africa | 239 072 | 206 450 |
| South Asia | 82 904 | 71 601 |
| Western and Central Africa | 194 844 | 176 344 |
| Transfers to United Nations agencies and other organizations at Headquarters | 9 021 | 5 326 |
| Adjustment | (11 672) | (5 248) |
| **Total advances of cash assistance by region** | **771 424** | **732 676** |

1. The adjustment included in the above table represents an accrual for where implementing partners have incurred valid expenses as at 31 December 2018 and reports had been received but not processed by UNICEF at the reporting date.

## Note 9
## Inventories

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Programme supplies held in UNICEF controlled warehouses | 250 656 | 251 548 |
| Programme supplies in transit | 96 643 | 79 582 |
| Programme construction in progress | 22 892 | 25 145 |
| **Total inventories** | **370 191** | **356 275** |

## Note 10
## Investments

(Thousands of United States dollars)

| | 2018 | 2017 |
|---|---|---|
| **Current investments** | | |
| Term deposits (greater than 90 days) | 2 746 827 | 2 700 564 |
| Traded bonds | 420 938 | 588 078 |
| Structured deposits | 11 411 | 28 618 |
| Forward exchange contracts in gain | 92 691 | 98 800 |
| Equities | 274 952 | 300 180 |
| **Total current investments** | **3 546 819** | **3 716 240** |
| **Non-current investments** | | |
| Traded bonds | 567 851 | 501 088 |
| **Total non-current investments** | **567 851** | **501 088** |
| **Total investments** | **4 114 670** | **4 217 328** |

1. Note that for classification purposes, maturities on the structured deposits may differ from their contractual maturities because these financial instruments have prepayment options. The contractual maturities are used for classification purposes in the table above.

2. UNICEF invests some of its funds held in reserves for After Service Health Insurance liabilities with external fund managers. Included in the investments are $168.33 million (2017: $165.51 million) in bonds; $274.95 million (2017: $300.18 million) in equities and $92.69 million (2017: $98.80 million) in forward exchange contracts in gain related to these externally managed funds.

## Note 11
## Other assets

(Thousands of United States dollars)

| | 2018 | 2017 |
|---|---|---|
| **Current other assets** | | |
| Education grant advances to staff members | 18 594 | 11 590 |
| Prepaid expenses and other assets | 24 259 | 33 777 |
| Other procurement services related assets | 553 481 | 721 476 |
| Promissory notes | 7 695 | – |
| **Total current other assets** | **604 029** | **766 843** |
| **Non-current other assets** | | |
| Other assets | 1 767 | 1 817 |
| **Total non-current other assets** | **1 767** | **1 817** |
| **Total other assets** | **605 796** | **768 660** |

1. Prepaid expenses and other assets mainly comprise advances to vendors.

2. Also included within the prepaid expenses and other assets in 2018 is a legacy asset valued at $0.26 million (2017: $0) that meets the definition of "asset held for sale", as settlement is expected within 12 months.

3. Other procurement services assets of $553.48 million (2017: $721.48 million) represent partner funds for procurement services for which UNICEF has sole drawing rights, based on the terms of the agreements. A corresponding liability is included in note 16, Funds held on behalf of third parties, and note 17, Other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

4. UNICEF has entered into secured promissory note agreements with a related party to facilitate the procurement services process on long-term arrangements. The principal amount of the promissory note outstanding at 31 December 2018 is $7.70 million (2017: $0). The promissory notes guarantee that UNICEF will receive funds as per the payment terms of procurement for long-term arrangements, in line with the agreement between UNICEF and the pharmaceutical company.

## Note 12
## Property and equipment

(Thousands of United States dollars)

| | *Land* | *Buildings* | *Leasehold improvements* | *Furniture, fixtures and equipment* | *Infrastructure, information technology and communications equipment* | *Office information technology and computer equipment* | *Transportation equipment* | *Total 2017* |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at 1 January | 81 097 | 105 597 | 17 920 | 21 571 | 35 744 | 15 368 | 94 597 | 371 894 |
| Additions | – | 6 979 | 5 029 | 3 086 | 2 326 | 3 586 | 11 243 | 32 249 |
| Disposals | – | (108) | (1 625) | (834) | (2 351) | (1 230) | (4 437) | (10 585) |
| **Balance as at 31 December** | **81 097** | **112 468** | **21 324** | **23 823** | **35 719** | **17 724** | **101 403** | **393 558** |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance as at 1 January | – | 25 427 | 4 750 | 14 475 | 28 701 | 13 213 | 65 643 | 152 209 |
| Depreciation | – | 4 154 | 2 191 | 2 504 | 1 190 | 1 558 | 5 551 | 17 148 |
| Impairment | – | 153 | - | 140 | 107 | 42 | 685 | 1 127 |
| Disposals | – | (35) | (1 620) | (711) | (2 202) | (1 226) | (4 309) | (10 103) |
| **Balance as at 31 December** | **–** | **29 699** | **5 321** | **16 408** | **27 796** | **13 587** | **67 570** | **160 381** |
| **Carrying value as at 31 December** | **81 097** | **82 769** | **16 003** | **7 415** | **7 923** | **4 137** | **33 833** | **233 177** |

(Thousands of United States dollars)

| | *Land* | *Buildings* | *Leasehold improvements* | *Furniture, fixtures and equipment* | *Infrastructure, information technology and communications equipment* | *Office information technology and computer equipment* | *Transportation equipment* | *Total 2018* |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at 1 January | 81 097 | 112 468 | 21 324 | 23 823 | 35 719 | 17 724 | 101 403 | 393 558 |
| Additions | | 8 099 | 7 086 | 2 569 | 3 691 | 1 826 | 10 252 | 33 523 |
| Disposals | | (277) | (281) | (1 056) | (1 657) | (1 149) | (6 374) | (10 794) |
| **Balance as at 31 December** | **81 097** | **120 290** | **28 129** | **25 336** | **37 753** | **18 401** | **105 281** | **416 287** |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance as at 1 January | – | 29 699 | 5 321 | 16 408 | 27 796 | 13 587 | 67 570 | 160 381 |
| Depreciation | – | 4 438 | 2 680 | 2 665 | 1 296 | 2 145 | 6 630 | 19 854 |
| Impairment | – | – | 6 | 360 | 403 | 413 | 1 535 | 2 717 |
| Disposals | – | (131) | (30) | (972) | (1 620) | (1 143) | (5 913) | (9 809) |
| **Balance as at 31 December** | **–** | **34 006** | **7 977** | **18 461** | **27 875** | **15 002** | **69 822** | **173 143** |
| **Carrying value as at 31 December** | **81 097** | **86 284** | **20 152** | **6 875** | **9 878** | **3 399** | **35 459** | **243 144** |

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

2. Included within buildings are $5.88 million (2017: $5.60 million) in construction, renovation and security enhancements costs in progress.

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

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Land | 80 000 | 80 000 |
| Buildings | 57 591 | 55 735 |
| Equipment | 58 | 58 |
| **Total** | **137 649** | **135 793** |

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

5. The Three United Nations Plaza complex is recorded on the statement of financial position at its estimated fair value as at the date of the adoption of IPSAS. The annual lease payments of $6.73 million (2017: $6.73 million), exclusive of operating expense escalations, are allocated between the finance charges and the repayment of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the obligation. While the building and plaza are depreciated over their remaining useful lives, the underlying land is not depreciated. Finance charges on the Three United Nations Plaza complex are recorded within finance costs while depreciation expense on the building and plaza are recorded within depreciation and amortization expense in the statement of financial performance.

6. UNICEF has approximately 700 operating lease agreements for land, office, warehouse and residential space. The majority of lease agreements are under commercial terms. In 2018, approximately 170 agreements were for space provided to UNICEF by host governments on a free-of-charge basis, for which fair value of annual rent was estimated and recognized as an expense of $19.54 million (2017: $21.30 million) as well as in-kind contributions revenue (see note 21, Revenue from voluntary contributions). Rent for all operating leases is reported within rental and leasing expense (see note 27, Other expenses).

## Note 13
## Intangible assets

(Thousands of United States dollars)

| | *Purchased computer software* | *Internally developed software* | *Licences and copyrights* | *Intangibles under development* | *Total 2017* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 1 695 | 12 412 | 16 | 198 | 14 321 |
| Additions | 22 | – | – | – | 22 |
| Disposals | (199) | – | – | – | (199) |
| **Balance as at 31 December** | **1 518** | **12 412** | **16** | **198** | **14 144** |
| **Amortization** | | | | | |
| Balance as at 1 January | 922 | 7 588 | 8 | – | 8 518 |
| Amortization | 320 | 1 329 | 3 | – | 1 652 |
| Disposals | (185) | – | – | – | (185) |
| **Balance as at 31 December** | **1 057** | **8 917** | **11** | **–** | **9 985** |
| **Carrying value as at 31 December** | **461** | **3 495** | **5** | **198** | **4 159** |

(Thousands of United States dollars)

| | *Purchased computer software* | *Internally developed software* | *Licences and copyrights* | *Intangibles under development* | *Total 2018* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at 1 January | 1 518 | 12 412 | 16 | 198 | 14 144 |
| Additions | 4 262 | – | – | – | 4 262 |
| Disposals and adjustments | – | – | – | (198) | (198) |
| **Balance as at 31 December** | **5 780** | **12 412** | **16** | **–** | **18 208** |
| **Amortization** | | | | | |
| Balance as at 1 January | 1 057 | 8 917 | 11 | – | 9 985 |
| Amortization | 1 025 | 1 033 | 3 | – | 2 061 |
| Disposals and adjustments | – | – | – | – | – |
| **Balance as at 31 December** | **2 082** | **9 950** | **14** | **–** | **12 046** |
| **Carrying value as at 31 December** | **3 698** | **2 462** | **2** | **–** | **6 162** |

## Note 14
## Accounts payable and accrued liabilities

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Accounts payable | 229 654 | 122 134 |
| Accrued liabilities | 109 687 | 152 128 |
| **Total accounts payable and accrued liabilities** | **339 341** | **274 262** |

1. The exposure of UNICEF to currency and liquidity risk related to trade and other payables is disclosed in note 30, Financial risk management.

## Note 15
## Contributions received in advance

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Current portion | 60 730 | 27 431 |
| Long-term portion | 1 558 | 1 970 |
| **Total Contributions received in advance** | **62 288** | **29 401** |

## Note 16
## Funds held on behalf of third parties

(Thousands of United States dollars)

| | *Balance as at 1 January 2018* | *Funds received* | *Funds disbursed* | *Movement of accruals* | *Balance as at 31 December 2018* |
|---|---|---|---|---|---|
| **Procurement services** | | | | | |
| Governments | 434 581 | 324 869 | (538 670) | – | 220 780 |
| Inter-organizational arrangements | 29 650 | 43 234 | (43 867) | – | 29 017 |
| Non-governmental organizations | 621 668 | 1 019 046 | (1 236 359) | – | 404 355 |
| National Committees | (1) | 32 | (31) | – | – |
| **Other arrangements** | | | | | |
| UNICEF hosted funds | 75 375 | 105 387 | (68 665) | – | 112 097 |
| Others | 24 433 | 168 656 | (149 823) | – | 43 266 |
| Accruals | (13 835) | – | – | 7 826 | (6 009) |
| **Total funds held on behalf of third parties** | **1 171 871** | **1 661 224** | **(2 037 415)** | **7 826** | **803 506** |

1. UNICEF undertakes procurement services for Governments, NGOs, United Nations agencies and other international organizations and foundations. Funds are received from or made available by procuring partners in advance to cover UNICEF commitments to suppliers and handling fees.

2. UNICEF hosted trust funds of $112.10 million (2017: $75.38 million) represent the balance of internally hosted special funds; the Education Cannot Wait fund, which is a global fund to transform the delivery of education to children and young people affected by crisis; and the End Violence against Children fund, which provides financial support to programmes to achieve a world in which every child grows up free from violence.

## Note 17
## Other liabilities

### A. Other liabilities

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Current other liabilities** | | |
| Unearned income | 35 969 | 43 382 |
| Forward exchange contracts | 93 159 | 100 565 |
| Finance lease liabilities | 4 343 | 4 082 |
| Firm contracts and other liabilities | 58 383 | 35 761 |
| **Total current other liabilities** | **191 854** | **183 790** |
| **Non-current other liabilities** | | |
| Finance lease liabilities | 35 884 | 40 227 |
| Firm contracts | 24 090 | – |
| **Total non-current other liabilities** | **59 974** | **40 227** |
| **Total other liabilities** | **251 828** | **224 017** |

1. Unearned income of $35.97 million (2017: $43.38 million) mainly represents the organization's handling fees received in advance for managing trust fund activities.

2. Forward exchange contracts in loss at year-end of $93.16 million (2017: $100.57 million) relate to externally managed after-service health insurance investments.

3. In 2017, current other liabilities included a central emergency response fund loan of $4 million, granted by the Office for the Coordination of Humanitarian Affairs to support the crucial response to the cholera outbreak in Haiti. That loan was repaid in 2018.

4. Included in other liabilities are agreements where UNICEF has committed to procure minimum order quantities for vaccines under firm long-term agreements of $52.65 million (2017: $25.04 million), which are due within 12 months and included under current other liabilities. The long-term portion of $24.09 million (2017: $0) is included as non-current liabilities.

### B. Reconciliation between the total undiscounted future minimum lease payments with present value and future finance charges

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Undiscounted minimum lease payments** | | |
| Not later than one year | 6 728 | 6 728 |
| Later than one year and not later than five years | 26 914 | 26 914 |
| Later than five years | 16 822 | 23 550 |
| **Total undiscounted minimum lease payments** | **50 464** | **57 192** |

| | 2018 | 2017 |
|---|---|---|
| **Present value of minimum lease payments** | | |
| Not later than one year | 4 343 | 4 082 |
| Later than one year and not later than five years | 20 345 | 19 118 |
| Later than five years | 15 539 | 21 109 |
| **Total present value of minimum lease payments** | **40 227** | **44 309** |
| **Future finance charges** | **10 237** | **12 883** |

## Note 18
## Employee benefits liabilities

(Thousands of United States dollars)

| | 2018 | 2017 |
|---|---|---|
| **Current employee benefits liabilities** | | |
| Home leave | 8 899 | 6 545 |
| Annual leave | 108 973 | 101 863 |
| Workers' compensation | 826 | 809 |
| Other end-of-service entitlements | 2 249 | 882 |
| Other employee benefits | 1 314 | 11 507 |
| **Total current employee benefits liabilities** | **122 261** | **121 606** |
| **Non-current employee benefits liabilities** | | |
| Home leave | 2 091 | 1 623 |
| Workers' compensation | 13 888 | 15 202 |
| Other end-of-service entitlements | 106 880 | 109 094 |
| After-service health insurance[a] | 1 287 169 | 1 390 497 |
| **Total non-current employee benefits liabilities** | **1 410 028** | **1 516 416** |
| **Total employee benefits liabilities** | **1 532 289** | **1 638 022** |

[a] After-service health insurance in this table includes liability for the after-service health insurance component of the Medical Insurance Plan.

## A. Defined-benefit plans

1. UNICEF offers to its employees and former employees the following defined-benefit plans. The after-service health insurance plan provides worldwide coverage for the health-related expenses of eligible former staff members and their dependants. The liability represents the present value of the share of UNICEF medical insurance costs for retirees and post-retirement benefits accrued to date by active staff. It comprises three main arrangements: United States-based insurance plans, Switzerland-based insurance plans, and the Medical Insurance Plan.

2. The Medical Insurance Plan is a health and dental insurance scheme operated by UNICEF for the benefit of its locally recruited active staff members (both in the General Service and the National Officer categories). The after-service health insurance component of the Medical Insurance Plan is for former locally recruited staff members (and their eligible family members) serving or residing at designated

duty stations away from headquarters locations as well as certain staff in the UNICEF Global Shared Services Centre.

3. The after-service health insurance Medical Insurance Plan is presented with the after-service health insurance liability in the first table to this note. For further transparency, the Medical Insurance Plan portion of the liability is presented separately from the after-service health insurance liability in the tables below.

4. End-of-service entitlements comprise repatriation expenses which include grant, travel and shipping costs.

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

6. Defined-benefit plans are appraised using an actuarial valuation method; additional details on the valuation of the plans are provided below. The movement in the present value of the defined-benefit obligation for each of the defined-benefit plans, as provided in the table below, is included in the year-end employee benefit liability.

Table A.1
**Movement in the value of the defined-benefit obligation**

(Thousands of United States dollars)

| *Defined-benefit obligation* | *After-service health insurance* | *End-of-service entitlements* | *Medical Insurance Plan* | *Death benefit* | *Workers' compensation* | *2018 total* | *2017 total* |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January | 884 786 | 107 100 | 505 712 | 1 993 | 16 011 | 1 515 602 | 1 132 635 |
| Current service cost | 31 326 | 10 570 | 23 201 | 79 | 387 | 65 563 | 51 196 |
| Interest cost on benefit obligation | 33 683 | 3 594 | 19 301 | 65 | 672 | 57 315 | 45 232 |
| Actuarial (gains)/losses on benefit obligation | (116 212) | (6 811) | (73 222) | (95) | (1 556) | (197 896) | 316 630 |
| Benefits paid (net of participant contributions) | (15 237) | (9 400) | (6 169) | (215) | (800) | (31 821) | (30 091) |
| **Balance as at 31 December** | **818 346** | **105 053** | **468 823** | **1 827** | **14 714** | **1 408 763** | **1 515 602** |

Table A.2
**Contributions from the United Nations Children's Fund for each of the contributory defined-benefit plans**

(Thousands of United States dollars)

| *UNICEF contributions* | *After-service health insurance* | *End-of-service and death benefit* | *Medical Insurance Plan* | *Total* |
|---|---|---|---|---|
| 2018 actual contributions | 33 673 | 31 786 | 21 910 | 87 369 |
| 2017 actual contributions | 31 005 | 29 523 | 20 320 | 80 848 |

Table A.3
**Contributions from plan participants for each of the contributory defined-benefit plans**
(Thousands of United States dollars)

| *Participant contributions* | *After-service health insurance* | *End-of-service and death benefit* | *Medical Insurance Plan* | *Total* |
|---|---|---|---|---|
| 2018 actual contributions | n/a | n/a | 4 969 | 4 969 |
| 2017 actual contributions | n/a | n/a | 4 630 | 4 630 |

7. The value of the defined-benefit obligation equals the defined-benefit liability that is recognized in the statement of financial position since any assets set aside by UNICEF to fund those benefits do not qualify as plan assets under IPSAS 39: Employee benefits, because such assets are not held in a trust that is legally separate from the reporting entity, which exists solely to pay or fund employee benefits. UNICEF earmarks funds to reserves for each of the defined-benefit plans below (see table A.6 below, entitled "Funding of liabilities", for details).

Table A.4
**Reserves as recognized in the Statement of financial performance**
(Thousands of United States dollars)

| | *After-service health insurance* | *End-of-service* | *Medical Insurance Plan* | *Death benefit* | *Workers' compensation* | *2018* | *2017* |
|---|---|---|---|---|---|---|---|
| Current service cost | 31 326 | 10 570 | 23 201 | 79 | 387 | 65 563 | 51 196 |
| Interest cost on benefit obligation | 33 683 | 3 594 | 19 301 | 65 | 672 | 57 315 | 45 232 |
| **Total expense included in surplus** | **65 009** | **14 164** | **42 502** | **144** | **1 059** | **122 878** | **96 428** |

Table A.5
**Actuarial (gains)/losses recognized directly in net assets**
(Thousands of United States dollars)

| *Actuarial (gains)/losses on benefit obligation* | *After-service health insurance* | *End-of-service* | *Medical Insurance Plan* | *Death benefit* | *Workers' compensation* | *2018* | *2017* |
|---|---|---|---|---|---|---|---|
| Due to changes in financial assumptions | (116 212) | (6 811) | (73 222) | (95) | (1 055) | (197 395) | (31 615) |
| Due to changes in demographic assumptions | – | – | – | – | 729 | 729 | 152 539 |
| Due to experience adjustments | – | – | – | – | (1 230) | (1 230) | 195 706 |
| **Total current period** | **(116 212)** | **(6 811)** | **(73 222)** | **(95)** | **(1 556)** | **(197 896)** | **316 630** |

8. Actuarial gains recognized in equity rose from a loss of $316.63 million in 2017 to a gain of $197.90 million in 2018. Actuarial gains from changes in financial assumptions reflect an increase in the discount rate and a decrease in the expected salary development and expected pension development. There were no changes in demographic assumptions in 2018.

9. UNICEF funds its liabilities for the defined-benefit plans, including after-service health insurance, it offers to its employees through the use of reserves. Reserves, like other savings plans, are mechanisms for earmarking funds for future expenses of a designated nature. The unfunded amount of the after-service health

insurance reserve and reserves for other defined benefit plans fluctuate based on actuarial gains and losses, as the liability is highly sensitive to the key actuarial assumptions: discount rate; medical trend rate; life expectancy; and length of service. The funding deficit for the aggregate of the defined-benefit plans and other liabilities is presented in table A.6 below, and the details of the reserve are included in note 20, Net assets. The table includes liabilities and earmarked funds for actuarially determined defined-benefit plans (for example, after-service health insurance, end-of-service entitlements, Medical Insurance Plan and death benefits) and for other liabilities.

Table A.6
**Funding of liabilities**
(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Funding of liabilities | | |
| Actuarial liabilities recognized in the statement of financial position | 1 408 763 | 1 515 602 |
| Other liabilities and provisions recognized in the statement of financial position | 111 253 | 104 667 |
| Funding | (741 099) | (682 031) |
| **Funding deficit** | **(778 917)** | **(938 238)** |

10. Effective 2016, UNICEF moved some of the after-service-health insurance funds it had held to an external fund manager in conjunction with other United Nations agencies (see note 10, Investments, for total investment amounts).

## B. Actuarial valuation

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

12. UNICEF carries out full actuarial valuation on a biennial basis, with last full valuation carried out as of 31 December 2017. The valuation as of 31 December 2018 was carried out on a roll-forward basis, therefore no updates were made to census data. The next formal, full valuation is expected to take place in 2019 as at 31 December 2019. Due to the small population of staff under review, workers' compensation data is submitted, and results updated annually.

13. An actuarial valuation conducted by UNICEF actuaries for 31 December 2018 was used for the closing balances on 31 December 2018. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

14. Another factor affecting the actuarial valuation is the contributions made by plan participants. Those contributions, identified in table A.1 as "(net of participant contributions)", are deducted from the obligation to determine the residual obligation borne by UNICEF. Retirees and active staff members participate in the same health-care plans. Their collective contributions are offset against the total cost of providing health care in accordance with the cost-sharing ratios approved by the General Assembly.

*Actuarial assumptions*

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

16. **Inflation rate**. The inflation rate is an economic indicator that measures the rate of increase of a price index. Under IPSAS 39: Employee benefits assumptions such as the discount rate and the health-care cost trend should be based on the same underlying inflation assumption. An inflation assumption rate of 2.20 per cent (2017: 2.20 per cent) was used for the 31 December 2018 valuation. This inflation assumption rate is used as a proxy for the long-term inflation expectations 15 to 20 years ahead, which is consistent with the expected duration of the obligations.

17. **Discount rate**. The discount rate should reflect the time value of money and the estimated timing of future-benefit payments. In accordance with IPSAS 39: Employee benefits, the discount rate used to determine the defined-benefit obligations should be based on market rates for high-quality corporate bonds that match the currency and estimated term of the obligations. The United Nations has used the yield curves issued by Aon Hewitt for the United States (US$), the Eurozone (EUR) and Switzerland (SwF) for determining the discount rate for the actuarially valued defined-benefit plans.

18. Based on the analysis for 2018, the single equivalent discount rate is 4.50 per cent as of 31 December 2018, (2017: 3.82 per cent), and a discount rate, rounding to the nearest 25 basis points, would equal 4.50 per cent (2017: 4 per cent).

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

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

21. **After-service health insurance participation and election assumption**. It is assumed that 95 per cent of future retirees who are expected to meet the eligibility requirements for after-service health insurance benefits will participate in the plan in retirement; and that 75 per cent of future male retirees and 75 per cent of future female retirees will be married at the time of retirement and will elect to cover their spouse under the same medical arrangement that they have elected.

Table B.1
**Principal actuarial assumptions**

| | *2018 (percentage)* | *2017 (percentage)* |
|---|---|---|
| **Discount rate** | | |
| Rate at 1 January | 3.82 | 4.04 |
| Rate at 31 December | 4.50 | 3.82 |
| Rate of inflation | 2.20 | 2.20 |
| **Expected rate of medical cost increase** | | |
| Medical inside the United States[a,b] | 5.38 | 5.50 |
| 2032 and onwards medical inside the United States[c] | 3.85 | 4.50 |
| United States dental[b] | 4.73 | 4.80 |
| 2032 and onwards United States dental[c] | 3.85 | 3.85 |
| **Expected rate of salary increases (declining from age 20 to age 60)** | **9.07–3.97** | **9.07–3.97** |

[a] United States medical Medicare (United States medical non-Medicare is slightly higher).
[b] Rates for the following respective year.
[c] For 2017, rate extended to 2032.

Table B.2
**Current rates of death underlying the values of United Nations Children's Fund liabilities**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *Rate of death: pre-retirement* | *At age 20* | *At age 69* | *At age 20* | *At age 69* |
| Male | 0.00056 | 0.00718 | 0.00056 | 0.00718 |
| Female | 0.00031 | 0.00435 | 0.00031 | 0.00435 |

| *Rate of death: post-retirement* | *At age 20* | *At age 70* | *At age 20* | *At age 70* |
|---|---|---|---|---|
| Male | 0.00062 | 0.00913 | 0.00062 | 0.00913 |
| Female | 0.00035 | 0.00561 | 0.00035 | 0.00561 |

Table B.3
**Rates of retirement for Professional staff with 30 or more years of service**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *Rate of retirement* | *At age 55* | *At age 62* | *At age 55* | *At age 62* |
| Male | 0.16 | 0.75 | 0.16 | 0.75 |
| Female | 0.20 | 0.75 | 0.20 | 0.75 |

Table B.4
**Potential impact of changes in key assumptions used in measuring defined-benefit obligations and benefit costs**

(Thousands of United States dollars)

| *Sensitivity of assumptions (impact on)* | *After-service health insurance* | | *End-of-service* | *Medical Insurance Plan* | | *Death benefit* | *Workers' compensation* |
|---|---|---|---|---|---|---|---|
| | *Obligation* | *Expense* | *Obligation* | *Obligation* | *Expense* | *Obligation* | *Obligation* |
| **Discount rate** | | | | | | | |
| Impact of: 1 per cent increase | (143 069) | – | (9 128) | (88 807) | – | (131) | (2 315) |
| Impact of: 1 per cent decrease | 189 654 | – | 10 612 | 119 382 | – | 150 | 1 016 |
| **Health-care cost trend rates** | | | | | | | |
| Impact of: 1 per cent increase | 191 111 | 17 569 | – | 120 348 | 12 375 | – | – |
| Impact of: 1 per cent decrease | (146 649) | (12 942) | – | (90 991) | (9 009) | – | – |

*Sensitivity analysis*

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

23. The above sensitivity analyses are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined-benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position.

### Plan duration and projected benefit payment

24. The average duration of after-service health insurance (including medical plan insurance), end-of-service entitlements, death benefit and worker compensation is respectively 21 years, 10 years, 9 years and 17 years.

Table B.5
**Estimated benefit payments net of participant contributions for the next 10 years**
(Thousands of United States dollars)

| | *2019* | *2020* | *2021* | *2022* | *2023* | *2024 to 2028* |
|---|---|---|---|---|---|---|
| After-service health insurance[a] | 24 406 | 26 405 | 29 101 | 32 125 | 35 185 | 225 115 |
| End-of-service entitlements | 8 668 | 8 588 | 7 961 | 7 847 | 7 588 | 35 039 |
| Death benefit | 219 | 222 | 225 | 228 | 230 | 1 097 |
| Worker compensation | 829 | 834 | 838 | 840 | 842 | 4 181 |

[a] After-service health insurance in this table includes liability for the Medical Insurance Plan.

## C. Multi-employer pension plans

25. UNICEF 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.

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

27. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNICEF and the United Nations Joint Staff Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNICEF of the defined-benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, UNICEF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. The contributions of

UNICEF to the plan during the financial period are recognized as expenses in the statement of financial performance.

28. The regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

29. The financial obligation of UNICEF to the United Nations Joint Staff Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. 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.

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

31. The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

32. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2017, 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 plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26.

33. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the United Nations Joint Staff Pension Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2015, 2016 and 2017) amounted to $6,931.39 million, of which 9.91 per cent had been contributed by UNICEF.

34. During 2018, contributions paid by UNICEF to the Pension Fund amounted to $263.35 million (2017: $245.77 million). Expected contributions due in 2019 are approximately $281.08 million.

35. Membership of the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be

paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities is included in the amount.

36. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board and to the General Assembly on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed by visiting www.unjspf.org.

Table C.1
**Contributions to the United Nations Joint Staff Pension Fund**

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| UNICEF contributions | 174 617 | 163 434 |
| Participants' contributions | 88 728 | 82 333 |
| **Total contributions** | **263 345** | **245 767** |

## Note 19
## Provisions

(Thousands of United States dollars)

| | *For returns of unused funds* | *For write-down and other provisions* | *Total* |
|---|---|---|---|
| Balance as at 1 January 2018 | 19 443 | 1 908 | 21 351 |
| Increase in provision | 5 323 | 28 316 | 33 639 |
| Utilization during the period | (2 614) | (1 908) | (4 522) |
| **Balance as at 31 December 2018** | **22 152** | **28 316** | **50 468** |

1. A provision is reported for unused funds to be returned to donors, as determined for all projects where the related grants have a return clause, and in which the contribution agreements require the return of unused funds. UNICEF expects to settle the liability within 12 months from the reporting date for those that have financially expired.

2. A "write-down provision" is recorded where past experience indicates that the donor contribution has previously been adjusted at the grant expiration date for specific donors.

## Note 20
## Net assets

(Thousands of United States dollars)

| | | *IPSAS reserves* | | *Other reserves* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Accumulated surpluses* | *Actuarial gain/(loss)* | *Investment revaluation* | *Procurement services* | *Insurance* | *After-service health insurance fund* | *Separation fund* | *Medical Insurance Plan fund* | *Capital assets fund* | *Total reserves* | *Total net assets* |
| **Balance as at 1 January 2017** | **5 352 906** | **111 457** | **6 474** | **2 000** | **115** | **433 552** | **77 836** | **103 562** | **5 266** | **740 262** | **6 093 168** |
| Surplus | 759 933 | – | – | – | – | 28 660 | – | – | – | 28 660 | 788 593 |
| Actuarial (losses) | – | (316 630) | – | – | – | – | – | – | – | (316 630) | (316 630) |
| Changes in fair value of available-for-sale financial assets | – | – | 28 641 | – | – | – | – | – | – | 28 641 | 28 641 |
| Utilization of reserve | 44 221 | – | – | – | – | (8 033) | (23 734) | (10 660) | (1 794) | (44 221) | – |
| Transfers to/(from) the fund | (80 848) | – | – | – | – | 31 005 | 29 523 | 20 320 | – | 80 848 | – |
| **Balance as at 31 December 2017** | **6 076 212** | **(205 173)** | **35 115** | **2 000** | **115** | **485 184** | **83 625** | **113 222** | **3 472** | **517 560** | **6 593 772** |
| Surplus | 700 225 | – | – | – | – | 22 451 | – | – | – | 22 451 | 722 676 |
| Actuarial gains | – | 197 896 | – | – | – | – | – | – | – | 197 896 | 197 896 |
| Changes in fair value of available-for-sale financial assets | – | – | (48 896) | – | – | – | – | – | – | (48 896) | (48 896) |
| Utilization of reserve | 52 042 | – | – | – | – | (13 426) | (24 296) | (13 030) | (1 290) | (52 042) | – |
| Transfers to/(from) the fund | (87 369) | – | – | – | – | 33 673 | 31 786 | 21 910 | – | 87 369 | – |
| **Balance as at 31 December 2018** | **6 741 110** | **(7 277)** | **(13 781)** | **2 000** | **115** | **527 882** | **91 115** | **122 102** | **2 182** | **724 338** | **7 465 448** |

Net assets consist of "accumulated surpluses" and "reserves". Reserves consist of "IPSAS reserves" and "other reserves". Each of these types of reserves is explained further below.

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

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

3. UNICEF maintains the following IPSAS reserve and other reserves (see paras. 4–10 below). For internal reporting and budgeting purposes, the UNICEF Executive Board has designated portions of accumulated surpluses as funding for specified activities and future expenses, including after-service health insurance, capital assets, the separation fund, procurement services and insurance.

4. *Reserve for investment revaluation*. The reserve comprises revaluation transactions of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of reserve that relates to that financial asset is effectively realized and is recognized in the statement of financial performance. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognized in the statement of financial performance.

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

6. *Reserve for capital assets*. In 1990, the Executive Board approved the establishment of a capital asset reserve of $22 million from regular resources to improve control over future purchases of capital assets such as office buildings and staff housing in the field.

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

8. *Reserve for procurement services*. In 1993, the Executive Board approved the establishment of a reserve for procurement services of $2 million to absorb possible future shortfalls. The reserve was funded by the surplus of handling fees charged for each procurement request against staff and related expenses charged against such fees by the Supply Division.

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

10. *Reserve for insurance*. In 1950, the Executive Board approved the establishment of a reserve for insurance of $0.20 million to absorb losses of UNICEF programme supplies and equipment not covered by commercial insurance. This amount was funded by approved freight allocations.

## Note 21
## Revenue from voluntary contributions

### A. Voluntary contributions

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Voluntary cash contributions** | | |
| Governments and intergovernmental agencies | 4 374 152 | 3 821 523 |
| Inter-organizational arrangements | 641 004 | 863 416 |
| National Committees | 1 190 779 | 1 264 587 |
| Others | 257 487 | 435 202 |
| **Total voluntary cash contributions** | **6 463 422** | **6 384 728** |
| **Voluntary in-kind contributions** | | |
| Governments and intergovernmental agencies | 66 739 | 51 882 |
| National Committees | 4 849 | 1 751 |
| Others | 844 | 10 436 |
| **Total voluntary in-kind contributions** | **72 432** | **64 069** |
| **Total voluntary contributions** | **6 535 854** | **6 448 797** |
| Less: refunds and provision for returns to donors of unused contributions and write down | (40 604) | (17 798) |
| **Total voluntary contributions (net)** | **6 495 250** | **6 430 999** |

1. Foreign exchange gains (losses) are included above in voluntary contributions and disclosed separately in the table below.

2. Voluntary contributions comprised $3.06 billion (2017: $2.61 billion) of multi-year contributions where programme implementation is expected over a period of more than 2 years.

*National Committees*

3. The voluntary cash contribution revenue of $1.19 billion (2017: $1.26 billion) from National Committees represents the net contributions that the Committees have approved for transfer to UNICEF. Total contributions received by the National Committees during the year, excluding proceeds from licensing cards and products, were $1.57 billion (2017: $1.65 billion). Of that amount, $382.16 million (2017: $389.35 million) was retained by the National Committees to cover the costs of fundraising, advocacy and management and administration activities or as reserves (see note 34, Related parties, below for additional information on the relationship between UNICEF and the National Committees).

*In-kind contributions*

4. In-kind contributions comprise contributions received as goods. Major types of goods received include resilience supplies, ready to use therapeutic food; and supplies to support and provide shelter, at a total value of $72.43 million (2017: $64.07 million). In-kind contributions also include right-to-use assets, such as land and buildings, valued at $19.54 million (2017: $21.30 million), with the corresponding expense included within "rental and leasing" in the note 27, Other

expenses; as well as in-kind revenue from a legacy property, valued at $0.26 million (2017: $0), with the corresponding amount reported as asset held for sale in the note 11, Other assets.

5. In-kind services are also provided free by other parties to UNICEF offices in fulfilling the organization's mandate. Services in-kind received by UNICEF during 2018 include volunteer services and free advertising, such as airtime and billboards.

### B. Classification of voluntary contributions

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Unearmarked voluntary contributions** | | |
| Regular resources – programme | 1 564 390 | 1 208 495* |
| Foreign exchange (losses)/gains | (3 075) | 11 922 |
| **Total regular resources – programme (net)** | **1 561 315** | **1 220 417*** |
| Regular resources – non-programme | 66 641 | 57 683* |
| **Total regular resources – non-programme (net)** | **66 641** | **57 683*** |
| **Total regular resources (net)** | **1 627 956** | **1 278 100** |
| **Earmarked voluntary contributions** | | |
| Other resources – regular | 2 999 311 | 2 945 045 |
| Foreign exchange (losses)/gains | (58 310) | 81 225 |
| **Total other resources – regular (net)** | **2 941 001** | **3 026 270** |
| Other resources – emergency | 1 940 050 | 2 095 071 |
| Foreign exchange (losses)/gains | (13 757) | 31 558 |
| **Total other resources – emergency (net)** | **1 926 293** | **2 126 629** |
| **Total other resources (net)** | **4 867 294** | **5 152 899** |
| **Total voluntary contributions (net)** | **6 495 250** | **6 430 999** |

* *The split between segments has been revised to reflect the additional segment information provided; totals have not changed.*

## Note 22
## Other revenue

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Procurement services | 47 150 | 46 367 |
| Warehouse goods transfers revenue | 5 076 | 6 866 |
| Miscellaneous revenue | 21 874 | 13 117 |
| Licensing revenue | 5 746 | 7 696 |
| **Total other revenue** | **79 846** | **74 046** |

1. UNICEF undertakes procurement services for Governments, NGOs, United Nations agencies and other international organizations and foundations. UNICEF

recognized revenue of $47.15 million (2017: $46.37 million) related to provision of these services.

2. The warehouse goods transfers revenue of $5.08 million (2017: $6.87 million) is related to reimbursement of direct sales of goods to third parties from the warehouse in Denmark.

3. Through the licensing of the UNICEF brand, UNICEF generates additional funds for programmes of cooperation in developing countries. Proceeds from licensing are accrued on the basis of revenue and expenditure reports received at year-end. In 2018, total licensing revenue was $5.75 million (2017: $7.70 million).

### Note 23
### Investment revenue and finance costs

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Internally managed investment revenue | 92 123 | 64 490 |
| After-service health insurance investment revenue | 8 539 | 7 209 |
| **Total investment revenue** | **100 662** | **71 699** |

1. UNICEF generated $100.66 million (2017: $71.70 million) of investment revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities, equities and bank accounts. This drove the significant increase in the internally managed investment portfolio.

2. Finance costs of $2.65 million (2017: $2.89 million) relating to finance lease obligations were incurred in the year.

### Note 24
### Net gains and losses

### A. Net gains and losses

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Net foreign exchange gains and losses | (4 611) | 59 951 |
| **Net fair value gains and losses on:** | | |
| Investments | 19 465 | 14 367 |
| Net gains on sale of property, plant and equipment | 1 821 | 975 |
| Other losses | – | (11) |
| **Total net gains** | **16 675** | **75 282** |

### B. Net foreign exchange gains or losses

(Thousands of United States dollars)

| | *Unrealized* | *Realized* | *2018* | *2017* |
|---|---|---|---|---|
| Gains | 2 617 | 38 645 | 41 262 | 75 233 |
| Losses | (29 923) | (15 950) | (45 873) | (15 282) |
| **Total net gains** | **(27 306)** | **22 695** | **(4 611)** | **59 951** |

1. In addition to the above, a realized foreign exchange gain of $7.88 million (2017: loss of $3.56 million) and unrealized loss of $83.02 million (2017: gain of $128.27 million) mostly related to other resources receivables, are included within voluntary contributions in note 21, Revenue from voluntary contributions, in accordance with UNICEF Financial Regulations and Rules.

## Note 25
## Transfer of programme supplies and cash assistance

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Cash assistance** | | |
| Transfer of cash to implementing partners | 2 055 874 | 2 038 711 |
| Transfer of cash to beneficiaries directly by UNICEF | 141 986 | 106 905 |
| Co-funding activities | 50 899 | 75 345 |
| Jointly financed activities | 6 145 | 7 249 |
| **Subtotal** | **2 254 904** | **2 228 210** |
| Movement in accrual | 8 272 | (3 552) |
| **Total transfer of cash assistance** | **2 263 176** | **2 224 658** |
| **Programme supplies** | | |
| Transfer of programme supplies | 986 908 | 1 086 237 |
| **Total transfer of programme supplies** | **986 908** | **1 086 237** |
| **Total transfer of cash assistance and programme supplies** | **3 250 084** | **3 310 895** |

1. Movement in accrual represents accrued expenses at year-end to account for implementing partners that have incurred valid expenses where the reports have been submitted by the reporting date but for which UNICEF has not yet processed the reports.

2. The regional split of expenses relating to transfers of cash assistance and programme supplies is reflected in note 36, Segment information.

## Note 26
## Employee benefits

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Salaries and wages | 827 660 | 770 357 |
| Contribution to the United Nations Joint Staff Pension Fund | 174 617 | 163 434 |
| After-service health insurance expenses | 63 203 | 46 134 |
| Other post-employment employee liabilities | 13 929 | 14 386 |
| Other long-term employee benefits liabilities | 31 068 | 33 084 |
| Other personnel expenses | 305 813 | 282 877 |
| **Total employee benefits** | **1 416 290** | **1 310 272** |

## Note 27
## Other expenses

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Media production services | 25 945 | 26 038 |
| Advertising, promotion and public relation | 11 579 | 7 389 |
| Printing, binding, editing and translation | 21 900 | 17 796 |
| Management and operational services | 55 731 | 49 937 |
| Warehousing and logistical services | 46 230 | 46 506 |
| Personnel support | 17 355 | 15 429 |
| External audit | 1 167 | 1 156 |
| Travel | 157 500 | 149 847 |
| Distribution | 30 395 | 21 904 |
| Rental and leasing | 85 792 | 84 948 |
| Retentions commissions and cost of greeting cards and products | 1 066 | 323 |
| Repairs and other maintenance | 39 291 | 39 460 |
| Supplies and materials | 40 370 | 45 584 |
| Investment funds for market development | 107 148 | 56 891 |
| Communication | 20 772 | 20 384 |
| Other operating expenses | 142 709 | 106 407 |
| Write-offs and inventory shortages | 5 417 | 6 669 |
| Utilities | 18 520 | 18 326 |
| Warehouse goods transfers expenses (note 22) | 5 076 | 6 868 |
| Professional development | 11 379 | 8 036 |
| Insurance | 3 475 | 4 423 |
| Impairment loss | (1 196) | 12 564 |
| **Total other expenses** | **847 621** | **746 885** |

1. Other operating expenses are composed mainly of consultancy services costs of \$44.74 million (2017: \$17.88 million), information technology development, maintenance and expert service costs of \$43.12 million (2017: \$40.17 million), Headquarters-related United Nations common service costs of \$24.71 million (2017: \$28.63 million), office operating expenses for hospitality of \$13.97 million (2017: \$12.49 million), and other office operating expenses of \$14.89 million (2017: \$6.03 million).

2. Write-offs and losses recorded in 2018 include inventory, receivables and property and equipment totalling \$4.42 million (2017: \$3.21 million).

## Note 28
## Other programme-related expert services

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Other programme-related expert services | 431 201 | 473 688 |
| **Total other programme-related expert services** | **431 201** | **473 688** |

1. This category of expense comprises professional and consultancy services related to programmatic activities through studies, surveys, research, evaluations, assessments, technical support in specific programme areas, and other programmatic services, conducted by third-party providers in implementation of UNICEF programmes.

## Note 29
## Financial instruments

1. UNICEF has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The present note contains information about the organization's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout the financial statements.

*Accounting classifications and fair values*

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

### A. Financial assets as at 31 December

(Thousands of United States dollars)

| | | *Fair value through surplus or deficit* | | | | *Total fair value* | |
|---|---|---|---|---|---|---|---|
| *Financial assets* | *Loans and receivables* | *Available-for-sale* | *Designated as such upon initial recognition* | *Held for trading* | *Total carrying value* | *2018* | *2017* |
| Cash and cash equivalents | 995 259 | – | – | – | 995 259 | 995 259 | 883 578 |
| Term deposits | 2 746 827 | – | – | – | 2 746 827 | 2 746 827 | 2 700 564 |
| Traded bonds | – | 988 789 | – | – | 988 789 | 988 789 | 1 089 166 |
| Structured deposits | – | – | 11 411 | – | 11 411 | 11 411 | 28 618 |
| Forward exchange contracts in gain | – | – | – | 92 691 | 92 691 | 92 691 | 98 800 |
| Equities | – | 274 952 | – | – | 274 952 | 274 952 | 300 180 |
| Promissory notes | 7 695 | – | – | – | 7 695 | 7 695 | – |
| Contributions receivable | 3 329 693 | – | – | – | 3 329 693 | 3 329 693 | 2 708 280 |
| Other receivables | 68 829 | – | – | – | 68 829 | 68 829 | 48 563 |
| **Total financial assets** | **7 148 303** | **1 263 741** | **11 411** | **92 691** | **8 516 146** | **8 516 146** | **7 857 749** |

3. The carrying value of financial assets is considered to be a reasonable approximation of fair value.

### B. Financial liabilities as at 31 December

(Thousands of United States dollars)

| *Financial liabilities* | *Other financial liabilities (amortized cost)* | *Other financial liabilities* | *Total carrying value* | *Total fair value* | |
|---|---|---|---|---|---|
| | | | | *2018* | *2017* |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | 339 341 | – | 339 341 | 339 341 | 274 262 |
| Contributions received in advance | 62 288 | – | 62 288 | 62 288 | 29 401 |
| Funds held on behalf of third parties | 803 506 | – | 803 506 | 803 506 | 1 171 871 |
| Finance lease liabilities | 40 227 | – | 40 227 | 40 227 | 44 309 |
| Other liabilities | 118 442 | 93 159 | 211 601 | 211 601 | 179 708 |
| **Total financial liabilities** | **1 363 804** | **93 159** | **1 456 963** | **1 456 963** | **1 699 551** |

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

*Valuation method*

5. The fair value hierarchy represents the categorization of market pricing to indicate the relative ease with which the value of investments held by UNICEF can be realized.

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

(a) Level 1. Average quoted prices from two separate sources (unadjusted) in active markets for identical assets or liabilities;

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

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

7. The majority of the organization's financial instruments have quoted prices in active markets and are classified as level 1. Derivative instruments that are "over-the-counter" are classified as level 2 because their fair value is observable either directly as a price, or indirectly after being derived from prices. The instruments shown under level 2 fair value measurement category consist of forward contracts for foreign currency hedges, the derivative contracts and fixed income instruments in the externally managed portfolio.

## C. Financial instruments by valuation method

(Thousands of United States dollars)

| | *Level 1* | *Level 2* | *Level 3* | *2018* | *2017* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Financial instruments at fair value through surplus or deficit | – | 104 102 | – | 104 102 | 127 418 |
| Available-for-sale financial assets | 1 169 720 | 94 021 | – | 1 263 741 | 1 389 346 |
| **Liabilities** | | | | | |
| Financial instruments at fair value through surplus or deficit | – | (93 159) | – | (93 159) | (100 565) |
| **Total** | **1 169 720** | **104 964** | **–** | **1 274 684** | **1 416 199** |

## Note 30
## Financial risk management

*Exposure to credit risk*

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

2. UNICEF holds bank accounts in more than 140 countries. This exposes the organization to significant default risk. To mitigate this risk, UNICEF has established a risk-assessment process that is to be completed before bank accounts may be opened at any bank where UNICEF has not had a prior business relationship. In addition, if there are no alternatives to dealing with a specified bank that has a higher risk, UNICEF may impose internal guidelines such as minimizing the balances on its bank accounts.

3. With regard to financial instruments, UNICEF mitigates its exposure to credit risk by imposing certain restrictions, including, but not limited to, a minimum credit rating of the underlying financial instrument or institution. The Treasury and Investment Management Policy includes conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. The UNICEF Financial Advisory Committee approves each new counterparty before any investments may be made. In order to minimize counterparty risk, UNICEF enters into transactions with counterparties that are of investment grade as classified by the major rating agencies and pre-approved by the Committee. Additionally, credit default swaps ratings are also used. Non-rated or lower-rated banks may also be included on the counterparty relationship list with exceptional approval by the Committee.

4. UNICEF utilizes the credit ratings for three leading credit rating agencies, Moody's, S&P Global Ratings and Fitch, to categorize and monitor credit risk on its financial instruments. Investments managed by UNICEF were in high-quality financial instruments as shown in the table below.

5. The externally managed investments are governed by the after-service-health insurance investment guidelines, which ensure that funds are invested in instruments and counterparties of investment grade.

6. UNICEF exposure to credit risk from receivables from contributions and other receivables is influenced mainly by the type of donor. Receivables from governments, intergovernmental agencies and other United Nations organizations generally have a very low default risk. UNICEF has established an allowance for impairment that

represents its estimate of incurred losses in respect of receivables from contributions and other receivables, based on specific identification of receivables that might be impaired.

7. The carrying value of all financial instruments represents the organization's maximum exposure to credit risk.

## A. Concentration of credit exposure by credit rating

(Thousands of United States dollars)

| *At 31 December 2018* | *AAA* | *AA* | *A* | *B* | *Non-rated* | *2018* | *2017* |
|---|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | | | |
| Cash | – | 121 421 | 7 641 | 1 171 | 66 039 | 196 272 | 227 179 |
| Term deposits | – | 129 904 | 393 808 | 275 275 | – | 798 987 | 656 399 |
| **Subtotal** | **–** | **251 325** | **401 449** | **276 446** | **66 039** | **995 259** | **883 578** |
| **Investments** | | | | | | | |
| Term deposits | – | 1 526 899 | 1 219 928 | – | – | 2 746 827 | 2 700 564 |
| Traded bonds | 148 965 | 709 996 | 43 411 | 14 375 | 72 042 | 988 789 | 1 089 166 |
| Structured deposits | – | – | 11 411 | – | – | 11 411 | 28 618 |
| Forward exchange contracts | – | – | – | – | 92 691 | 92 691 | 98 800 |
| Equities | – | – | – | – | 274 952 | 274 952 | 300 180 |
| **Subtotal** | **148 965** | **2 236 895** | **1 274 750** | **14 375** | **439 685** | **4 114 670** | **4 217 328** |
| **Total** | **148 965** | **2 488 220** | **1 676 199** | **290 821** | **507 724** | **5 109 929** | **5 100 906** |

8. Non-rated funds represent cash and cash equivalents held in various operating accounts in country offices. For externally managed investments, non-rated investment includes, cash exchange traded funds and government bonds whose risk profile and rating is that of the issuing country. Ratings are based on credit ratings by Moody's, as follows:

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

## B. Ageing of receivables

(Thousands of United States dollars)

| | *Current and non-current* | *Overdue* | *Foreign exchange gains/(losses)* | *2018* | *2017* |
|---|---|---|---|---|---|
| Contributions receivable | 3 339 549 | 26 921 | (36 777) | 3 329 693 | 2 708 280 |
| Other receivables | 70 946 | – | (2 117) | 68 829 | 48 563 |
| **Total** | **3 410 495** | **26 921** | **(38 894)** | **3 398 522** | **2 756 843** |

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

## C. Movements in allowance for impairment in respect of loans and receivables during 2018

(Thousands of United States dollars)

| | *Gross receivable as at 31 December 2018* | *Impairment losses recognized* | *Impairment losses reversed* | *Amounts written-off as uncollectible* | *Net receivable as at 31 December 2018* | *Net receivable as at 31 December 2017* |
|---|---|---|---|---|---|---|
| Contributions receivable | 3 338 057 | (7 710) | 784 | (1 438) | 3 329 693 | 2 708 280 |
| Other receivables | 78 832 | (9 892) | 343 | (454) | 68 829 | 48 563 |
| **Total** | **3 416 889** | **(17 602)** | **1 127** | **(1 892)** | **3 398 522** | **2 756 843** |

*Exposure to liquidity risk*

10. Liquidity risk is the risk that UNICEF will encounter difficulty in meeting its obligations associated with its accounts payables, other liabilities and promised transfers of cash to programmes. The UNICEF Financial Regulations and Rules do not permit UNICEF to borrow funds from external providers except for central emergency response fund loans from UNOCHA.

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

12. Surplus cash is invested in a range of financial instruments including, money market demand accounts, structured deposits, time deposits and fixed-income securities, which seek to ensure the security and liquidity of investments while optimizing yield. In all cases, investments are permitted only in high-credit-quality institutions and issues, with diversification of investment supported by maintaining counterparty credit limits.

## D. Contractual maturities of United Nations Children's Fund financial liabilities

(Thousands of United States dollars)

| | Due | | | | Overdue | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *0–3 months* | *3–6 months* | *6–12 months* | *More than 1 year* | *0–3 months* | *3–6 months* | *6–12 months* | *More than 1 year* | *2018 total carrying value* | *2017 total carrying value* |
| Accounts payable | 168 591 | – | – | – | 58 722 | 2 064 | 236 | 41 | 229 654 | 122 134 |
| Accrued liabilities | – | – | – | – | – | – | – | – | 109 687 | 152 128 |
| **Total** | **168 591** | **–** | **–** | **–** | **58 722** | **2 064** | **236** | **41** | **339 341** | **274 262** |

The maturities for accrued liabilities are not included as they are not known.

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

*Exposure to market risk*

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

15. Treasury activities comprise the following four portfolios:

1. Cash and cash equivalents portfolio
2. Short-term investments portfolio
3. Long-term investments portfolio
4. Emerging markets portfolio

16. Risk in the emerging markets portfolio is mitigated via a limit of $30 million in functional emerging market currencies and by transacting only with partners pre-approved by the Financial Advisory Committee. In addition, UNICEF transacts in emerging markets only investments for currencies where it has large spending needs, thereby reducing foreign exchange risk.

*Currency risk*

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

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

(b) Regarding expenses: all currencies used across all operating UNICEF countries, including the Indian rupee, the Pakistani rupee, the Nigerian naira, the Ethiopian birr and the Kenyan shilling, among many others;

(c) Regarding assets and liabilities: all currencies used across all operating UNICEF countries, including the euro, the pound sterling, the Swiss franc, the Swedish krona, the Norwegian krone and the Japanese yen, among many others.

18. UNICEF has not implemented hedge accounting, although it applies "natural hedges" by holding foreign currencies in order to cover forecasted foreign currency cash outflows in revenue-side currencies, in addition to entering into foreign exchange forward contracts on revenue-side currencies. In the externally managed investment portfolio, UNICEF uses derivative financial instruments to hedge some of its risk exposures or minimize deviations from benchmark allocations as set out in the agreement with the Investment Fund Manager.

19. The following table provides an appropriate context with a summary of UNICEF foreign currency positions in financial instruments.

## E. Financial instrument currency position in the statement of financial position

(Thousands of United States dollars)

| | *United States dollar* | *Euro* | *Pound sterling* | *Canadian dollar* | *Swedish krona* | *Norwegian krone* | *Swiss franc* | *Other* | *2018* | *2017* |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 896 337 | 32 899 | 6 026 | 5 059 | 17 | 14 | 2 936 | 51 971 | 995 259 | 883 578 |
| Term deposits | 2 746 827 | – | – | – | – | – | – | – | 2 746 827 | 2 700 564 |
| Traded bonds | 934 239 | 43 439 | 11 111 | – | – | – | – | – | 988 789 | 1 089 166 |
| Structured deposits | 11 411 | – | – | – | – | – | – | – | 11 411 | 28 618 |
| Equities | 182 989 | 38 078 | 7 282 | 7 123 | 4 184 | 1 573 | 4 114 | 29 609 | 274 952 | 300 180 |
| Promissory notes | 7 695 | – | – | – | – | – | – | – | 7 695 | – |
| Contributions receivable | 1 248 283 | 875 721 | 499 431 | 127 150 | 300 421 | 95 802 | 58 426 | 124 459 | 3 329 693 | 2 708 280 |
| Other receivables | 122 080 | 2 011 | 110 | 219 | 196 | 161 | – | 36 743 | 161 520 | 147 363 |
| **Total financial assets** | **6 149 861** | **992 148** | **523 960** | **139 551** | **304 818** | **97 550** | **65 476** | **242 782** | **8 516 146** | **7 857 749** |
| Accounts payable | (288 163) | (25 016) | (898) | (6) | – | – | (562) | (24 696) | (339 341) | (274 262) |
| Contributions received in advance | (52 117) | (7 400) | – | (2 606) | – | – | – | (165) | (62 288) | (29 401) |
| Funds held on behalf of third parties | (809 088) | 5 583 | – | – | – | – | – | (1) | (803 506) | (1 171 871) |
| Other liabilities | (242 348) | (5 589) | – | – | – | – | (7) | (3 884) | (251 828) | (224 017) |
| **Total financial liabilities** | **(1 391 716)** | **(32 422)** | **(898)** | **(2 612)** | **–** | **–** | **(569)** | **(28 746)** | **(1 456 963)** | **(1 699 551)** |
| **Net exposure** | **4 758 145** | **959 726** | **523 062** | **136 939** | **304 818** | **97 550** | **64 907** | **214 036** | **7 059 183** | **6 158 198** |

*Interest rate risk*

20. Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. As at the reporting date, the organization's financial assets subject to fixed interest rates included all term deposits and investments. There were no financial assets subject to variable interest rates.

## F. Fixed rate instruments

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Fixed rate instruments | 4 694 882 | 4 627 230 |
| Other financial instruments | 3 821 264 | 3 230 519 |
| **Total financial assets** | **8 516 146** | **7 857 749** |

*Sensitivity analysis: foreign currency*

21. The following table shows the sensitivity of net assets and surplus/deficits to the strengthening and weakening of key currencies used by UNICEF. This analysis is based on foreign currency exchange rate variances that UNICEF considered to be reasonably possible as at the reporting date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted contributions and expenditures.

## G. Financial instrument currency position in the statement of financial position

(Thousands of United States dollars)

| | *Surplus/(deficit)* | |
|---|---|---|
| *As at 31 December 2018* | *Strengthening of United States dollar by 10 per cent* | *Weakening of United States dollar by 10 per cent* |
| Euro | (95 973) | 95 973 |
| Pound sterling | (52 306) | 52 306 |
| Swedish krona | (30 482) | 30 482 |
| Canadian dollar | (13 694) | 13 694 |
| Norwegian krone | (9 755) | 9 755 |
| Swiss franc | (6 490) | 6 490 |
| **Total** | **(208 700)** | **208 700** |

22. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2018 only.

*Derivatives*

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

24. Gains arising from changes in the fair values of externally managed forward exchange contracts amounted to $1.30 million (2017 losses: $2.43 million).

25. UNICEF invests in traded bonds, which are classified as available-for-sale financial instruments. These bonds have a call-option feature agreed to with the issuer at the time of purchase. This call-option feature gives the issuer the right to call the bond on pre-agreed dates throughout the life of the bond. Since the bonds are callable at par value (that is, their stated or face value), there is no risk of loss to the principal. Bonds held by external investment managers at the end of 2018 that included a call-option feature amounted to $6.68 million (2017: $8.78 million). Bonds managed

internally at the end of 2018 amounting to $820.46 million (2017: $923.66 million) were classified as available-for-sale. Those that included a call-option feature were $102.63 million (2017: $0).

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

*Sensitivity analysis: interest rates*

27. The following table presents the sensitivity of net assets and surplus/deficits to a change in interest rates in the range of minus 30 basis points and plus 100 basis points, given outstanding positions as at 31 December 2018. Only the fair value of the bond portfolio is subject to fair value changes as a result of changes in interest rates as all bonds are classified as available-for-sale financial instruments. Changes in fair value for available-for-sale financial instruments are recorded directly in net assets.

## H. Sensitivity of net assets and surplus/deficit to changes in interest rates

(Thousands of United States dollars)

| | *Impact* | | |
|---|---|---|---|
| | *Net assets* | *Surplus/deficit* | *Percentage* |
| Portfolio value | 988 789 | – | – |
| Plus 100 basis points | 967 226 | (21 563) | 2.18 |
| Minus 30 basis points | 997 191 | 8 401 | 0.85 |

*Other price risk*

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

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

### Note 31
### Capital management

1. UNICEF defines the capital it manages as the aggregate of its net assets, which comprises accumulated surpluses and reserve balances. This definition of capital is used by management and may not be comparable to measures presented by other United Nations organizations. UNICEF does not have any long-term borrowings outside of its finance lease liabilities as its Financial Regulations and Rules prohibit it from borrowing funds to either bridge its cash requirements or leverage its cash position. Various reserves are established by management in order to provide funding of future expenses (see note 20, Net assets).

2. The objectives of UNICEF in managing capital are to:

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

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

4. A four-year medium-term strategic plan and integrated budget are proposed by the Executive Director and submitted to and approved by the Executive Board. The plan and the budget outline a recommended apportionment and utilization of existing and anticipated resources of UNICEF over the plan period, determining affordability while maintaining fund balance to ensure liquidity. The plan also includes a financial plan. The financial plan provides detailed financial projections of:

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

*Other resources: regular and emergency*

5. For other resources: regular and emergency, the objective is to ensure programme implementation while remaining within the available fund balance. Management to that end is carried out on an individual programme budget basis. The cash component of these resources is commingled with other institutional resources and managed as a portfolio (the opening and closing balances for net assets is disclosed in note 20, Net assets).

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

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

*Restriction*

7. UNICEF is subject to a Board-imposed liquidity requirement. The requirement does not constitute an external restriction. The UNICEF Financial Regulations and Rules indicate that, in order to ensure liquidity, the Comptroller should maintain cash balances at the levels approved by the Executive Board. In 1987, the Executive Board established the minimum year-end cash balance of regular resources as 10 per cent of projected regular resources income for the following year (decision 1987/14). There have been no changes in the way UNICEF manages its capital in 2018.

## Note 32
## Commitments

1. The following tables present the open purchase orders for which UNICEF had not received the related services or goods as at 31 December 2018. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| **Commitments for purchase of property and equipment (including finance leases)** | | |
| Buildings | – | 50 |
| Vehicles | 7 318 | 3 954 |
| Furniture and fixtures | 53 | 225 |
| Communications and information technology equipment | 1 665 | 1 459 |
| **Other capital commitments** | | |
| Intangible assets | 33 | 37 |
| **Total capital commitments** | **9 069** | **5 725** |
| **Operating commitments** | | |
| Contracts for purchase of supplies and other goods | 252 550 | 265 641 |
| Contracts for purchase of services | 551 650 | 641 253 |
| Commitments to transfer cash to implementing partners | 70 009 | 63 283 |
| Commitments to transfer supplies to implementing partners | 420 262 | 419 877 |
| **Total operating commitments** | **1 294 471** | **1 390 054** |
| **Total commitments** | **1 303 540** | **1 395 779** |

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

*Long-term agreements*

2. UNICEF also has various long-term agreements with suppliers. The table below identifies the total remaining contract value on long-term agreements that remained open as at 31 December 2018.

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Long-term agreements for goods | 4 605 854 | 4 298 991 |
| Long-term agreements for services | 353 727 | 260 151 |
| **Total long-term agreements** | **4 959 581** | **4 559 142** |

## Note 33
## Contingencies

1. In certain cases, prior to concluding contribution agreements, UNICEF receives pledges for future contributions. These pledges are not recorded in the statement of financial position as UNICEF does not yet have control of the resources, but the inflow of resources is considered probable. At the reporting date, probable contributions arising from pledges were estimated at $59.07 million (2017: $72.35 million).

2. During the year, UNICEF concluded contribution agreements where the total contribution value did not meet the definition of an asset. Those amounts are disclosed in the notes as contingencies until the asset recognition criteria are met, or cash is

received from the donor. The total amount of these contribution is $387.33 million as at 31 December 2018.

*Contingent liabilities*

3. UNICEF has an irrevocable standby letter of credit of $3 million that is held as a security deposit by the landlord for the leased premises in New York. The letter of credit is not collateralized with any UNICEF investments. UNICEF does not expect this letter of credit to be used by the third party.

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

5. As at 31 December 2018, UNICEF did not have any accrued liabilities for contingent legal matters. Consistent with IPSAS, UNICEF is not required to disclose descriptions of the nature of its contingent liabilities, as potential outflows from settlements are remote. With respect to outstanding legal matters, on the basis of current knowledge, UNICEF believes that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on its operations, financial position, financial performance or cash flows. However, as the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties, these possible obligations may become actual liabilities by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNICEF.

## Note 34
## Related parties

*National Committees*

1. National Committees, which constitute a unique category of UNICEF partners, were established for the purposes of advancing children's rights and well-being globally through resource mobilization, advocacy and other activities. Working as partners of UNICEF in their respective countries, National Committees are independent, NGOs registered under the laws of their respective countries as charities, trusts, foundations or associations. National Committees are required by their statutes to have governing boards that have control over the resources that they raise. The relationship between the National Committees and UNICEF, as well as their use of its name and logo, are regulated by the recognition and cooperation agreements signed between UNICEF and each National Committee. National Committees are currently established in 33 countries.

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

## A. Voluntary contribution revenue and receivables from National Committees

(Thousands of United States dollars)

| | *2018* | | *2017* | |
|---|---|---|---|---|
| | *Revenue* | *Receivables* | *Revenue* | *Receivables* |
| Voluntary cash contributions | 1 190 779 | 320 508 | 1 264 587 | 335 379 |
| Voluntary in-kind contributions | 4 849 | 794 | 1 751 | 2 826 |
| **Total** | **1 195 628** | **321 302** | **1 266 338** | **338 205** |

3. Of the total voluntary cash contributions received in 2018, $645.44 million was from regular resources, $145.23 million was from other resources – emergency, and $400.12 million was from other resources – regular. The voluntary in-kind contributions of $4.85 million (2017: $1.75 million) is composed of $3.62 million (2017: $1.75 million) of other resources – emergency and $1.23 million (2017: $0) of other resources – regular.

4. According to the revenue and expenditure reports submitted by the National Committees, total contributions received by the National Committees in 2018, excluding proceeds from licensing activities, were $1.57 billion, (2017: $1.65 billion). Of that amount, $382.16 million, (2017: $389.35 million) was retained by the National Committees to cover the costs of their fundraising, advocacy and management and administration activities, or as reserves. As a result, a total amount of $1.19 billion (2017: $1.26 billion) in net cash contributions was either transferred or due to be transferred to UNICEF from the National Committees.

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

6. In accordance with the terms of the respective cooperation agreement with UNICEF, National Committees may establish reserves in order to comply with national laws and statutes as well as for other purposes. In the event of the liquidation of a National Committee, net assets, including reserves, would be transferred to UNICEF, subject to the provisions of the cooperation agreement, if legally permitted, or otherwise in accordance with national law and the statute of the Committee. The National Committees reported to UNICEF through their revenue and expenditure reports that the retained reserves, based on their local accounting standards, stood at $223.05 million (2017: $228.67 million) as at 31 December 2018.

## B. Supported deliveries

7. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $118.17 million (2017: $122.39 million). The deliveries were not reflected in the financial accounts of UNICEF, although they were handled through the administrative structures of the organization.

## C. Key management personnel

8. The leadership structure of UNICEF is stratified into two main tiers:

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

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

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

*Remuneration paid to key management personnel*

(Thousands of United States dollars)

| | *Number of individuals* | *Salary and post adjustment* | *Other entitlements* | *Long-term and post-employment benefits* | *2018* | *2017* |
|---|---|---|---|---|---|---|
| Key management personnel | 32 | 6 504 | 3 056 | 762 | 10 322 | 11 023 |
| Close family members | 2 | 265 | 87 | 23 | 375 | 374 |
| **Total** | **34** | **6 769** | **3 143** | **785** | **10 697** | **11 397** |

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

10. Other entitlements include contributions by UNICEF for key management personnel to the United Nations Joint Staff Pension Fund, a defined contribution plan, of $1.17 million (2017: $1.16 million).

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

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

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

## D. United Nations programmes, funds and specialized agencies

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

## E. Other related parties

*Global Partnership for Education*

15. The Global Partnership for Education, previously the Education for All – Fast Track Initiative, is a global programme partnership involving bilateral donors, regional and international agencies, including UNICEF, development banks and civil society organizations on the one hand, and low-income countries on the other. Its overall aim is to strengthen international efforts to ensure inclusive, equitable quality education for all by 2030. UNICEF plays a significant role within the Global Partnership for Education at both the global and country levels, and is currently the Coordinating Agency for the Local Donor Group in 14 countries, and Supervising Entity in 2. UNICEF has influenced the Global Partnership for Education to support inclusion of countries in fragile situations. Funds provided for the Global Partnership for Education are recorded in voluntary contributions in support of global and country specific programmes, amount to $119.14 million (2017: $46.88 million).

*Global Fund to Fight AIDS, Tuberculosis and Malaria*

16. The Global Fund to Fight AIDS, Tuberculosis and Malaria was established in 2002 as a public-private partnership with the goal to raise, manage and disburse additional resources to prevent and treat HIV and AIDS, tuberculosis and malaria. In addition to the Global Fund's disease-specific funding, the Global Fund also provides resources for health systems strengthening. Since the Global Fund's inception in 2002, UNICEF has been an active partner at the global and country level. The funds provided by the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $46.95 million (2017: $42.94 million).

*Gavi, the Vaccine Alliance*

17. Gavi, the Vaccine Alliance was launched in 2000 as a public-private global health partnership committed to increasing access to immunization in low-income countries. UNICEF holds 1 permanent seat, out of 18, on its Board of Directors, and can also appoint 1 alternate Board member. UNICEF plays an important role in the provision of vaccines and immunization supplies for countries through the UNICEF Supply Division and provides technical assistance to governments in the preparation of applications to the Alliance and the implementation of Alliance-supported programmes. A handling fee for the management of these procurement services is included within note 22, Other revenue.

18. Gavi, the Vaccine Alliance makes funds available to UNICEF through escrow accounts and the use of promissory note agreements. UNICEF entered into promissory note agreements resulting in a balance of $7.70 million at 31 December 2018 (2017: $0) disclosed in note 11, Other assets.

19. As also disclosed in note 11, Other assets, UNICEF holds funds of $553.48 million (2017: $721.48 million), which represent amounts deposited into an irrevocable escrow account for which UNICEF has security of interest and sole drawing rights based on the terms of the agreements. A corresponding liability is recorded in note 16, Funds held on behalf of third parties, and in note 17, Other liabilities, until UNICEF has fulfilled its obligations as agent of the partner.

20. UNICEF also manages funds provided by Gavi, the Vaccine Alliance, which are recorded in voluntary contributions in support of global and country-specific programmes, and amount to $95.65 million (2017: $154.86 million).

*Nutrition International*

21. Nutrition International, formerly the Micronutrient Initiative, was incorporated on 4 July 2001, in Canada, with the primary objective of solving malnutrition. UNICEF is a significant partner of Nutrition International because of shared objectives with regard to malnutrition. UNICEF holds 1 seat, out of 13, on the Nutrition International Board of Directors. Funds provided by Nutrition International, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $13.09 million (2017: $11.77 million).

*Education Cannot Wait*

22. Education Cannot Wait was established during the World Humanitarian Summit in 2016 by international humanitarian and development aid actors, along with public and private donors, to help reposition education as a priority on the humanitarian agenda, usher in a more collaborative approach among actors on the ground and foster additional funding to ensure that every crisis-affected child and young person is in school and learning. UNICEF holds 1 seat, out of 18 on the Education Cannot Wait high-level steering group. Funds provided by Education Cannot Wait, which are recorded in voluntary contribution in support of global and country specific programmes, amount to $18.08 million (2017: $22.33 million).

**Global Partnership to End Violence Against Children**

23. The Global Partnership to End Violence Against Children was established in 2016 to provide financial support to programmes to achieve a world in which every child grows up free from violence. UNICEF holds 1 seat out of 22 on the Board of Directors of the Global Partnership. Funds provided by the Global Partnership, which are recorded in voluntary contribution in support of global and country specific programmes, amount to $5.70 million (2017: $1.58 million).

*Revenue realized from other related parties as at 31 December*

(Thousands of United States dollars)

| | *2018* | *2017* |
|---|---|---|
| Global Partnership for Education | 119 143 | 46 884 |
| Global Fund to Fight AIDS, Tuberculosis and Malaria | 46 946 | 42 943 |
| Gavi, the Vaccine Alliance | 95 645 | 154 863 |
| Nutrition International | 13 094 | 11 774 |
| Education Cannot Wait | 18 079 | 22 326 |
| Global Partnership to End Violence Against Children | 5 701 | 1 584 |
| **Total** | **298 608** | **280 374** |

## Note 35
## Post-balance sheet events

There have been no material post balance sheet events requiring disclosure.

## Note 36
## Segment information

1. A segment is a distinguishable activity or group of activities for which it is appropriate to report financial information separately. At UNICEF, segment information is based on the principal activities and sources of financing of the

organization. For UNICEF, the relevant segments are labelled institutional, regular resources – programme, regular resources – non-programme, other resources – regular, other resources – emergency and trust funds.

2. The segment report contains additional information on revenue and expenses incurred on an IPSAS accrual basis. UNICEF budgets are prepared and managed on a modified cash basis and expenditures incurred against approved budgets are presented in statement V on the same modified cash basis.

*Institutional and regular resources segments*

*Revenue*

3. Revenue included in these segments is defined as regular resources in the UNICEF Financial Regulations and Rules. Regular resources include unrestricted contributions, licensing income, management type contributions and proceeds from other revenue-producing activities and miscellaneous revenue.

4. The regular resources – programme segment includes voluntary contributions (non-exchange revenue) and the retention for private-sector fundraising. Contributions towards management initiatives such as greening and accessibility and contributions towards UNICEF local costs and the cost of private-sector fundraising are presented under regular resources – non-programme.

5. The institutional segment includes internal inter-segment cost recovery and direct attribution, such as warehouse overhead and centrally managed costs. Also included is investment revenue, licensing income, exchange revenue, such as interest, and proceeds from sales.

*Activities*

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

7. The major categories of expenses within the institutional segment include salaries and other employee benefits, depreciation of assets, expenses related to the after-service health insurance as well as country office fundraising costs.

8. The institutional segment includes assets and liabilities that are linked to the overall UNICEF mandate and are not easily allocated to other segments. The main categories of assets included in this segment are cash, investments and centrally managed land and buildings. Also included is the inventory maintained in the warehouse in Copenhagen. The main liability is for after-service health insurance and the derivative financial liabilities linked to the after-service health insurance investments.

9. The regular resources – programme segment includes activities described in programme documents. These activities are funded from the country programmes and the advocacy, programme development and intercountry programme.

10. The majority of categories of expense within this segment include the utilization of cash assistance transferred to implementing partners, programme supplies delivered to implementing partners, other programme-related expert services, employee benefits, and local country office rental costs.

11. Major categories of assets are regular resources contributions receivable and advances of cash assistance, which are funded from the country programmes and the advocacy, programme development and intercountry programme.

12. The regular resources – non-programme segment includes country office fundraising activities and UNICEF management costs, such as the Junior Professional Officers working in headquarters divisions and funded from the headquarters initiative(s), greening and accessibility activities and local costs of UNICEF offices that are not programme-related.

13. The combined net assets of the institutional and regular resources segments represent the total regular resources fund balance. This is presented combined, as the regular resources fund is managed as one pool from which allocations are made to institutional and programmatic activities based on affordability. Unused funds are returned to the fund.

*Other resources – regular and emergency segments*

*Revenue*

14. The other resources – regular segment includes funds contributed to UNICEF by governments, intergovernmental organizations, NGOs and the United Nations system for specific purposes within the programmes approved by the UNICEF Executive Board.

15. The other resources – emergency segment includes humanitarian emergency contributions received for specific humanitarian programmatic activity.

*Activities*

16. These segments include activities described in programme documents. The majority of categories of expense within these two segments include the utilization of cash assistance transferred to implementing partners, programme supplies delivered to implementing partners, other programme-related expert services, and employee benefits. In addition, these segments are charged a cost-recovery fee, which is eliminated in the "inter-segment" column in the report on the segment.

17. Major categories of assets are earmarked contributions receivable, advances of cash assistance to implementing partners and inventories of programme supplies held for distribution, which are funded from the country programmes and the advocacy, programme development and intercountry programme.

18. The fund balance is recorded at the level of individual donor agreements within the accounting records of UNICEF and represents unused funds to be used in a future period for programme implementation activities. At the conclusion of the activities, unspent balances are either returned to the donor or reprogrammed, as permitted under the donor agreement.

*Trust fund segment*

19. The trust fund segment includes activities defined by the Financial Regulations and Rules as special accounts. The fund balance is maintained separately and is accounted for as funds held on behalf of third parties. Procurement services represent the primary component of activities within the trust fund segment. In addition to special accounts, trust fund segment includes UNICEF hosted funds where UNICEF is providing management services as an agent and assets of the funds are held in trust.

20. For each trust fund, a determination is made as to whether UNICEF has control over the activity as determined by the organization's accounting policy. Where control is established, the accounting policy for exchange revenue and recording of

expense is applied. Otherwise they are accounted for as agency arrangements, and all cash inflows and outflows are netted together in a liability account. The fee charged by UNICEF to manage the activities is recorded as other income within the institutional segment.

21. This segment also contains other smaller grants managed in similar fashion to trust funds, such as guest houses managed for UNICEF staff and contractors in volatile locations where commercial alternatives are not available. Income from these guest houses is used solely for maintenance and upkeep of the mentioned guest houses.

### A. Segment information on assets and liabilities by fund type

(Thousands of United States dollars)

| | Regular resources | | | Other resources | | | |
|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *2018* |
| **Segment assets** | | | | | | | |
| **Current segment assets** | | | | | | | |
| Cash and cash equivalents[a] | 995 259 | – | – | – | – | – | 995 259 |
| Inter-segment activity[b] | (3 422 303) | 16 752 | – | 2 222 898 | 713 208 | 469 445 | – |
| Contributions receivable | – | – | 395 818 | 1 102 750 | 689 910 | – | 2 188 478 |
| Other receivables | 10 359 | 438 | 28 804 | 18 273 | 9 249 | – | 67 123 |
| Advances of cash assistance | – | 49 | 128 942 | 325 995 | 316 438 | – | 771 424 |
| Inventories | 28 938 | – | 7 878 | 158 875 | 174 500 | – | 370 191 |
| Investments | 3 546 819 | – | – | – | – | – | 3 546 819 |
| Other assets | 9 903 | 130 | 11 152 | 15 394 | 3 682 | 563 768 | 604 029 |
| **Total current segment assets** | **1 168 975** | **17 369** | **572 594** | **3 844 185** | **1 906 987** | **1 033 213** | **8 543 323** |
| **Non-current segment assets** | | | | | | | |
| Contributions receivable | – | – | 245 575 | 833 195 | 62 445 | – | 1 141 215 |
| Other receivables | 1 353 | – | 320 | 17 | 16 | – | 1 706 |
| Investments | 567 851 | – | – | – | – | – | 567 851 |
| Property and equipment | 182 269 | 175 | 34 662 | 7 105 | 18 626 | 307 | 243 144 |
| Intangible assets | 4 375 | – | 1 717 | 39 | 31 | – | 6 162 |
| Other assets | 1 767 | – | – | – | – | – | 1 767 |
| **Total non-current segment assets** | **757 615** | **175** | **282 274** | **840 356** | **81 118** | **307** | **1 961 845** |
| **Total segment assets, 2018** | **1 926 590** | **17 544** | **854 868** | **4 684 541** | **1 988 105** | **1 033 520** | **10 505 168** |
| **Total segment assets, 2017** | **1 919 471** | **4 529*** | **520 462*** | **4 168 079** | **2 029 432** | **1 310 723** | **9 952 696** |

[a] For both risk management and efficiency reasons, all cash and investments are held and managed centrally and are therefore included within the institutional segment.
[b] The inter-segment activity represents the cash held centrally as explained under (a) at the end of the year relating to other segments reflected in the correct segments.
* The split between segments has been revised to reflect the additional segment information provided; totals have not changed.

## A. Segment information on assets and liabilities by fund type (continued)

(Thousands of United States dollars)

| | Regular resources | | | Other resources | | | |
|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *2018* |
| **Segment liabilities** | | | | | | | |
| **Current segment liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | 93 307 | 1 654 | 17 097 | 38 313 | 37 683 | 151 287 | 339 341 |
| Contributions received in advance | – | – | 155 | 53 154 | 7 421 | – | 60 730 |
| Funds held on behalf of third parties | – | – | – | – | – | 803 506 | 803 506 |
| Other liabilities | 103 568 | – | 112 | – | – | 88 174 | 191 854 |
| Employee benefits | 122 239 | – | 16 | – | 6 | – | 122 261 |
| Provisions | – | – | – | 42 425 | 8 043 | – | 50 468 |
| **Total current segment liabilities** | **319 114** | **1 654** | **17 380** | **133 892** | **53 153** | **1 042 967** | **1 568 160** |
| **Non-current segment liabilities** | | | | | | | |
| Contributions received in advance | – | – | 1 558 | – | – | – | 1 558 |
| Employee benefits | 1 410 028 | – | – | – | – | – | 1 410 028 |
| Other liabilities | 35 884 | – | – | – | – | 24 090 | 59 974 |
| **Total non-current segment liabilities** | **1 445 912** | **–** | **1 558** | **–** | **–** | **24 090** | **1 471 560** |
| **Total segment liabilities, 2018** | **1 765 026** | **1 654** | **18 938** | **133 892** | **53 153** | **1 067 057** | **3 039 720** |
| **Total segment liabilities, 2017** | **1 819 508** | **20*** | **47 026*** | **92 404** | **41 588** | **1 358 378** | **3 358 924** |

* The split between segments has been revised to reflect the additional segment information provided; totals have not changed.

**A. Segment information on assets and liabilities by fund type** (continued)

(Thousands of United States dollars)

| | | *Other resources* | | | |
|---|---|---|---|---|---|
| | *Total regular resources* | *Regular programme* | *Emergency programme* | *Trust funds* | *2018* |
| **Net assets, 1 January 2018** | **577 908** | **4 075 675** | **1 987 844** | **(47 655)** | **6 593 772** |
| Surplus/(deficit) for the year | 286 476 | 474 974 | (52 892) | 14 118 | 722 676 |
| Actuarial gains recognized directly in the reserves | 197 896 | – | – | – | 197 896 |
| Changes in fair value of available-for-sale financial assets | (48 896) | – | – | – | (48 896) |
| **Net assets, 31 December 2018** | **1 013 384** | **4 550 649** | **1 934 952** | **(33 537)** | **7 465 448** |
| **Net assets, 31 December 2017** | **577 908** | **4 075 675** | **1 987 844** | **(47 655)** | **6 593 772** |

## B. Segment information on revenue and expenses by fund type

(Thousands of United States dollars)

| | Regular resources | | | Other resources | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *Eliminations/ inter-segment transactions* | *2018* |
| **Segment revenue** | | | | | | | | |
| Voluntary contributions | – | 66 641 | 1 561 315 | 2 941 001 | 1 926 293 | – | – | 6 495 250 |
| Other revenue | 12 710 | – | – | 1 270 | 620 | 65 246 | – | 79 846 |
| Investment revenue | 100 662 | – | – | – | – | – | – | 100 662 |
| Internal cost recovery | 300 756 | – | – | – | – | – | (300 756) | – |
| Internal direct attribution | 106 934 | – | – | – | – | – | (106 934) | – |
| **Total segment revenue, 2018** | **521 062** | **66 641** | **1 561 315** | **2 942 271** | **1 926 913** | **65 246** | **(407 690)** | **6 675 758** |
| **Total segment revenue, 2017** | **476 234*** | **57 683*** | **1 220 417*** | **3 026 393** | **2 126 820** | **62 809*** | **(393 612)** | **6 576 744** |
| **Segment expenses** | | | | | | | | |
| Transfers of cash assistance | – | – | 269 406 | 1 039 878 | 953 892 | – | – | 2 263 176 |
| Transfer of programme supplies | – | – | 77 200 | 473 694 | 436 014 | – | – | 986 908 |
| Employee benefits | 564 381 | 11 542 | 309 920 | 309 168 | 191 094 | 30 185 | – | 1 416 290 |
| Depreciation and amortization | 10 604 | 8 | 6 685 | 1 311 | 3 260 | 46 | – | 21 914 |
| Other expenses | 303 594 | 43 736 | 197 982 | 372 396 | 316 663 | 20 940 | (407 690) | 847 621 |
| Other programme-related expert services | – | – | 83 174 | 269 475 | 78 552 | – | – | 431 201 |
| Finance costs | 2 647 | – | – | – | – | – | – | 2 647 |
| **Total segment expenses, 2018** | **881 226** | **55 286** | **944 367** | **2 465 922** | **1 979 475** | **51 171** | **(407 690)** | **5 969 757** |
| **Total segment expenses, 2017** | **729 646*** | **53 028*** | **970 935*** | **2 401 237** | **2 055 250** | **46 949*** | **(393 612)** | **5 863 433** |
| Gains and (losses), net 2018 | 17 546 | 27 | 764 | (1 375) | (330) | 43 | – | 16 675 |
| Gains and (losses), net 2017 | 66 601 | (146) | 1 220 | 9 543 | (1 911) | (25) | – | 75 282 |
| **Net surplus/(deficit), 2018** | **(342 618)** | **11 382** | **617 712** | **474 974** | **(52 892)** | **14 118** | **–** | **722 676** |
| **Net surplus/(deficit), 2017** | **(186 811)*** | **4 509*** | **250 702*** | **634 699** | **69 659** | **15 835*** | **–** | **788 593** |

* The split between segments have been revised to reflect the additional segment information provided; totals have not changed.

### C. Segment information on expenses by region

(Thousands of United States dollars)

| | *Regular resources* | | | *Other resources* | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *Eliminations/ inter-segment transactions* | *2018* |
| **Transfers of cash assistance** | | | | | | | | |
| East Asia and the Pacific | – | – | 16 197 | 60 428 | 11 402 | – | – | 88 027 |
| Europe and Central Asia | – | – | 4 021 | 52 526 | 137 371 | – | – | 193 918 |
| Eastern and Southern Africa | – | – | 74 140 | 280 971 | 147 156 | – | – | 502 267 |
| Headquarters | – | – | 4 841 | 9 291 | 1 417 | – | – | 15 549 |
| Latin American and the Caribbean | – | – | 13 782 | 37 979 | 17 213 | – | – | 68 974 |
| Middle East and North Africa | – | – | 12 263 | 260 078 | 496 683 | – | – | 769 024 |
| South Asia | – | – | 50 105 | 101 475 | 47 644 | – | – | 199 224 |
| Western and Central Africa | – | – | 94 057 | 237 130 | 95 006 | – | – | 426 193 |
| **Total transfers of cash assistance** | **–** | **–** | **269 406** | **1 039 878** | **953 892** | **–** | **–** | **2 263 176** |
| **Transfer of programme supplies** | | | | | | | | |
| East Asia and the Pacific | – | – | 5 203 | 27 098 | 11 898 | – | – | 44 199 |
| Europe and Central Asia | – | – | 917 | 11 160 | 13 882 | – | – | 25 959 |
| Eastern and Southern Africa | – | – | 17 012 | 110 713 | 100 230 | – | – | 227 955 |
| Headquarters | – | – | (1 182) | 8 645 | (736) | – | – | 6 727 |
| Latin American and the Caribbean | – | – | 2 215 | 5 702 | 6 610 | – | – | 14 527 |
| Middle East and North Africa | – | – | 6 489 | 97 532 | 189 344 | – | – | 293 365 |
| South Asia | – | – | 14 772 | 72 463 | 32 851 | – | – | 120 086 |
| Western and Central Africa | – | – | 31 774 | 140 381 | 81 935 | – | – | 254 090 |
| **Total transfer of programme supplies** | **–** | **–** | **77 200** | **473 694** | **436 014** | **–** | **–** | **986 908** |

## C. Segment information on expenses by region (continued)

(Thousands of United States dollars)

| | Regular resources | | | Other resources | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *Eliminations/ inter-segment transactions* | *2018* |
| **Employee benefits** | | | | | | | | |
| East Asia and the Pacific | 28 079 | 3 621 | 27 745 | 31 832 | 4 652 | – | – | 95 929 |
| Europe and Central Asia | 23 291 | 656 | 11 025 | 9 841 | 7 841 | – | – | 52 654 |
| Eastern and Southern Africa | 43 316 | 119 | 75 866 | 75 720 | 43 798 | 44 | – | 238 863 |
| Headquarters | 345 848 | 6 | 22 740 | 41 285 | 11 377 | 30 141 | – | 451 397 |
| Latin American and the Caribbean | 29 322 | 6 558 | 13 247 | 17 877 | 4 851 | – | – | 71 855 |
| Middle East and North Africa | 30 574 | – | 21 885 | 29 229 | 78 258 | – | – | 159 946 |
| South Asia | 18 476 | 582 | 50 903 | 39 543 | 11 381 | – | – | 120 885 |
| Western and Central Africa | 45 475 | – | 86 509 | 63 841 | 28 936 | – | – | 224 761 |
| **Total employee benefits** | **564 381** | **11 542** | **309 920** | **309 168** | **191 094** | **30 185** | **–** | **1 416 290** |
| **Depreciation and amortization** | | | | | | | | |
| East Asia and the Pacific | 245 | 3 | 498 | 88 | 45 | – | – | 879 |
| Europe and Central Asia | 193 | – | 62 | 7 | 149 | – | – | 411 |
| Eastern and Southern Africa | 1 305 | – | 1 697 | 390 | 759 | – | – | 4 151 |
| Headquarters | 5 288 | – | 593 | 53 | 7 | 44 | – | 5 985 |
| Latin American and the Caribbean | 491 | 5 | 140 | 34 | 68 | – | – | 738 |
| Middle East and North Africa | 742 | – | 462 | 173 | 1 530 | – | – | 2 907 |
| South Asia | 1 355 | – | 1 021 | 256 | 180 | 1 | – | 2 813 |
| Western and Central Africa | 985 | – | 2 212 | 310 | 522 | 1 | – | 4 030 |
| **Total depreciation and amortization** | **10 604** | **8** | **6 685** | **1 311** | **3 260** | **46** | **–** | **21 914** |

## C. Segment information on expenses by region (continued)

(Thousands of United States dollars)

| | Regular resources | | | Other resources | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *Eliminations/ inter-segment transactions* | *2018* |
| **Other expenses** | | | | | | | | |
| East Asia and the Pacific | 6 826 | 9 477 | 11 547 | 26 056 | 5 850 | 100 | – | 59 856 |
| Europe and Central Asia | 7 044 | 2 390 | 6 069 | 18 424 | 18 679 | 34 | – | 52 640 |
| Eastern and Southern Africa | 11 436 | 2 402 | 41 284 | 89 039 | 54 751 | 2 680 | – | 201 592 |
| Headquarters | 246 198 | 6 710 | 41 823 | 69 422 | 36 592 | 15 323 | (407 690) | 8 378 |
| Latin American and the Caribbean | 8 510 | 14 657 | 9 293 | 17 712 | 6 373 | 78 | – | 56 623 |
| Middle East and North Africa | 6 372 | 1 115 | 10 004 | 37 973 | 137 209 | 230 | – | 192 903 |
| South Asia | 5 634 | 1 410 | 24 694 | 43 791 | 16 038 | 2 116 | – | 93 683 |
| Western and Central Africa | 11 574 | 5 575 | 53 268 | 69 979 | 41 171 | 379 | – | 181 946 |
| **Total other expenses** | **303 594** | **43 736** | **197 982** | **372 396** | **316 663** | **20 940** | **(407 690)** | **847 621** |
| **Other programme-related expert services** | | | | | | | | |
| East Asia and the Pacific | – | – | 5 053 | 12 214 | 2 004 | – | – | 19 271 |
| Europe and Central Asia | – | – | 3 755 | 8 698 | 1 983 | – | – | 14 436 |
| Eastern and Southern Africa | – | – | 16 149 | 62 351 | 16 821 | – | – | 95 321 |
| Headquarters | – | – | 10 433 | 19 516 | 2 962 | – | – | 32 911 |
| Latin American and the Caribbean | – | – | 4 756 | 12 500 | 2 854 | – | – | 20 110 |
| Middle East and North Africa | – | – | 3 816 | 9 575 | 34 909 | – | – | 48 300 |
| South Asia | – | – | 25 212 | 101 643 | 5 747 | – | – | 132 602 |
| Western and Central Africa | – | – | 14 000 | 42 978 | 11 272 | – | – | 68 250 |
| **Total other programme-related expert services** | **–** | **–** | **83 174** | **269 475** | **78 552** | **–** | **–** | **431 201** |
| **Finance costs** | | | | | | | | |
| Headquarters | 2 647 | – | – | – | – | – | – | 2 647 |
| **Total finance costs** | **2 647** | **–** | **–** | **–** | **–** | **–** | **–** | **2 647** |

### C. Segment information on expenses by region (continued)

(Thousands of United States dollars)

| | *Regular resources* | | | *Other resources* | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Institutional* | *Non-programme* | *Programme* | *Regular programme* | *Emergency programme* | *Trust funds* | *Eliminations/ inter-segment transactions* | *2018* |
| **Total expense by region** | | | | | | | | |
| East Asia and the Pacific | 35 150 | 13 101 | 66 243 | 157 716 | 35 851 | 100 | – | 308 161 |
| Europe and Central Asia | 30 528 | 3 046 | 25 849 | 100 656 | 179 905 | 34 | – | 340 018 |
| Eastern and Southern Africa | 56 057 | 2 521 | 226 148 | 619 184 | 363 515 | 2 724 | – | 1 270 149 |
| Headquarters | 599 981 | 6 716 | 79 248 | 148 212 | 51 619 | 45 508 | (407 690) | 523 594 |
| Latin American and the Caribbean | 38 323 | 21 220 | 43 433 | 91 804 | 37 969 | 78 | – | 232 827 |
| Middle East and North Africa | 37 688 | 1 115 | 54 919 | 434 560 | 937 933 | 230 | – | 1 466 445 |
| South Asia | 25 465 | 1 992 | 166 707 | 359 171 | 113 841 | 2 117 | – | 669 293 |
| Western and Central Africa | 58 034 | 5 575 | 281 820 | 554 619 | 258 842 | 380 | – | 1 159 270 |
| **Total segment expenses** | **881 226** | **55 286** | **944 367** | **2 465 922** | **1 979 475** | **51 171** | **(407 690)** | **5 969 757** |