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United Nations

United Nations Children's Fund

Financial report and audited financial statements

for the year ended 31 December 2019

and

Report of the Board of Auditors

General Assembly

Official Records
Seventy-fifth Session
Supplement No. 5C

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Report of the Board of Auditors

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Note

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

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Letters of transmittal

Letter dated 29 May 2020 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 2019. These statements have been prepared and certified 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 21 July 2020 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 2019, 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 2019 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 2019 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 2019, 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

21 July 2020

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 2019. The audit was carried out through field visits to the Ethiopia and Ukraine country offices and the Kenya and Switzerland regional offices, as well as through a review of the Fund's financial transactions and operations at Copenhagen, Budapest and its headquarters in New York. The final audit of financial statements and a review of operations at Headquarters in New York were carried out through a remote audit from India owing to travel and related restrictions following the coronavirus disease (COVID-19) outbreak.

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 $188.21 million for the year 2019 (2018: $722.68 million). This was attributable mainly to a decrease in voluntary contributions by $294.36 million compared with 2018 and an increase in cash assistance by $88.77 million and employee benefits by $103.22 million compare with 2018. In 2019, an increase of 6.37 per cent was noticed in total assets compared with 2018. The total liabilities also saw an increase of 13.25 per cent. The ratio of total assets to total liabilities was 3.25, which is lower than the ratio of 3.46 in 2018. The current ratio was 4.51, which indicated 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 in terms of financial management, programme management, management of cash transfers, procurement inventory and supply chain management, the operation of VISION and inSight, the Global Shared Service Centre and human resource management. The Board has made suitable recommendations to have these areas addressed.

Key audit findings

Financial management

UNICEF had invested $640.74 million (gross amount) to fund after-service health insurance liability as at 31 December 2019. The after-service health insurance investment portfolio of $542.35 million was classified as current investments and an investment of $98.38 million in bonds was classified as non-current assets. The investment objective of the after-service health insurance fund was to achieve returns that were consistent with adequate funding of the benefits over the investment horizon and not to generate short-term profits. Therefore, the investment portfolio was in the nature of non-current investment with a long-term horizon to match the long-term liability. The Board is of the view that the classification of 85 per cent of the after-service health insurance investment portfolio as current assets was not appropriate.

UNICEF is implementing a budget formulation tool, which is a web-based application designed to help to improve its ability to link results to resources. The project was conceived in 2014–2015 and initiated in 2016. System performance had slowed to an unacceptable level owing to heavy data processing. By mid-July 2019 and thereafter, the tool was taken offline so that it could be rectified. The tool is critical for appropriate planning, budget consolidation and appropriately linking planned and actual expenditure.

Programme management

In the UNICEF Strategic Plan, 2018–2021, there are five interlinked Goal Areas, which contribute to the implementation of the 2030 Agenda for Sustainable Development. Goal Area 2, "Every child learns", is aligned to Sustainable Development Goal 4. The Board noted that accelerated efforts would be needed to meet three of the output indicators of Goal Area 2 because their actual achievement was behind the targets for 2019. With respect to another five output indicators, achievement against the various dimensions was not satisfactory for a number of countries.

During a review of programme performance at the Ethiopia country office, it was noticed that, of 31 outcome indicators set against six programme components, performance gaps existed in the targets for 13 indicators, while no target was set for the year 2019 for another 4 indicators. Ratings given in the result assessment module were inconsistent with the actual achievements for nine of the outcome indicators and data on the status of four outcome indicators were incomplete in the module. Moreover, some outcome indicators used in the module did not fully cover the requirements of the country plan document. The Board also noticed gaps in the baseline figures used in the module. Considering that total fund allotment was 1.6 times the planned resources for the programme components and the actual utilization had exceeded 84 per cent of that allotment, the level of achievement of the targets under different outcome indicators reflected significant risks to the achievement of the country plan targets.

Management of cash transfers

Cash transfers represent a large portion of the spending of UNICEF and are a key modality of programme implementation to achieve the Fund's strategic objectives. UNICEF adopted a harmonized approach to the cash transfer framework in February 2014. The Board noticed that there were shortfalls in the achievement of programmatic visits in 8 country offices and in spot checks in 17 country offices. Although the overall targets for programmatic visits and spot checks were met in the Eastern and Southern Africa Regional Office, it was noticed that no programmatic visits and spot checks had been conducted for 39 and 63 implementing partners, respectively, in the Ethiopian country office.

The Yemen emergency crisis response project was undertaken in response to the humanitarian crisis created by the conflict in Yemen. One of the components of the project was an emergency cash transfer aimed at providing such transfers to the poor and vulnerable in response to the food crisis. Reports submitted by a third-party monitoring organization evaluating the performance of the project indicated gaps in the achievement of targets for the indicators identified.

Procurement, inventory and supply chain management

The Supply Division procured 10,289 standard materials worth $2.26 billion, of which 818 worth $105.5 million (8 per cent of standard materials procured) were not purchased under long-term agreements. The cost of materials purchased without such agreements was higher in 34 cases compared with the same materials purchased through agreements during 2019. In addition, there were 182 standard materials ordered through 705 purchase orders, for a total value of $29.75 million, for which there were no long-term agreements.

Inventory valued at $54.40 million (28 per cent of total stock) was held in country warehouses for more than 6 months, which included $28.99 million worth of inventory held for more than 12 months and $21.21 million worth of inventory held for more than 18 months. Inventory funded from “Other Resources – Emergency” programmes valued at $14.91 million was held for more than 12 months, including inventory valued at $12.13 million held for more than 18 months. Inventory more than 18 months old included medical supplies and medicines that have a limited shelf life.

It was noticed that 18 per cent of the supplies to be received from the suppliers had been delayed. That delay was especially pronounced in “Assets/Consumables” and “Direct Order” purchase orders. Deliveries pertaining to some purchasing groups were also seen to be delayed. The Board noticed that six major suppliers were responsible for more than half of the delayed deliveries. However, liquidated damages were imposed only on one of those suppliers in the case of one purchase order, and no details of any other contractual remedy being applied, or of justification for not applying any contractual remedy, was noticed in other cases of delays.

A total of 25.5 per cent of emergency orders were not delivered on time. Although rapid-response orders were processed and delivered in 2.5 days on average against the prescribed lead time of 72 hours, emergency orders and other emergency orders were processed and delivered in 34.2 days and 97.3 days, respectively, against the prescribed lead times of 14 and 60 days, respectively.

VISION and inSight

In accordance with the office management plan for the period 2018–2021 of the Information and Communications Technology Division, a high-risk level was assigned to information security residual risks, and risk assessment was identified as one of the important mitigation measures in that regard. However, a formal information security risk assessment was yet to be carried out.

User ID data in the human resources master database were not linked automatically with the VISION user ID data. The Board noticed mismatches while comparing data in those two data sets. The matters identified included users from one data set not being found in the other and the validity of VISION user IDs extending past their contract expiry dates. Instances of the continuation of user IDs, even after separation, and more than one user ID for the same person were noticed.

The business continuity plan was not formally reviewed and updated after 2013, and the disaster recovery plan has not been updated since September 2016. No meeting of the crisis management team was conducted after December 2018, and there has been no formal follow-up of pending issues since then. The primary data centre, disaster recovery sites and their data backups were located in the same geographical area. Moreover, weaknesses in the management of contracts regarding the primary data centre and back-up services were also noticed.

Global Shared Service Centre

Many cases were returned to the offices concerned, with their number increasing progressively from September to December 2019. The percentage of cases returned was highest in the payroll area (47.71 per cent), followed by human resources administration (23.11 per cent). Missing/inaccurate/illegible documents and missing/inaccurate information were the major reasons for the return of cases.

The Board noticed instances of erroneous document dates, planning dates and baseline payment dates. Cases of posting dates, baseline payment dates and clearing dates being prior to the document dates in the invoices processed were also seen. There were cases of old invoices being processed, a delay in payments and early payments. The Board also noticed cases of old outstanding staff advances, including those of staff who has already been separated.

Main recommendations

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

Financial management

(a) **Consider classifying the long-term components of the after-service health insurance investment portfolio as non-current investment;**

(b) **Adopt a mission-mode approach to ensure the successful and expedited implementation of the budget formulation tool;**

Programme management

(c) **In the interest of organizational efficiency and maintaining uniformity, review the output indicators and their application and assessment across the country offices;**

(d) **Review and strengthen its programme monitoring system in order to ensure the effective achievement of planned results;**

(e) **Carry out an analysis of the reasons for gaps in the achievement of country plan targets in the Ethiopia country office and identify the remedial measures necessary to improve the achievement of the objectives and targets of the country plan in the country office;**

(f) **Explore ways to strengthen the evaluation and internal assurance processes to introduce improved accuracy into the reporting of baselines and achievements in the Ethiopia country office;**

Management of cash transfers

(g) **Identify the reasons for gaps in achieving the minimum level of assurance activities and take urgent action to ensure that, at the very least, the minimum level of assurance activities is carried out for all the implementing partners in the Eastern and Southern Africa region in a timely manner, and in this regard reiterates its recommendation (A/74/5/Add.3, para. 79) that UNICEF review the status of assurance in other country and regional offices and take the measures necessary to fill the gaps;**

(h) **Continue to strengthen the implementation and monitoring of the Yemen emergency cash transfer project, taking into consideration the evolving situation and lessons learned from implementing the project on the ground;**

Procurement, inventory and supply chain management

(i) **Ensure that specific reasons and justification are recorded for each case in which purchase orders are placed outside the relevant long-term agreement;**

(j) **Explore ways to further strengthen the inventory management system in order to address inventory turnover and ageing;**

(k) **Ensure that applicable contractual remedies are applied consistently in the cases of delays in deliveries and, in particular, record the basis for the decision whether to apply the contractual remedies for each case of delay by all the suppliers;**

VISION and inSight

(l) **Take steps to get an appropriate level of penetration testing done on the critical applications and networks, through which these applications are accessed, which would help to identify the security vulnerabilities and result in urgent action taken to patch them;**

(m) **Take steps to ensure automatic data synchronization between human resources master data and VISION user ID credentials by instituting the mandatory input of account number/personnel number when creating the user ID. The Board also recommends that account/personnel numbers be updated in all such cases in the database;**

(n) **Consider deactivating and locking all older user IDs, in lieu of which new user IDs were issued to the same user, and enforce the password change policy, as detailed in the UNICEF standard on information security: access control;**

(o) **Take action to formally review and update the headquarters business continuity plan on top priority and other areas, including information and communications technology risks identified in enterprise risk management and developments/changes in IT systems such as SAP HANA;**

(p) **Ensure that the requirements of the United Nations organizational resilience management system should inform the review and updating exercise;**

(q) **Consider ensuring a safe distance between the headquarters primary data centre and the disaster recovery data centre without significantly affecting productivity and access to real-time data;**

(r) **Ensure that regular inspections of the headquarters data centre and back-up sites and the regular monitoring of performance of the relevant vendors are carried out and duly documented, so that there are adequate assurances regarding controls, including environmental and safety measures and regarding the performance of the vendors in accordance with the agreement;**

Global Shared Service Centre

(s) **Engage with the offices concerned to analyse the reasons for a large number of cases being returned and take action to improve the case submission process in order to minimize their return by the Global Shared Service Centre;**

(t) **Incorporate necessary input controls and improve validation checks in VISION for all important parameters for the processing of invoices;**

(u) **Plan and implement a mechanism for the timely submission of invoices by all its offices;**

(v) **Prepare a plan of action for the clearance of old outstanding cases and for the Global Shared Service Centre to review the current policies and procedures on repayment/recovery of advances/overpayments and put in place standard criteria for their management, as well as to ensure adherence to the repayment plan.**

Key facts	
$6.41 billion	Revenue and other gains
$6.26 billion	Expenses
$0.19 billion	Surplus for the year
$11.17 billion	Assets
$3.44 billion	Liabilities
$7.73 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 2019 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 to form an opinion as to whether the financial statements fairly presented the financial position of UNICEF as at 31 December 2019 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 considered necessary to form an opinion on the financial statements. The audit was carried out through field visits to two 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, Copenhagen and Budapest. The final audit of financial statements and the review of operations at headquarters in New York were carried out through a remote audit from India owing to travel and related restrictions following the coronavirus disease (COVID-19) outbreak.

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.

[1] Ethiopia country office, Eastern and Southern Africa Regional Office in Kenya, Ukraine country office and Europe and Central Asia Regional Office in Switzerland.

B. Audit findings and recommendations

1. Follow-up of previous recommendations

6. There were 80 outstanding recommendations up to the period ending 31 December 2018, of which 33 (41 per cent) had been implemented, 40 (50 per cent) are under implementation, 1 (1 per cent) was not implemented and 6 (8 per cent) had been overtaken by events (see annex). Of those 41 recommendations, 8 pertained to reports of the Board that were more than two years old, details of which are shown in table II.1.

Table II.1
Status of implementation of recommendations

Report	*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/71/5/Add.3, chap. II (2015)	2	–	2	–	–	2
A/72/5/Add.3, chap. II (2016)	13	7	5	–	1	5
A/73/5/Add.3, chap. II (2017)	16	8	7	–	1	7
A/74/5/Add.3, chap. II (2018)	48	18	25	1	4	26
Total	**80**	**33**	**40**	**1**	**6**	**41**

2. Financial overview

7. Revenue for 2019 was $6.41 billion (2018: $6.68 billion), a decrease of $263.49 million compared with 2018. The decrease in revenue was attributable mainly to the decrease in voluntary contributions by $294.36 million compared with 2018. Expenses increased, from $5.97 billion in 2018 to $6.26 billion in 2019. The increase in expenses was attributable mainly to an increase in cash assistance of $88.77 million and an increase in employee benefits of $103.22 million compared with 2018. Together, they contributed to a lower net surplus of $188.21 million (2018: $722.68 million) reported by UNICEF.

8. The ratio of total assets to total liabilities was 3.25, which indicated strong solvency. The current ratio was 4.51, which showed high liquidity, indicating that UNICEF was in a comfortable position with regard to its short-term commitments at the end of 2019. Although all ratios have shown a decrease compared with the previous year, 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	*2019*	*2018*	*2017*	*Restated 2016*
Total assets: total liabilities[a]				
Assets: liabilities	3.25	3.46	2.96	3.38
Current ratio[b]				
Current assets: current liabilities	4.51	5.45	4.58	5.13
Quick ratio[c]				
(Cash + short-term investments + accounts receivable): current liabilities	3.43	4.29	3.55	3.96

Description of ratio	*2019*	*2018*	*2017*	*Restated 2016*
Cash ratio[d]				
(Cash + short-term investments): current liabilities	2.20	2.90	2.56	2.78

Source: UNICEF 2019 and 2018 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.

9. As at 31 December 2019, UNICEF had total assets of $11.17 billion (2018: $10.51 billion), consisting mainly of investments of $4.73 billion (2018: $4.11 billion), contributions receivable of $3.33 billion (2018: $3.33 billion) and cash and cash equivalents of $0.80 billion (2018: $1.00 billion). The total liabilities of UNICEF stood at $3.44 billion as at 31 December 2019, with employee benefits liabilities at $1.63 billion, representing 47.38 per cent of the total liabilities. Long-term employee benefits liabilities were $1.50 billion, which was 97.41 per cent of the non-current liabilities of $1.54 billion as at 31 December 2019

3. Financial management

(a) Management of investments, foreign exchange and bank accounts

10. The primary investment management objective of UNICEF is to preserve capital (risk management), while ensuring sufficient liquidity (liquidity management), to meet the operating cash requirements of the Fund and generate a competitive market rate of return on the investment portfolio. UNICEF had cash and cash equivalents of $796.30 million and total investments of $4.72 billion as at 31 December 2019. Total investments increased by $610.71 million compared with the past year and cash and cash equivalents were reduced by $198.96 million. While current investments remained at approximately the same level, non-current investments more than doubled in 2019, compared with 2018. UNICEF generated $126.15 million (2018: $100.66 million) of investment revenue by way of interest and dividends during 2019. The Board noted that 72 per cent of the investments consisted of current investments. The Board was informed that that was due to UNICEF receiving funds in advance of commitments made, and these funds form part of current investments in the short term, which are used to manage operational cash flows before payments are made when commitments fall due for payment.

(i) Disclosure of after-service health insurance portfolio

11. UNICEF had a total after-service health insurance liability of $812.24 million and had invested $640.74 million (gross amount) to fund these liabilities as at 31 December 2019. UNICEF had engaged two external fund managers to manage the funds. The after-service health insurance investment portfolio consisted of cash of $23.70 million, a forward exchange of $99.42 million, traded bonds of $181.07 million and equities of $336.55 million. Investment revenue from after-service health insurance investments was $8.80 million and unrealized gain was $63.09 million.

12. The Board noted that the after-service health insurance investment portfolio, including cash and cash equivalents of $542.35 million, was classified as current investments under current assets, while the investment of $98.39 million in bonds was classified as non-current assets. In accordance with IPSAS 1: Presentation of financial

statements, investment is classified as current if it is expected to be realized or consumed in the normal operating cycle. Current investments also include investments held primarily for trading or that constitute the current portion of a non-current investment portfolio. The Board noted that the investment objective of the after-service health insurance fund was to achieve returns that are consistent with adequate funding of the after-service health insurance benefits over the investment horizon and not to generate short-term profits. Therefore, the after-service health insurance investment portfolio was in the nature of a non-current investment portfolio with a long-term horizon to match the long-term after-service health insurance liability. The UNICEF classification of 85 per cent of the after-service health insurance investment portfolio as current assets was therefore not appropriate. The Board noted that only cash equivalents ($23.70 million) and forward exchange derivative ($99.42 million) components, which are kept for meeting current payments of after-service health insurance benefits, could be considered as current investments or current component of the long-term investment portfolio.

13. UNICEF stated that after-service health insurance investments were not “plan assets” as defined in IPSAS and that the concept of investment objective to achieve funding over the time horizon of the investments therefore did not apply. The Board, however, noted that the notes to the financial statements stated that after-service health insurance funds had been set aside with the objective of earning returns that would contribute to long-term funding of the after-service health insurance liability, recognized as long-term liabilities. The notes to the financial statements therefore indicate that after-service health insurance investments were not expected to be used to meet the current operating needs.

14. UNICEF also stated that those investments were classified as current because they were held primarily for trading. The Board noted that UNICEF had not designated any of those investments, excluding a forward exchange contract of $99.42 million, as “held for trading” in accordance with IPSAS 29: Financial instruments: recognition and measurement. In addition, securities that are held for trading are those that are purchased with the sole intent of selling them in the short term, typically in a year, and the primary purpose of the after-service health insurance investments is not to sell the securities in the short term.

15. The Board noted that the principle of substance over legal form was central to the faithful representation and reliability of information contained in the financial statements and that it was necessary that transactions be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The after-service health insurance investments, apart from cash and the derivative component, are non-current investments in substance. The Board is of the view that, even though the long-term portfolios may undergo some amount of accretion and liquidation, as well as the sale and reinvestment of the securities to ensure continuous appreciation. This does not by itself change the objective of the portfolio.

16. **The Board recommends that UNICEF consider classifying the long-term components of the after-service health insurance investment portfolio as non-current investment.**

17. UNICEF disagreed with the recommendation and stated that investment instruments themselves were meant to be traded to maximize returns to the Fund, with the proceeds of sales in 2019 representing 44 per cent of the value of the investments, thereby illustrating a high turnover of instruments held. It also disagreed with the interpretation that the objective of the portfolio determined the classification in substance or in form, for the classification as long term would give the impression to the users of the accounts that the instruments were held for long periods of time/to

maturity, which was not the case. Disclosures are, however, included to explain the objective of these investments to inform the reader as to why they are held.

18. The Board noted the response of UNICEF but holds the view that trading/turnover in these instruments would be driven by the market conditions and the investment policy/strategy applicable to the specific point in time. There may be a situation in which active trading in the instruments may not be carried out for a long period of time. Therefore, taking only high turnover as the basis for classifying the long-term components of the after-service health insurance investment portfolio potentially may not reflect the substantive objectives of these investments.

(ii) Management of foreign exchange

19. UNICEF receives contributions and disburses payments in various currencies. Approximately half of the contributions received by UNICEF are in non-United States dollar currencies, which exposes it to currency risks, leading to the need for managing foreign exchange transactions. UNICEF does not hedge its disbursements/expenditure.

20. During 2019, more than 75 per cent of the foreign exchange was obtained directly through spot trading, with the balance of transactions being hedged. Hedging activities recorded net foreign exchange gains of $19.83 million in 2019, compared with losses of $4.61 million recorded in 2018. The Board noted that the foreign exchange gains or losses were manageable, compared with the level of multi-currency operations and exposure, but in times of high market volatility it could have a significant impact. UNICEF stated that it continuously reviewed hedging coverage of the expected receivables after due consideration of existing market realities, with the goal of principal preservation.

21. The Board noticed that UNICEF had used forward contracts and foreign exchange options for the first time in 2019. While forward contracts do not involve any premium payment, options have a premium cost, which is directly proportional to the risk covered. In addition, UNICEF also used exotic options, the structure of which were designed specifically for UNICEF to meet its desired hedging parameters. The Board noted that exotic options might reduce the cost of premiums, but they also carried a higher risk. UNICEF stated that it was aware of the risks associated with exotic options and regularly monitored such risk, and that the exotic options used by UNICEF served not only to reduce cost but also to mitigate risk and were structured to achieve no worse than the same return as a forward.

22. The Board also noted that the UNICEF hedging policy contained a mention of forward exchange contracts but nothing about the use of other hedging instruments, including options. The policy prescribed hedging limits and a duration for the hedging of receipts, disbursements and investments but nothing with regard to types of instruments that could be utilized and the limits for investing in different types of hedging instruments. Furthermore, the Board did not find an asset allocation strategy for hedging instruments by the UNICEF Financial Advisory Committee. Given the volatility of the foreign exchange market and the availability of a range of hedging instruments and customized products, each with its own associated benefits and risks, it is important that a framework for using different hedging instruments be created in the hedging policy to guide and regulate the investment strategies for the hedging instruments.

23. UNICEF stated that, while options such as hedging instruments had not yet been included in the hedging policy, it had already included the policy update in 2020 workplan following the approval of the Financial Advisory Committee. In addition, establishing limits for option instruments would not provide the flexibility needed in

implementing the hedging strategy. UNICEF believed that the limits already in place at the counterpart level were more effective and adequate in managing risks.

24. **The Board recommends that UNICEF explore revising the hedging policy to include a suitable framework to govern the utilization of different types of hedging instruments, given their associated benefits and risks.**

25. UNICEF stated that it was already in the process of updating the hedging policy.

(iii) Operation of bank accounts

26. UNICEF has adopted different methods for maintaining and disbursing cash/making payments. The house banks are used for large transactions. UNICEF also operates cash on hand accounts.

27. The Board was informed that UNICEF operated 384 bank accounts across its country/regional offices and at headquarters at the end of 2019. UNICEF closed 14 bank accounts in 2019. The Board noticed that five of those accounts had been closed after more than 100 days from the date of sending the account closure letter.

28. UNICEF stated that it had considered prescribing a time limit for completing the closure of bank accounts and found that it was not feasible because it had no control over the length of time that the bank would take to complete the closure process. It would continue to monitor and follow up closely with all stakeholders to ensure the timely closure of bank accounts. UNICEF reported that, in only one case, a replenishment of $302,250 had been posted in error for treasury plus bank charges, which was subsequently reversed.

29. The Board noted that those instances indicated the need to work more closely with the banks to avoid undue delays in the closing of accounts and to strengthen the controls over transactions through the accounts for which a letter for closure had been sent to the banks or that had been closed by the banks.

30. **The Board recommends that UNICEF engage with the banks concerned to avoid undue delays in the closure of accounts and explore introducing the controls necessary to prevent transactions in accounts in which closure has been affected by the bank.**

(iv) Cash on hand account

31. A cash on hand account is one that is held in dollars or a local currency under lock and key by an authorized custodian and that is used where no local banking facilities exists. According to the accounts closure instructions, offices were required to review and reconcile their cash on hand accounts to cash held in the office on a monthly basis and prepare a certificate. The annual certificate must be uploaded and approved in VISION (Virtual Integrated System of Information) within five days of period closure.

32. The Board noticed from a check of available documents for 26 of 52 active cash on hand accounts that, in 9 of them, there were differences (both positive and negative) between the actual cash balance and balance in accordance with the general ledger account, the total difference being $49,559. The Board was informed that net negative difference was due to manual payment vouchers recorded in VISION but not yet paid at the time of certification and that the positive differences were due to manual payment vouchers not yet recorded in VISION at the time of cash on hand account certification. In addition, there were delays in the uploading of the certificate in 10 of those instances.

33. UNICEF stated that the mere presence of reconciling differences did not constitute an erroneous process. In relation to the volume of activity in the accounts,

the reconciling differences were few and related to timing at year-end. Moreover, the difference was not materially significant. Furthermore, completion of cash on hand account reconciliations was monitored monthly and any delays were followed up.

34. Considering that differences were noticed in one third of the accounts checked by the Board, there is need for UNICEF to review existing gaps to identify areas for improvement.

35. **The Board recommends that UNICEF institute a system to monitor the timely uploading of correct cash on hand account certificates that would also assist in further strengthening the reconciliation exercise.**

36. UNICEF agreed to clarify the closure instructions and include in them a calendar of exact dates when both bank and cash on hand account reconciliations needed to be uploaded.

(b) Financial accounting

(i) Classification of property, plant and equipment

37. As at 31 December 2019, the value of property and equipment held by UNICEF was $256.58 million. According to UNICEF financial and administrative policy 7 (property and equipment), property, plant and equipment are categorized into eight different classes, based on the nature of their use and their estimated useful life. Aside from ensuring asset traceability and visibility, correct classification becomes important in the enterprise resource planning system because the system automatically calculates the depreciation and carrying value of the asset on the basis of its classification.

38. The Board noticed an inconsistency in the categorization of 798 items of property, plant and equipment, valued at $9.80 million, which was spread across many country offices. The same type of equipment was categorized under different categories with a different useful life. For example, 34 printers were classified as "other equipment", while another 33 were classified as "infrastructure, information technology and communications equipment". The "other equipment" classification has a useful life of 5 years, while "infrastructure, information technology and communications equipment" has one of 10 years.

39. UNICEF replied that assets were permitted to be capitalized under more than one class on the basis of size, design, scale and purpose. It also stated that the classification was in line with the guidance provided by the Task Force on Accounting Standards.

40. While the Board noted the reply given by UNICEF, it also noted that a similar nature of assets should be capitalized under a common class to avoid inconsistency and ambiguity to the extent possible and that if there were a need to classify the same type of assets under more than one class, there should be clear guidelines to inform such classification. Furthermore, the guidance of the Task Force on Accounting Standards did not specifically cover the highlighted concern. The Board also noted that UNICEF had adopted only eight assets classes of property, plant and equipment, which might need to be reviewed, along with the extent and level of details of the asset classes, taking into consideration the experience over the years.

41. The Board also noticed the following additional issues in the classification of property, plant and equipment:

(a) There were instances in which the categorization and useful life used in the financial statements were at variance with what was prescribed in the UNICEF administrative policy. UNICEF, while confirming this, stated that the classification used in the financial statements was an improvement over the policy and that it was proposed that a revised property, plant and equipment policy be issued in 2020;

(b) Three items of "infrastructure, information technology and communications equipment", which had been acquired in 2019 by the Ethiopia county office, were capitalized, assuming their useful life to be 3 years, instead of 10 years as disclosed in the financial statements. UNICEF acknowledged the errors made by Ethiopia country office and took corrective action;

(c) The country offices of Bangladesh, South Sudan and Zambia had acquired four temporary office structures (office containers) in 2018 and classified them as "temporary and portable buildings", assuming a useful life of 7 to 10 years, whereas the useful life of this asset class is 10 to 25 years. UNICEF stated that errors had been made by the offices listed and that corrective action had been taken.

42. **The Board recommends that UNICEF issue clear guidelines to avoid the classification of the same type of property, plant and equipment under different asset classes, especially information and communications technology (ICT) equipment.**

43. UNICEF stated that the policy and guidance on classification were clear and had been consistently applied for the effective implementation of IPSAS. However, additional guidance and instructions would be issued as part of the roll-out of "mAsset application" and the new property, plant and equipment policy.

(ii) Accounting of fully depreciated assets

44. The Board noted that 6,099 items of property, plant and equipment with an acquisition value of $72.77 million had been fully depreciated as at 31 December 2019, with their carrying value reduced to zero. Similarly, 75 items of intangible assets with an acquisition value of $8.33 million had been fully amortized as at 31 December 2019. However, the fixed assets with their book value reduced to zero continued to appear in the asset register and financial statements.

45. IPSAS 17: Property, plant and equipment requires that an annual review of the value of the asset be conducted, and if it is felt that the asset will continue beyond its useful life, a reassessment of the useful life is therefore called for. UNICEF stated that an annual review of estimates of the useful economic lives of assets had been carried out and was based on the annual review undertaken in 2019, and that no material impact had been identified. The Board noticed from the review report that a total impact of $36.12 million on the net book value for assets had been identified owing to changes in accumulated depreciation, but that the adjustment had not been made in the financial statements.

46. **The Board recommends that UNICEF make the necessary adjustments identified after the review exercise in the book value and accumulated depreciation/amortization of these assets.**

47. UNICEF stated that it was in the process of reviewing the useful lives of assets. With the planned change in the capitalization threshold, which would remove many of the old assets, it was decided that useful estimated lives were best reassessed again after the roll-out of mAsset and the revised policy. This will be carried out as planned in 2020.

(iii) Quality of census data provided to actuary

48. UNICEF financial statements for 2019 reflect defined end-of-service/post-employment benefits liabilities valued at $1,496.48 million. The measurement of those liabilities was based on the full actuarial valuation report prepared by an external actuary. UNICEF provided the census data/participant data of active and retired employees to the actuary. The accuracy of the actuarial valuation of liabilities depends on the accuracy of the employee data furnished by UNICEF. The Board

reviewed the data supplied by UNICEF to the actuary for completeness, accuracy and consistency. The review was based on the census data available in VISION.

49. The Board noted that the date of retirement in 1,477 cases (approximately 44 per cent of retirees) was missing. UNICEF reported that the date of retirement was not used for the calculation of liability. It also stated that the retiree census data had been prepared on the basis of the consolidation of two sources of data: data prepared by the Global Shared Service Centre and extracted from VISION-SAP, which included the list of retirees managed by UNICEF, and data received from the United Nations and extracted from Umoja. The cases indicated are related to retirees managed by the United Nations. UNICEF also reported that all retirees were considered to be eligible if they had a medical plan code or dental coverage and the date of retirement was not used for the IPSAS valuation of after-service health insurance. The Board noted that not having details of the date of retirement for 44 per cent of the retirees indicated a need for better maintenance of the retiree database, given that it carried the risk of eligibility validation of the participants.

50. Except in cases in which both the former staff member and the surviving spouse are deceased, dependent children may be covered under the after-service health insurance programme until the end of the calendar year when they reach 25 years of age, provided that they are not married or in full-time employment. It was therefore important to capture details of dependents, including separate details of spouse and children. The Board, however, noticed that the database did not have details of dependent children. It also noticed that details of dependents were not available for 74 cases in which there were surviving dependents and 9 cases with medical coverage for more than one individual. UNICEF replied that the actuary per capital claim was based on data provided by the third-party administrators for all insured members, including dependents under 25 years of age. Consequently, the per capita claim implicitly included the claims for dependent children.

51. The Board is of the view that there is a need to improve the quality of the data of retirees maintained in UNICEF by the inclusion of dates of retirement and details of dependent children.

52. **The Board recommends that UNICEF identify key data elements that validate the eligibility of participants for end-of-service/post-employment benefits and incorporate the validation controls necessary to ensure the mandatory capturing of these key data elements in the system.**

53. UNICEF agreed to review and mandate the maintenance of those date fields that affected the after-service health insurance actuarial valuation for UNICEF-supplied data.

(iv) Other disclosure issues

54. Over the course of the review of financial statements, the Board noticed the areas highlighted below in which disclosures in the financial statements could be further improved.

55. UNICEF has not disclosed the threshold value for the capitalization of assets ($2,500). Threshold value of capitalization is an important piece of information for understanding the capitalization policy used for the preparation of financial statements. UNICEF stated that it was in the process of revising the capitalization threshold and would review the materiality and consider the need for such disclosure in the 2020 financial statements.

56. Travel is a significant item of expense, with UNICEF spending $164.66 million on travel during 2019. However, travel expenses are not presented as a distinct line item of expense in its statement of financial performance and are instead included as

part of "other expenses". UNICEF agreed to carry out a review of expense categories for inclusion in the primary financial statement in 2020 and consider revised disclosures, if appropriate.

57. Inventories valuing $60.85 million were available at various field warehouses of the UNICEF country offices, for which grants had expired as at 31 December 2019. This included inventory valued at $20.53 million pertaining to grants that had expired more than one year ago, as noticed from the information generated through the inSight dashboard. The Board noted that that being a substantial amount, the fact should be disclosed as part of the notes to accounts. UNICEF stated that there was no requirement under IPSAS to disclose expired grant information and that it did not believe that doing so was material enough to add value to the reader of the financial statements. However, the Board is of the view that, because most of the UNICEF inventory items had been procured using the earmarked funds and that 16 per cent of inventory pertained to expired grants, a disclosure of the same would add value for readers of the financial statements.

58. **The Board recommends that UNICEF consider disclosing additional information in the financial statements and the accompanying notes for travel to further improve the information available to the readers of the financial statements.**

59. **The Board recommends that UNICEF consider disclosing additional information in the financial statements and the accompanying notes for the capitalization threshold to further improve the information available to the readers of the financial statements.**

60. **The Board recommends that UNICEF consider disclosing additional information in the financial statements and the accompanying notes for inventory from expired grants to further improve the information available to the readers of the financial statements.**

(c) Enterprise risk management

61. UNICEF adopted a risk management policy in May 2009 that constituted part of the Fund's risk management framework. The purpose of the policy was to embed a systematic and consistent approach to identifying, assessing and managing risks across UNICEF using a common risk language. The Board was informed that, building on the enterprise risk management framework, which began in 2009, UNICEF had developed an enterprise risk management strategy in 2019 towards mature risk management to further strengthen processes and accountabilities by integrating a governance, risk and compliance (GRC) system and IT platform. The Board noted that the annual risk assessments of 152 offices for 2019 were available in the eGRC system. Furthermore, the enterprise risk management policy and procedure were being updated and would include appetite and tolerance statements.

62. UNICEF enterprise risk management guidelines provided that all country and zonal offices, regional offices and headquarters divisions are to identify and report on risks to the achievement of their expected programme/office results and management objectives. Significant risks would be reviewed and might be subject to new or revised policies, procedures or guidance. Headquarters divisions and regional offices are also required to review the risks that the relevant UNICEF offices have entered, consider them from an aggregate perspective and include them as part of their annual risk assessment, as relevant/appropriate.

63. The Board noticed from the inSight management reports on risks and their management that data recorded in the risk register were incomplete in several aspects,

with only the risk title being captured in 234 cases,[2] including 5 escalated cases. In addition, in the escalated cases, actions taken to mitigate them by the office to which the escalation was done were not on record.

64. UNICEF stated that inSight did not have capability to track actions and that the same would be provided in the eGRC tool, which would be rolled out in the third quarter of 2020. While accepting that data in inSight would be available as historical data, UNICEF also stated that risk data for 2019 had been captured in eGRC through Excel templates. However, some offices had entered data in inSight for 2019, with a view to capturing and transferring that data into the new eGRC tool when available. Currently, the eGRC tool is being upgraded by the application vendor.

65. The Board noted that keeping information in the inSight reports open to editing had resulted in the continued input of incomplete data into inSight. In addition, the lessons learned were retained at local office levels and could not be accessed by other offices.

66. **The Board recommends that UNICEF ensure that the proposed enterprise risk management framework is implemented at the earliest.**

67. The Board also recommends that UNICEF take action to migrate historical data of risks and actions taken into the eGRC tool so that the lessons learned from previous actions are not lost and to ensure that all historical data are available.

68. UNICEF stated that it had retired the inSight enterprise risk management tool as an operational tool. The migration of the inSight structure to the current format was not supported by the eGRC vendor. Risk profiles for 2019 held by offices in inSight had been captured in the newly developed eGRC system, according to the new taxonomic structure. The risk register of offices in inSight for prior years would be kept there for historical references and could be consulted, as needed.

(d) Budget formulation tool

69. UNICEF decided to implement the budget formulation tool, a web-based application designed to help to improve its ability to link results to resources. The tool was intended to replace the integrated budget costing system, the new budget costing system and the allocation and ceiling tracker with a single web platform to allow for direct data integration (and daily synchronization) with VISION. The budget formulation tool project was conceived in 2014–2015 and initiated in 2016. The overall budget for the project was $5.2 million and a total expenditure of $5.1 million had been incurred for the project as of April 2020.

70. The Board noticed that training for all the offices had been completed by the end of June 2019 and that the budget formulation tool had been made available for use by all, effective 1 July 2019. Thereafter, it was implemented in two thirds of offices. The Board noted that, by mid-July 2019, system performance had slowed to an unacceptable level owing to heavy data-processing, and the budget formulation tool was taken offline so that it could be improved. The Board was informed that the vendor who designed the system had carried out modifications and that the proof of concept of the modified version had been completed in May 2020.

71. The Board had recommended in its earlier report (A/69/5/Add.3) that UNICEF country offices needed to apply fully justified budget assumptions in estimating resources for activities in the multi-year/rolling workplans. The Board had also recommended (A/71/5/Add.3) that UNICEF consider consolidating, at the corporate level, an annual integrated budget containing figures from all the budgets approved by the Executive Board and include budgeted amounts for various activities under

[2] Includes 13 cases in 2019 and 32 cases in 2018.

each outcome at the appropriate business unit level. The need for a fund tracking system to establish links between planned and actual expenditure against the appropriate planning levels was also highlighted in the same report. The Board noted that UNICEF had identified the budget formulation tool as key to implementing those recommendations. With the tool not yet fully operational at an acceptable performance level across UNICEF, action required for implementing those recommendations remained pending.

72. **The Board recommends that UNICEF adopt a mission-mode approach to ensure the successful and expedited implementation of the budget formulation tool.**

73. UNICEF accepted the recommendation.

(e) Donor reporting

74. In section 4.310 of the UNICEF Programme Policy and Procedure Manual, UNICEF is expected, and legally bound to submit reports to donors on the use of contributions. The Board was also informed that the timely submission of quality donor reports was vital for UNICEF to maintain good relations with its donors and ensure future funding.

75. The Board noticed from the donor report monitoring system that, as of April 2020, of 4,336 reports sent to donors in 2019, 256 were delayed in being sent and 335 were overdue and yet to be sent.

76. The Board also noticed that 194 of the delayed reports and 334 of the reports yet to be sent pertained to UNICEF headquarters. Of the 194 reports, 9 had been sent with a delay of 6 to 11 months and 52 with a delay of 1 to 5 months. In addition, of the 334 overdue reports, 106 were overdue for submission by 12 to 15 months and 132 were overdue by 7 to 11 months.

77. UNICEF stated that the number of donor reports had increased and that the percentage of donor reports sent late had decreased from 16 per cent in 2018 to 12 per cent in 2019. It also stated that, in the majority of cases, the delay was attributable to the quality assurance undertaken by the Public Partnerships Division and the need to ensure that the reports submitted by country offices adhered to conditions and quality standards required by donors. Furthermore, in a number of cases, VISION did not reflect the actual submission date, and there were cases in which the data had incorrectly been entered in VISION, even though the donor report was submitted on time. UNICEF also reported that there was a need to make a system adjustment to clean up old, incorrect data and set up a simplified structure in VISION for tracking timely reporting.

78. **The Board recommends that UNICEF strengthen the monitoring and internal controls to ensure the timely submission of quality reports to donors.**

79. UNICEF agreed with the recommendation and reported that it was undertaking a cross-divisional effort to strengthen donor reporting. It also stated that it was migrating from the current report tracker and records management system in VISION to the new donor reporting monitoring system, namely, the donor report tracker, which was scheduled to be completed by the third quarter of 2020.

4. Programme management

(a) Goal Area 2: Every child learns

80. The UNICEF Strategic Plan, 2018–2021 outlines 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 implementation of the 2030 Agenda for Sustainable Development. The concrete actions undertaken by UNICEF towards achieving the goals defined in the strategic plan are the programmatic interventions of UNICEF, which are delivered through country-specific programmes of cooperation and multi-country global programmes.

81. Goal Area 2 is aligned with Sustainable Development Goal 4 (ensure inclusive and equitable quality education and promote lifelong learning opportunities for all) and consists of three result areas: improving learning outcomes, skills development and equitable access to quality education. In accordance with the integrated results and resources framework for the period 2018–2021, resources at the level of $4,055 million were estimated for this Goal Area for the period. The actual expenditure incurred for Goal Area 2 in 2019 was $1.18 billion. The share of expenditure incurred on the three result areas was 65 per cent for result area 1 i.e. (equitable access to quality education), 28 per cent for result area 2 i.e. (learning outcomes) and 7 per cent for result area 3 i.e. (skills development).

(i) Performance measurement

82. The Board was informed that 157 countries had implemented programmes under Goal Area 2 in 2019, with 142 reporting under result area 1, 139 under result area 2 and 112 under result area 3. To measure performance on these result areas, five output indicators were defined under result area 1, four under result area 2 and two under result area 3. Output indicators were categorized into five system strengthening and six service delivery indicators. UNICEF reported that countries working on a given result area did not systematically report on all the components of the system strengthening indicators, but rather only on the component in which they were involved. Accordingly, the number of reporting country offices differs by component.

83. The Board appreciates that performance against these indicators depends on evolving humanitarian situations in a given year and adequacy of funding. While a number of targets were met, the Board noted that the data companion and scorecard for the ongoing midterm review of the Strategic Plan, 2018–2021 had highlighted the need for accelerated efforts to meet off-track targets in educational provision in three service delivery indicators (2.a 4, 2.a 5 and 2.b.1). Details of these targets are as shown in table II.3.

Table II.3
Non-achievement of targets in output indicators

Output indicator	*2019 value*	*Milestone (2019)*
2.a 4. Girls and boys targeted by UNICEF as a share of girls and boys targeted by all partners for early learning or education support in humanitarian situations	54 per cent	64 per cent
2.a 5. Percentage of UNICEF-targeted girls and boys in humanitarian situations who have participated in early learning, primary or secondary education through UNICEF-supported programmes	60 per cent	76 per cent
2.b.1. Number of girls and boys provided with individual education/early learning materials through UNICEF-supported programmes	51.6 million	62 million

84. The Board is of the view that UNICEF needs to review the reasons for the gaps in achievement for these indicators and identify suitable remedial/additional measures. UNICEF reported that targets were not achieved for indicator 2.a 5 because of funding shortfalls, escalating insecurity and targeted attacks on schools, and that performance also depended on the evolution of the humanitarian situations throughout the year. It also stated that the absolute figure of number of beneficiaries are not known at the beginning of the year.

85. The Board was also informed that the system strengthening indicators had, in general, between three and five dimensions, with each dimension having subdimensions. Each subdimension had a corresponding strategic monitoring question and result assessment module standard indicator. If a UNICEF country office has supported a subdimension, it assesses the in-country situation using a 1–4 scale (1 representing “weak” and 4 “championing”). The average of these subdimension scores is used to determine whether the country satisfies the specific dimension and, ultimately, the overall indicator. An average of less than 2.5 is considered a “no” and an average of 2.5 or more is a “yes”. The Board noted the status of the five system strengthening indicators from the data maintained by UNICEF (see table II.4).

Table II.4
Status of scores for output indicators

Output indicator	*Status of scores*
2.a.2. Percentage (and number) of countries with equitable education systems for access, including children with disabilities (including the emergency preparedness/resilience dimension)	37 per cent of countries have an average score of 2.5 or more across all dimensions of equitable education systems for access
2.a.3. Percentage (and number) of countries with gender-responsive education systems for access	38 per cent of countries have an average score of 2.5 or more across all subdimensions of gender-responsive education systems for access
2.b.3. Percentage (and number) of countries with effective education systems for learning outcomes, including early learning	48 per cent of countries have an average score of 2.5 or more across all dimensions of effective education systems for learning outcomes
2.b.4. Percentage (and number) of countries with gender-responsive teaching and learning systems	40 per cent of countries have an average score of 2.5 or more for gender-responsive teaching and learning systems
2.c.2. Percentage (and number) of countries with systems that institutionalize gender-equitable skills for learning, personal empowerment, active citizenship and/or employability	23 per cent of countries have an average score of 2.5 or more across all dimensions of institutionalize gender-equitable skills

86. A number of countries had an average score of less than 2.5, demonstrating that their achievement against the various dimensions of these output indicators was not satisfactory. The Board noted that the target levels for the entire period of the strategic plan (i.e., 2018 to 2021) were already indicated as having been achieved for those indicators. The Board also noticed that, during the ongoing midterm review of the strategic plan, the need for more ambitious targets had been stressed for the following output indicators: equitable systems for access (2.a.2), effective education systems

for learning outcomes (2.b.3) and institutionalization of gender-equitable skills for learning, personal empowerment, active citizenship and employability (2.c.2).

(ii) Performance in selected offices

87. The performance against indicators adopted by each country was captured in the results assessment module reporting, which indicates baseline, milestone, target and actual values for the indicators. The country offices are required to submit reports through the module on the Goal Areas, which are used to track and report on progress for specific strategic plan indicators and global results. The Board reviewed the target set and the annual status of the indicators pertaining to learning and development activities in the Ethiopia, Lebanon and Turkey country offices and noted that status (see table II.5).

Table II.5
Performance in Goal Area 2: programmes

Country office	*Issues noticed*
Ethiopia	UNICEF reported that there were 19 output indicators under learning and development, although only 17 output indicators[a] had been set in the results assessment module. One[b] of the extra indicators was not reflected in the approved module report submitted by the country office and the other[c] was reported as having dropped following the 2017 midterm review.
	Of the 17 output indicators, five[d] pertaining to four outputs did not show improvement from the baseline value in the past two years. The fund utilization status for each output area ranged from 58 to 94 per cent as of December 2019.
	Of the five outcome indicators, three[e] did not show any improvement in past two years and/or the gap between status and target for June 2020 was substantial. In addition, the target was not set against one indicator[f] for the past two years. Accordingly, although the rating for the outcome was given as “on track”, the present status of the outcome indicators did not give sufficient evidence for that rating.
Lebanon	Of 9 outputs, 2 did not have any indicators. There were 57 indicators for the other outputs, but targets and achievements were not captured for 42 of them.
	For the remaining indicators, achievement was not indicated for 1, achievement was either delayed or not achieved for 5, there was partial achievement for 5 and 4 were achieved.
Turkey	Of 9 indicators for 3 outputs, 5 were achieved and 4 were partially achieved.

[a] Outcome indicators measure the result of the programme and the output indicators assess the result of activities involved in the programme.
[b] Number of children benefiting from early childhood education through alternative approaches with UNICEF support.
[c] Education systems are implementing a minimum package of interventions to promote learning outcomes.
[d] Early learning policy and early learning programme ensuring parental and community involvement; early learning policy and early learning programme, including quality early learning curriculum and standards; implementation of classroom assessment; education management information system that transparently feeds findings back to communities or school management committees; and education sector policy/plan with quality prevention and response mechanisms to address gender-based violence in and around schools.
[e] Gender parity index at primary and secondary levels; gross enrolment rate; and out-of-school rate for girls and boys of primary and lower secondary school age.
[f] Learning outcomes improvement: proportion of students who score 50 per cent or above the composite score in the national learning assessment.

88. In case of the Ethiopia country office, UNICEF replied that indicators were not on track for most of 2018. In 2019, two of the five outcome indicators were fully achieved, with some progress in two others, while one was not achieved. UNICEF also stated that, in 2019, notwithstanding the lack of improvement in the output indicators detailed in table II.5, 82 per cent of the output indicators under "learning and development" were either rated as fully achieved or partially achieved. The Board also noted that, against an expectation of resources of $53.02 million for the outcome related to learning and development at the beginning of the country plan (2016), the funding available was higher, at $69.38 million, against which $54.67 million was utilized. The Board was informed that the ceiling for the programme had been surpassed because of emergency funding, which was mobilized in response to the emergency educational needs.

89. In the case of Lebanon and Turkey, UNICEF stated that indicators that did not have targets for 2019 should have been deactivated in the system and should therefore not appear as active. UNICEF assured the Board that, in collaboration with the Lebanon country office and the Middle East and North Africa Regional Office, the inactive indicators would not appear in the results assessment module reporting. It also stated that, in the case of Turkey, the reason for indicators presenting as partially achieved was because they related to multi-year interventions resulting from the need to strengthen systems or interventions affected by unforeseen circumstances.

90. The Board noted the need to review the reasons for the gaps in the level of achievement of indicators to identify suitable remedial measures. The present status carries inherent risk to programme planning and monitoring and to the accuracy and completeness of reporting against achievement for strategic and country-level plans.

91. **The Board recommends that, in the interest of organizational efficiency and maintaining uniformity, UNICEF review the output indicators and their application and assessment across the country offices.**

92. **The Board recommends that UNICEF review and strengthen its programme monitoring system in order to ensure the effective achievement of planned results.**

93. UNICEF accepted the recommendation and stated that the development of a central indicator dictionary in results assessment module 3.0 was under way in order to streamline indicator selection and to promote alignment across country offices in future. It is envisioned that it will streamline the selection of indicators and promote alignment across country office in future application and assessment, which would be overseen at the regional level.

(b) Programme performance and measurement: Eastern and Southern Africa region

94. The Board studied the programme performance of UNICEF in the Eastern and Southern Africa region and the Ethiopia country office. It noted the status of implementation of the UNICEF Strategic Plan, 2018–2021 and the five regional priorities for Eastern and Southern Africa for the same period through its defined outcome and output indicators (see table II.6).

Table II.6
Eastern and Southern Africa: achievement of outcome and output indicators

Programme area	*Indicator level*	*Total number of indicators*	*Met*	*On track*	*Partially met*	*Constrained*	*Not met*
Survive and thrive	Outcome	59	13	32	7	6	1
	Output	160	49	88	8	11	4
Learn	Outcome	22	3	11	3	5	0
	Output	56	17	35	2	2	0
Protection from violence and exploitation	Outcome	36	13	19	1	3	0
	Output	89	28	45	7	9	0
Safe and clean environment	Outcome	18	3	11	2	2	0
	Output	47	13	25	3	5	1
Equitable chance in life	Outcome	25	6	12	2	5	0
	Output	51	11	31	4	5	0

95. The Board noted that outcomes were the result of programmes, while outputs were the results of the activities involved in programmes. Notably, although 5 outcomes were constrained in Goal Area 1, only two outputs were recorded as constrained, demonstrating that all other activities (pertaining to another 54 output indicators) were not constrained. The Board also noticed that there were 26 indicators for programmes implemented by the Eastern and Southern Africa Regional Office, pertaining mainly to programme support for country offices and management practices areas, in accordance with the information available in the results assessment module. Among those indicators, data were not available for six, a rating of "fully achieved" was accorded to three, even though targets were not achieved, and a rating of "partially achieved" was accorded to one,[3] even though its current status fell below the baseline figure.

96. UNICEF stated that data were unavailable for several indicators, which created difficulties in assessing progress, and several challenges/gaps in definitions, data sources and alignment with results had been identified. It also stated that the process of understanding the challenges/weaknesses in reporting and identifying the proposed changes to rationalize the results framework reflected through midterm review was under way. Human error in manually transferring reporting from an offline template to the results assessment module in the system had been noted and would be addressed.

(i) Status of achievement in the Ethiopia country office

97. In the Ethiopia country office, 31 outcome indicators (15 standard and 16 additional indicators) were set against six programme components, in accordance with the information available in the results assessment module. The Board noted the status of those indicators, as shown in table II.7.

[3] Number of countries with at least 90 per cent of children less than one year old receiving three doses of the diphtheria/tetanus/pertussis pentavalent containing vaccine.

Table II.7
Status of programme achievements in the Ethiopia country office

Programme component	*Rating for programme component in results assessment module*	*Number of outcome indicators*	*Indicators without improvement or with substantial gap, compared with the 2020 targets*	*Indicators where there is no target for 2019*	*Percentage of fund utilization as part of the country plan*
Health	On track	6	1	0	94.19
Nutrition	On track	5	2	0	87.91
WASH	On track	4	2	0	76.62
Learning and development	On track	5	3	1	78.80
Child protection	On track	6	2	3	85.14
SPESI	On track	5	3	0	77.94
Total		**31**	**13**	**4**	–

Abbreviations: SPESI, social protection and evidence for social inclusion; WASH: water, sanitation and hygiene.

98. The Board is concerned that, even though progress was shown to be "on track" for all the programme components, the majority of the indicators were without improvement and without targets for 2019 in at least three of the programme components.

99. The Board also noticed that ratings given in the results assessment module were inconsistent with the actual achievements or status of targets for nine of the outcome indicators. Furthermore, data pertaining to the status of four outcome indicators in the programme area of child protection were incomplete in the module. The Board is of the view that this is a major weakness in the way the programmes concerned were planned and monitored in the Ethiopia country office.

100. Total planned resources for the country plan for the period 2016–2020 were $449.95 million, against which the actual allotment was $720.44 million, and the actual utilization was $609.45 million until 2019. In nearly all the programme areas, other than health, the allotment has been higher than planned, with actual allotment ranging from 97 and 287 per cent. The utilization of funds against the allotment, however, ranged from 77 to 94 per cent, with seven months left before the closure of the country programme. The Board noted that that status showed deficiencies in resource planning during the integrated budget stage in the country programme management plan. Moreover, the linkages between the resource requirement projections and the actual resource generation efforts were also not clear.

101. UNICEF stated that an anticipated reduction in regular resources could not be achieved. The difference between the planned and allocated amounts and lower utilization of funds was because the current allocations included funds to be moved to the new country programme. It was reported that the Ethiopia country office had also received some other resource grants for emergency response. The Board noted that the actual fund utilization itself was more than the planned amount for the entire country plan period, although there were no revisions to the targets for the country plan document for the period 2016–2020.

102. Given that the total fund allotment was 1.6 times the planned resources for the programme components and that the actual utilization had exceeded 84 per cent of that allotment, the present level of achievement of targets under different outcome indicators reflected significant risks to the achievement of the country plan targets and the need for a review of the planning and implementation of ongoing programmes in the Ethiopia country office.

(ii) Gaps in indicator framework

103. The Board reviewed the outcome for each programme component in the country plan of the Ethiopia country office. The country plan document listed the key outcome indicators for assessing the results generated by the programmes. The Board noted that some outcome indicators used in the results assessment module did not meet/fully cover the requirements of country plan. It also noted that the gaps in the outcome indicators in the results assessment module carried the potential risk of affecting the planning, implementation and reporting of programmes to achieve the targets contained in the Ethiopia country plan. UNICEF stated that some of the observations on gaps identified at the outcome level were covered by output indicators. In addition, it said that the main reason for not including some specific indicators was the regional office’s guidance to limit the number of indicators to four.

104. The Board noted that outcome indicators measured the result of the programme and that the output indicators assessed the result of an activity. Accordingly, they are not interchangeable. In addition, except for water, sanitation and hygiene, all other programme components had more than four outcome indicators and that, therefore, indicators were not restricted to four. The Board is concerned that, in the absence of measurement of outcomes through specific outcome indicators for the requirements of the country plan, it would be difficult to assess the effectiveness of the implementation of these programme components. The Eastern and Southern Africa Regional Office’s peer review of the Ethiopia country office in 2018 also highlighted the consistency between the results and indicators that still required improvement.

(iii) Issues in baseline figures

105. The Board noticed gaps in the baseline figures taken in the results assessment module. Compared with the achievement at the end of the previous country programme for Ethiopia (2012–2016), a baseline value for the current country programme was much lower for two outcome indicators (health and learning and development). The Board also noticed that the baseline values shown in the results assessment module in respect of six outcome indicators did not match those in various reports/documents published by different agencies, including Government of Ethiopia ministries and the World Health Organization (WHO).

106. UNICEF explained that the variation in one of the indicators was due to a change in data source. It also stated that efforts were in place to improve data quality through sectoral administrative data systems and that the most recent data sources were used on the basis of the change in situation and context. Officially recognized national reports were also preferred. Furthermore, UNICEF explained that humanitarian crises and emergencies had had an impact on the achievement of the indicators.

107. The Board appreciates the challenges and constraints regarding data quality. The Board is, however, concerned that the current status indicates risks in the way in which current programmes are planned, implemented and monitored by using these baseline data sets. There is a need to review the data quality and take the measures necessary to update the baseline data.

108. The Board noted that, along with gaps in the achievement of outcome and output indicators, the indicator framework and data quality in the results assessment module also suffered from various deficiencies in the Ethiopia country office. The Board is concerned that the current status carries inherent risk to the programme planning and monitoring and to the accuracy and completeness of reporting against achievement for strategic and country-level plans in the country office.

109. **The Board recommends that UNICEF carry out an analysis of the reasons for gaps in the achievement of country plan targets in the Ethiopia country office and identify the remedial measures necessary to improve the achievement of the objectives and targets of the country plan in the country office.**

110. UNICEF disagreed with the audit recommendation because it was based on the outcome indicators, the achievement of which was also dependent on other partners and contributing factors that were beyond the scope and control of the Ethiopia country office. While not accountable for the outcomes, the country office contributes to them through outputs. For the current country plan cycle, UNICEF was required to mirror the nationwide targets set by the host Government in the development plan. Going forward, for the new cycle, the targets will be more realistic because they do not mirror the national targets.

111. The Board noted that outcomes were the result of programmes, while outputs were the result of the activities involved in programmes. Outcome indicators have been identified in the targets in the country plan document, the achievement of which should drive the functioning of the country office concerned. The Board is concerned with the response of UNICEF that the country office is not responsible for the targets planned in the country plan and holds that UNICEF needs to review its position in order to identify necessary mitigation measures.

112. **The Board recommends that UNICEF review and strengthen the quality assurance process for the results assessment module and ensure that the online version of the module is updated in a timely manner in the Ethiopia country office.**

113. **The Board also recommends that UNICEF explore ways to strengthen the evaluation and internal assurance processes to introduce improved accuracy into the reporting of baselines and achievements in the Ethiopia country office.**

114. UNICEF acknowledged the recommendations and stated that, beginning with 2019 year-end reporting, the Eastern and Southern Africa Regional Office had been undertaking improved management of the results assessment module reporting so that it was focused on enhancing accuracy in data entry and enhancing section chiefs' accountability in reporting. The Ethiopia country office would establish a mechanism for quality assurance in setting targets and baselines with the Government and for the results assessment module reports and a rigorous review of ratings. Furthermore, the country office would conduct a review of the existing quality assurance process for baseline data and achievement data to ascertain existing gaps and would develop a new and improved mechanism for quality assurance.

(c) Emergency programmes

115. The "Other Resources – Emergency" funds available to UNICEF for 2019 stood at $2.04 billion received in response to the revised humanitarian action for children appeals of $4.13 billion.

116. Donor commitments to those appeals accounted for 50 per cent of the funding levels required. The status of achievement of the key results in 2019 under different areas is presented in table II.8.

Table II.8
Achievement of key results for countries in the 2019 funds for humanitarian action for children appeals

Area	*Target (number of beneficiaries)*	*Achievement (percentage)*
Nutrition	4 559 854	79
Health	31 837 381	95
Wash	41 102 171	95
Child protection	4 567 772	84

Area	*Target (number of beneficiaries)*	*Achievement (percentage)*
Education	11 657 301	60
Cash transfers	1 958 982	55

Note: Targets are from countries that are part of the 2019 humanitarian action for children appeal, and the December 2019 results (achievement) are based on the 2019 consolidated emergency reports and year-end situation reports.

117. UNICEF stated that it could reach only 60 per cent of its education targets because of funding shortfalls, escalating insecurity and targeted attacks on schools. Achievement was low in cash transfers because of limited technical expertise in programme implementation, limitations in the scaling-up of programme implementation and the lack of a long-term funding commitment.

118. UNICEF also stated that, in order to address the constraints in education, it planned to continue to strengthen its service delivery through partnerships, innovative and portable delivery, system strengthening, learning support for children on the move, and the provision of alternative pathways such as accelerated education to support children who had missed out on education. It further stated that it would roll out a capacity-building strategy in all seven regions in 2020 and implement a fast-track training approach in targeted countries to address the issues with respect to cash transfers.

(i) Preparedness for emergency response

119. The Board noticed that UNICEF had issued a procedure on preparedness for emergency response to enable an effective and timely emergency response to a humanitarian crisis. The procedure provided that headquarters set the minimum preparedness standards and minimum preparedness actions for country offices, regional offices and itself. These standards represent a minimum level of preparedness, and the key measurement of preparedness is therefore fulfilment of the minimum preparedness standards based on a self-assessment for all offices. The preparedness products are then uploaded to the emergency preparedness platform, the online tool for implementing the UNICEF procedure on preparedness for emergency response.

120. The Board noticed that there were various gaps in the way that the emergency preparedness platform was being utilized by the regional and country offices to analyse risks, self-assess and monitor their operational preparedness as envisaged in the procedure. The following issues were noted:

(a) The procedure provides that country offices have to complete a four-step preparedness planning process every year. This includes a review of country risk profile every six months and the approval of annual preparedness plans every 12 months. The Board noticed that, for 42 country offices, the preparedness plan approval date was more than one year old and that 21 of them were categorized as high risk, 11 as medium risk and 10 as low risk. However, during the review of preparedness, 23 of those country offices were given a perfect score of 100 per cent. That status also reflected that a delay was not being factored into calculating scores for the offices;

(b) Minimum preparedness standard 9 was related to preparedness regarding cash-based interventions (i.e., cash transfer to beneficiaries). The Board noticed that, in 53 countries, the preparedness was assessed to be below satisfactory levels, which include 32 categorized as high risk. In addition, in 25 countries, minimum preparedness standard 9 was assessed as not applicable. The Board noted that the cash-based transfer programmes in response to humanitarian crises were increasing and, in that scenario, it was more important for the offices to fulfil the minimum preparedness standards, with the high-risk countries striving to undertake steps beyond the minimum to improve their readiness to respond to emergencies;

(c) The procedure on emergency preparedness provided that all regional offices were to complete their preparedness planning in the emergency preparedness platform by 31 July 2018. In addition, beginning from 2019, all the offices had to reassess their progress in meeting the minimum preparedness standards within three months from approval of their preparedness plan. The Board noticed that, from the data extracted from the emergency preparedness platform, for three regional offices (West and Central Africa, Middle East and North Africa and Europe and Central Asia), the preparedness score had been assessed as 0 per cent. UNICEF stated that it was due to the fact that those regional offices had developed their plans on paper, given that the regional office track in the platform was not available at the time that they produced their plans;

(d) The Board also noticed that, with regard to the Europe and Central Asia region, the emergency preparedness platform module dashboard reflected that most of the countries had a low score in minimum preparedness standard 9 and that only two countries had demonstrated full compliance with that standard. The Board was informed that minimum preparedness standard 9, introduced in 2018, referred to emergency preparedness related to humanitarian cash transfers and that the scores reflected offices' self-assessment based on compliance with that standard. Low scores in 19 of 21 offices resulted from minimum preparedness standard compliance, representing a specific risk context. Middle- and upper- income countries with low risk levels, as in Europe and Central Asia, deliver a cash-based humanitarian response through national social protection systems, and therefore preparedness is focused on local capacity.

121. UNICEF stated that, in line with the emergency preparedness procedure, offices prepared their initial emergency preparedness plans. However, utilization of the emergency preparedness platform was optional and the reason why many offices kept their plans on the SharePoint site. Full utilization of the platform was in progress, and a move by all regional offices' plans to the emergency preparedness platform had been planned for the first half of 2020. That action was pending owing to the coronavirus disease (COVID-19) pandemic and related response. UNICEF also stated that penalizing the country offices that did not comply with the process requirements would be included in the new emergency preparedness platform, including changes to the scoring system, which was to be rolled out in October 2020. It further stated that a global review of the emergency preparedness procedures, including minimum preparedness standards had commenced in 2018. The Europe and Central Asia Regional Office was actively involved in determining the requirements to be applicable across different country/risk contexts. In March 2020, the new UNICEF procedures were released with revised minimum preparedness standard guidelines available on the emergency preparedness platform. The Regional Office will roll out the new guidance for countries to register their expected improved compliance score in the platform.

122. **The Board recommends that UNICEF ensure the effective utilization of the emergency preparedness platform for risk analysis and planning for preparedness for emergency response in all the regional and country offices, as envisaged in the procedure.**

123. UNICEF agreed with the recommendation.

5. Management of cash transfers

(a) Assurance activity and monitoring mechanism of implementing partners

124. Cash transfers represent a large part of the spending of UNICEF and are a key modality of programme implementation to achieve its strategic objectives. UNICEF expenses on cash assistance during 2019 were $2.35 billion, representing 38 per cent of total expenses. Among the regions, the Middle East and North Africa region had the highest direct cash transfer expenses, at $852.11 million, followed by the West and Central Africa region at $452.70 million, the Eastern and Southern Africa region at $450.98 million, the South Asia region at $216.94 million, the Europe and Central Asia region at $181.48 million, the East Asia and the Pacific region at $91.76 million and the Latin America and the Caribbean region at $83.94 million.

125. The harmonized approach to cash transfers is used for transferring cash to implementing partners. UNICEF adopted the harmonized approach to the cash transfer 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 macroassessments of the public financial management environment within programme countries; 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; and assurance plans based on the risk rating of the implementing partner in the microassessment.

126. A total of 102 country offices met or exceeded the minimum requirements for programmatic and financial assurance. The Board noticed that there were shortfalls in the achievement of programmatic visits in 8 country offices and in spot checks in 17 others, as detailed in table II.9.

Table II.9
Shortfalls in assurance activities

Region	*Activity*	*Range of shortfall (percentage)*	*Number of countries*
East Asia and the Pacific	Programmatic visits	34	1
	Spot checks	20–40	2
Latin America and the Caribbean	Programmatic visits	20	1
	Spot checks	15–50	5
Middle East and North Africa	Spot checks	29–94	3
West and Central Africa	Programmatic visits	14–28	6
	Spot checks	14–80	7

127. UNICEF attributed the shortfall in assurance activities in some countries to unanticipated circumstances, including natural disasters, armed conflict and restrictions on access to sites for conducting assurance activities, which had prevented the country office from fully meeting the requirements for the year.

128. The Board noted the efforts made by UNICEF and its country offices to complete the assurance activities, notwithstanding the challenging and changing environment. The Board is of the opinion that there is a need to explore ways to further improve and keep making sustained efforts to further strengthen the assurance activities.

129. UNICEF agreed that sustained efforts were required to effectively manage risk and obtain assurance regarding the cash transfers to implementing partners. It has implemented a firm and comprehensive framework for the effective and efficient implementation of assessment and assurance activities and monitoring and technical support at all levels of the organization. UNICEF headquarters, regional offices and country office management address any shortfalls through the existing monitoring mechanisms and applicable guidance.

130. With regard to the Eastern and Southern Africa Regional Office, although the overall targets for required programmatic visits and minimum required spot checks were met, the following issues were noticed:

(a) In the case of 39 implementing partners, no programmatic visit was conducted, which had outstanding direct cash transfers of $107.26 million, with $3.58 million outstanding for more than six months. In addition, spot checks were not conducted in the case of 63 implementing partners, which had outstanding amounts;

(b) In the case of 21 implementing partners, neither any programmatic visit nor spot check was carried out. The implementing partners had an outstanding direct cash transfer of $49.35 million, with $3 million outstanding for more than six months.

131. UNICEF, while acknowledging the need to prioritize the achievement of minimum requirements for all partners, stated that teams were being asked to prioritize the liquidation of those amounts by the relevant implementing partners.

132. **The Board recommends that UNICEF identify the reasons for gaps in achieving the minimum level of assurance activities and take urgent action to ensure that, at the very least, the minimum level of spot checks is carried out for all the implementing partners in the Eastern and Southern Africa region in a timely manner, and in this regard reiterates its recommendation (A/74/5/Add.3, para. 79) that UNICEF review the status of assurance in other country and regional offices and take the measures necessary to fill the gaps.**

133. UNICEF stated that it agreed with minimum required financial assurance (spot checks) for the Eastern and Southern Africa Regional Office implementing partners for reported cash transfers in 2020. It also stated that, for programmatic monitoring (programmatic visits), the target had in fact been met for the Regional Office for the period under review. However, the Regional Office had inadvertently omitted populating the harmonized approach to cash transfers (HACT) status report in inSight for 2019 to reflect that. UNICEF completed the exercise in the first quarter of 2020.

(b) Direct cash transfer to beneficiaries

134. Direct cash transfers are made to individuals or households to protect them from the impact of humanitarian crisis. UNICEF has been implementing direct cash transfers to beneficiaries in various countries. The Board noticed that the total amount of direct cash transfers to beneficiaries in 2019 was $191.72 million, with Yemen constituting 91 per cent of the total cash transferred ($173.84 million).

135. The Yemen emergency crisis response project was undertaken in response to the humanitarian crisis created by the conflict in Yemen. One component, the emergency cash transfer project, is aimed at providing emergency cash transfers to the poor and vulnerable in response to the food crisis. The Board was informed that the project had been implemented by UNICEF at the request of the World Bank.

136. The project is supervised by the Project Management Unit of UNICEF, whose team members are located Amman and Yemen. With regard to the implementation of the project, UNICEF has engaged a facilitation agency to negotiate access and support for the project, payment agencies to distribute cash to beneficiaries and a third-party

monitoring organization to provide independent monitoring of the project and a self-administered grievance redressal mechanism.

(i) Identification of beneficiaries

137. While taking over the project, UNICEF adopted the list of 1.5 million beneficiaries who were registered with the Social Welfare Fund, a social safety net programme of the Government of Yemen, which was in receipt of technical assistance from various international agencies. The list of beneficiaries was prepared prior to the conflict and was not reviewed by UNICEF while taking over the project.

138. UNICEF stated that it had adopted the Social Welfare Fund list of beneficiaries in accordance with the financing agreement with the World Bank. UNICEF is the custodian of the list and has no authority to remove or add beneficiaries. The use of a pre-conflict list without changes has been a condition imposed by the World Bank justifiable on the basis of a political, economic and technical factors.

139. However, UNICEF has also accepted that, in the current environment, many more households have fallen into poverty because of external factors such as economic slowdown/contraction and the non-payment of salaries. The socioeconomic condition of the people in Yemen has deteriorated since the outbreak of hostilities in the country. Therefore, the pre-conflict targeting formula used for identifying beneficiaries would not be meaningful or valid for the current scenario. However, a new formula for identifying beneficiaries is not feasible without collecting more recent data. UNICEF also stated a different social protection intervention was required, which would focus on labour market activation and economic recovery.

140. The Board noted that, in view of the prevailing situation, UNICEF had assessed and accepted the risk of implementing a programme on the basis of a list of beneficiaries drawn up in 2014.

(ii) Progress in implementation of the project

141. The third-party monitoring organization submits reports in which it evaluates the performance of the project by using eight key indicators at the end of each payment cycle. The Board noted a few significant issues from those reports:

(a) In the six cycles of payment (up to 31 December 2019), cash could not be transferred to approximately 9 to 14 per cent of the beneficiaries. UNICEF stated that it conducted regular analyses of unpaid beneficiaries to strengthen its outreach efforts and that there were different factors that explained the shortfall, such as death, loss of identity documents and displacement, which are monitored by UNICEF;

(b) Against the target of 90 per cent of beneficiaries receiving proper information from facilitators about payment location, time and date, the reported achievement remained between 23 and 32 per cent in the first five cycles. The Board was informed that the indicator did not accurately reflect the emergency cash transfer model for cash delivery and had been revised in the sixth cycle, focusing instead on the facilitation network, which improved the achievement rate;

(c) Some beneficiaries had to travel long distances to reach the payment site. UNICEF reported that the third-party monitoring organization was reviewing that aspect and working to ensure alignment of the indicator measuring distance travelled by beneficiaries with the project parameters to measure the percentage of beneficiaries who walked more than two hours or travelled more than 10 km to reach a payment site (20 km for war-affected districts) and provide more disaggregated analyses to better understand the indicator and guide corrective measures. The total number of payment sites increased from 1,117 in the fifth cycle to 1,276 in the sixth cycle, and efforts were continuing to increase the coverage of mobile payment sites to reduce travel time;

(d) Against the target of at least 60 per cent of beneficiaries who are provided a higher level of satisfaction and 35 per cent having a neutral opinion, the achievement was less than 40 per cent for the former in all the cycles, and 55 per cent for the latter in five of the cycles. UNICEF reported that constant feedback had been provided to the banks for improvement, which was expected to continue, notwithstanding emerging challenges, including the COVID-19 pandemic and other contextual challenges;

(e) The target that at least 85 per cent of the beneficiaries should be able to receive payment in the first attempt was achieved in the fifth and sixth cycles. The Board noticed that, although the target was achieved, only 24 per cent of beneficiaries at fixed payment sites in urban areas had received the payment scheduling cards and 43 per cent of payment sites in rural areas lacked payment scheduling banners with planned payment dates. UNICEF stated that the scheduling cards had been distributed to only 49 urban districts selected on the basis of the lessons learned on the project regarding the payment cycles where overcrowding had been reported. The main reasons for having to make repeated visits included having to avoid crowds, payment system malfunctions and poor Internet connections for site systems. Recommendations were made to the banks to improve the payment systems and reduce crowding at payment sites. In addition, the payment plan was reviewed thoroughly for an adjustment in the scheduling of beneficiary visits to payment sites to improve the results in the seventh payment cycle.

142. **The Board recommends that UNICEF continue to strengthen the implementation and monitoring of the Yemen emergency cash transfer project, taking into consideration the evolving situation and lessons learned from implementing the project on the ground.**

6. Procurement, inventory and supply chain management

(a) Management of procurement

(i) Procurement through long-term agreements

143. The UNICEF Supply Manual provides that, in general, while long-term agreements are in place and valid, they should be utilized for all requirements that subsequently arise, rather than for conducting new bidding exercises or buying outside the agreement(s). However, for large orders unforeseen at the time of forecasting for the agreement(s) or other situations in which there is reason to believe that better prices or conditions could be obtained through a new competitive exercise, a new tender should be considered.

144. The Board noticed that the Supply Division had issued 7,745 purchase orders in 2019 for 14,751 materials worth $2.4 billion, which included 10,289 standard materials worth $2.26 billion (93 per cent). Of the standard materials, 818 worth $105.5 million (8 per cent of standard material purchased) were not purchased under the long-term agreements. The Board noted that the price of standard materials purchased outside of such agreements was higher in 34 cases (with a total purchase value of $18.8 million) compared with the same materials purchased through agreements during the year. The Board also noticed that there were 182 standard materials ordered in 705 purchase orders, for a total value of $29.75 million, which were not under any long-term agreement, including seven materials valued at $22 million with an individual purchase value of more than $1 million.

145. UNICEF stated that a general conclusion on potential monetary savings could not be drawn and that it was necessary to look at the specific and individual

procurement cases. For example, the long-term agreement price may be for specific eligible groups of countries only. Similarly, with regard to standard materials ordered not under a long-term agreement, the specific cases would need to be examined and no generic conclusion could be drawn that the agreements would improve the terms. On the basis of the product-specific approach for most standard materials, the Supply Division seeks to establish long-term agreements where they are seen to provide better value for money and/or efficiency gains. UNICEF added that it was not obliged to conduct its procurement activities through the establishment of long-term agreements, and the provision in the departmental procedure was needed for UNICEF to have the flexibility to seek other options, when needed (e.g., in terms of value for money, limitations of the established long-term agreement, technological limitations or emergency situations).

146. The Board noted the reply given by UNICEF. However, no specific justification was provided for procurements outside the long-term agreements at higher prices in the 34 cases and for not establishing agreements for the 182 standard items. The Board is of the view that specific reasons for deviating from the long-term agreement mechanism in the procurement of standard items should be clearly recorded, which were not noticed from the data provided.

147. **The Board recommends that UNICEF ensure that specific reasons and justification be recorded for each case in which purchase orders are placed outside the relevant long-term agreements.**

148. UNICEF stated that, in accordance with the existing procedures, if a purchase order or institutional services contract were raised for goods/services that were available under a valid long-term agreement and the purchase order/services contract was placed outside such an agreement, then procurement staff would be required to provide proper justification for not utilizing the existing agreement in the contracting document's internal notes in VISION. In addition, the total value of cases in which the price of standard materials purchased outside the long-term agreements was higher than the same materials purchased through agreements during 2019 represented 0.83 per cent of the value of standard materials purchased in the year, which was understood to be immaterial. UNICEF also stated that, for most standard materials, the process already involved a feasibility assessment and cost-benefit analysis of the potential establishment of long-term agreements for each commodity/service and that there were various factors that made the establishment of an agreement less beneficial.

149. While the Board appreciates the response given by UNICEF, detailed reasons for procurements outside long-term agreements at higher prices and for not establishing these agreements for the standard materials were not provided, in the absence of which, the Board was unable to verify the justification for the decisions taken in those specific cases.

(ii) Local procurement authorization

150. A UNICEF Supply Division procedure provides that the purpose of local procurement authorizations is to provide country and regional offices with the benefit of the Division's expertise to ensure that the local or regional procurement is conducted in accordance with the rules and regulations, meets required quality standards and is in the best interest of UNICEF, and to allow the Division to monitor all such activity. The UNICEF Supply Manual provides that an authorization must be received before initiating the bidding exercise and issuing the solicitation documents.

151. The Board noticed that the Supply Division had issued 159 local procurement authorizations during 2019 for local procurement by 68 country offices as ad hoc local procurement authorizations, blanket local procurement authorizations

(non-construction), local procurement authorizations (construction) or local procurement authorizations (procurement services). On the basis of an analysis of those cases, the Board noticed the following:

(a) Of 39 ad hoc local procurement authorizations, in 20 cases, in which medicines and nutrition items of $37,985.52 had been procured locally by one country office, the tender process/solicitation process was initiated in September 2017, well before the issuance of ad hoc local procurement authorizations;

(b) Of 22 blanket local procurement authorizations, in 20 cases, amounting to $50,866,754.91 (19 blanket local procurement authorizations) and 3,117,372,600 West African CFA francs (one local procurement authorization), ready-to-use therapeutic food and medicines had been procured in 11 countries. In all those cases, the tender process/solicitation process was initiated in October and November 2018, before the issuance and approval of the local procurement authorizations.

152. UNICEF stated that most nutrition products, in particular ready-to-use therapeutic food and medicines required quality assurance assessment and approval prior to undertaking any procurement. The standards and technical specifications for those products were established globally and validated by the Supply Division. Thus, local procurement authorizations for those products could not be issued by the Division prior to the approval of the products, suppliers and manufacturing sites. The quality assurance assessment was done only for the offers received through tenders issued by UNICEF, whether by the Division or the country office in coordination with the Division. Tenders therefore always preceded the issuance of local procurement authorizations for medicines and most nutrition products, in particular ready-to-use therapeutic food. In those specific cases, the ad hoc ready-to-use therapeutic food was issued again (they had previously been issued in 2017 and 2018) on the basis of the results of the 2017 tender process.

153. The Board took note of the explanation provided by UNICEF. However, the Board also noted that the provision in the Supply Manual was applicable for the requirement of a quality assurance assessment and approval of ready-to-use therapeutic food only and that it did not specifically provide that quality assurances be done after the bidding. Furthermore, in two of the ad hoc local procurement authorizations cases, even the date of the local procurement had been before the date of issue of the authorization. The Board could not verify the status of the date of local procurement in the blanket local procurement authorizations cases owing to a lack of data regarding the same. In a different case of the local procurement of vaccines in one country office, the purchase order had been issued a month before issuance of the local procurement authorizations by the Supply Division.

154. **The Board recommends that UNICEF analyse the reasons why procurements had been done before the local procurement authorizations were issued by the Supply Division and take necessary corrective action.**

155. UNICEF agreed with the recommendation and stated that it would analyse the reasons why the three purchase orders contained issue dates earlier than the date when the local procurement authorization was issued and take the necessary corrective action.

156. **The Board also recommends that UNICEF clarify the provisions of the Supply Manual and related procedure documents regarding the processes and steps required for the issuance of local procurement authorizations for different products, especially in the case of ready-to-use therapeutic food and medicines.**

157. UNICEF agreed with the recommendation and stated that it would finalize its ongoing revision of the Supply Manual and the relevant Supply Division procedure to

further clarify the local procurement authorizations processes/steps required, especially in respect of authorizations for ready-to-use therapeutic food and medicines.

(b) Inventory management

158. UNICEF purchases and supplies materials to implementing partners and national Governments in support of the various programmes implemented by them. These include nutritional materials, vaccines, medicines and medical stores, as well as educational material. The Board was informed that UNICEF was deemed to have control of the supplies when the ownership was handed over by the supplier or when the supplies had been delivered to UNICEF warehouses, and that UNICEF benefited from the supply and could regulate the access of others to that benefit. When vendors ship the materials, control passes over to UNICEF based on Incoterms.[4] When goods are shipped directly to implementing partners and received by them, these goods are not considered part of UNICEF inventory. Materials are recorded as inventory in the UNICEF books (either as goods in transit or in inventory warehouse) when they are under UNICEF control.

159. During 2019, $981.63 million worth of supplies were transferred to the implementing partners and national Governments implementing various UNICEF-supported programmes. UNICEF held $380.39 million worth of materials in its inventory.

(i) Inventory turnover

160. The Board analysed financial ratios for inventory management using inventory turnover and days in inventory, which indicates the number of days for which materials are held in inventory before being issued for the programmes. The Board noted that the average time in inventory for 2019 was 140 days, compared with 134 in 2018, and that the inventory turnover ratio was 2.62 in 2019, compared with 2.72 in 2018. Further analysis revealed that, during the year, consumption of inventory was slower in the first three quarters and increased in the last quarter of the year. The Board did not notice any comparable industry standards for benchmarking those ratios but noted that days in inventory for WHO was 84 days and that for the World Food Programme, it was 98 days during 2018.

161. UNICEF stated that inventory turnover ratios calculated from data extracted from VISION were 3.29 for the Supply Division, 6.22 for the country offices and 5.87 for UNICEF as a whole, and that the number of days taken to transfer/issue inventory to users was 97.9 for the Division and 32 for country offices. The Board noted that those ratios were not calculated using the figures in the financial statements. Even then, the calculation confirmed the existence of a high number of days in inventory. Moreover, goods in transit are part of the inventory and the supply chain and therefore need to be included in the calculation of days in inventory.

162. The Board also noticed that the number of days in inventory for the emergency programmes was 134, while for regular programmes it was 137 (both from “Other Resources – Emergency”) with inventory turnover ratios at 2.73 and 2.66, respectively. Supplies pertaining to emergency programmes are meant to be distributed urgently in humanitarian situations, but their turnover was similar to regular supplies. UNICEF stated that, as part of its core commitment for children, it was mandated to pre-position emergency supplies for emergency response and that contingency emergency supplies should be excluded from such an analysis. The

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[4] Incoterms are a set of individual rules issued by the International Chamber of Commerce that define the responsibilities of sellers and buyers for the sale of goods in international transactions. Each Incoterms rule clarifies the tasks, costs and risks to be borne by buyers and sellers in these transactions.

Board was also informed that $192 million, or 51 per cent, of total inventory was held in warehouses in the field, which included $50 million of pre-positioned inventory (standby stock) intended to be held for a longer period of time in order to respond to the onset of emergencies.

163. The Board noted that that standby stock constituted 13 per cent of the total inventory and 31 per cent of the emergency supplies. Such standby stock has to be consumed on a "first in, first out" or "first expiry, first out" basis. However, it was noticed that some $15 million (30 per cent) of that standby stock had remained in inventory for more than one year. Even after excluding that pre-positioned stock from the analysis, the number of days in inventory for emergency supplies was approximately 94, which was also very high. This also entails the risk of ageing inventory, including items going past their shelf/useful life.

(ii) Inventory ageing

164. The Board noticed from the inventory ageing report in inSight, that inventory valued at $54.40 million (28 per cent of total stock) had been held in country warehouses for more than six months. Of that, inventory valued at $28.99 million had been held for more than 12 months, which included inventory valued at $21.21 million held for more than 18 months. The Board also noticed that inventory in respect of emergency programmes valued at $14.91 million had been held for more than 12 months, including inventory valued at $12.13 million held for more than 18 months. Inventory more than 18 months old included medical supplies and medicines that had a limited prescribed shelf life.

165. UNICEF replied that "Emergency" referred to in the inSight report related to pre-positioned inventory, which was held in preparation of an emergency to enable rapid response at the onset of an emergency. Given the nature of this inventory, it is held for much longer periods. UNICEF also stated that regular programme supplies that were more than two years old were monitored regularly. Pre-positioned (emergency supplies) and regular inventory, which were two years old, were valued at $7.14 and $2.39 million, respectively, at year-end.

166. The Board noted that some vaccines held in inventory were more than six months old. Vaccines have a very short shelf life/expiry date, and keeping them in inventory runs the risk of their expiry or obsolescence. UNICEF stated that vaccines were shipped directly to implementing partners and were therefore not part of UNICEF inventory. The reply of UNICEF may be viewed in the light of the fact that 301,747 vaccines valued at $790,368 (including vaccines valued at $92,457 that were more than six months old) were available as UNICEF inventory as at 11 May 2020. It was confirmed by UNICEF that two country offices (in Fiji and Somalia) had vaccines in inventory for longer than six months.

(iii) Best before/shelf life expiry date

167. The Board analysed details on inventory extracted from VISION and noticed that the shelf life expiry date for inventory valued at $94.11 million (48 per cent of total inventory held in country warehouses) was noted as 9999. The Board, however, noticed that inventory with expiry date 9999 included pharmaceutical and nutrition products, IT equipment and other equipment that had a limited shelf life. The Board also noticed that no expiry or best before date was mentioned for inventory valued at $14.84 million.

168. UNICEF replied that the total inventory without expiry dates was valued at $14.56 million. That inventory included computer equipment, such as laptops, other medical items, such as surgical equipment, ID wrist bands and soap. It added that those items did not expire in a similar way as medicine, therapeutic foods or

vaccinations. Furthermore, these items are not old for the most part, with only those valued at $982,000 held for more than two years in total for both regular and standby stock. UNICEF reported that there was only an immaterial balance of inventory valued at $32,000 related to nutritional and pharmaceutical products, which had a shelf life expiry date of 9999 and that those items were being reviewed for expiration. Furthermore, as part of the year-end closure exercise, the condition of inventory is reviewed, along with inventory count, and it was noted that the inventory loss was very low. UNICEF also stated that a review of shelf life expiry dates had already been done for all batch-managed items.

169. The Board noted that the items with a shelf life expiry date as 9999 included $7.7 million worth of products from material groups that should have a shelf life expiry date, including antifungals, antituberculotic, anticonvulsants, disinfectants, medical kits, nutrition kits and hygiene kits. In addition, most of those groups of materials also had a large number of items for which a specific shelf life expiry date was available in the system. Moreover, a significant number of materials had no shelf life expiry dates or one showing as 9999, even though the vendor batch information was available in the system. The Board is of the view that there was a need for a review of controls built into the system especially because there were no data, or data showing as 9999 in the shelf life expiry date field, for pharmaceutical and nutrition products, which indicated issues in terms of the functioning of existing controls.

170. **The Board recommends that UNICEF explore ways to further strengthen the inventory management system in order to deal with issues relating to inventory turnover and ageing.**

171. **The Board recommends that UNICEF review existing controls over the capturing of shelf life expiry date for inventory items, especially ones that carry a pre-defined shelf life/best before dates.**

(c) Supply chain management

172. According to the UNICEF Supply Manual, the supply chain is a set of interlinked processes to ensure that the right quantities of the right supplies are delivered in the most efficient manner to the right locations, at the right time. In line with the Supply Manual, in-country logistics are 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/inland transportation and supply tracking.

(i) Delays in suppliers' deliveries

173. A UNICEF Supply Division procedure establishes generic criteria for evaluating and monitoring supplier performance (excluding service providers) against their contractual obligations. The output of this procedure is an updated vendor scorecard, KPI-12, which is a performance indicator in the Supply Division balanced performance scorecard and an indicator in the vendor scorecard prepared by the contract managers and signed by the centre chiefs, and is used as one of the inputs for this procedure.

174. The Board noticed from the KPI-12 data that almost 18 per cent of the deliveries by suppliers had been delayed. KPI-12 also indicates the performance of suppliers under Purchase Groups, where the Board noticed significant delays in some purchase groups (see table II.10).

Table II.10
Purchase group deliveries by the suppliers

Purchase group	*On-time deliveries*	*Delayed deliveries*	*Total deliveries that were delayed (percentage)*
Project Support NY	5 027	2 189	30.34
Education Learning	1 057	434	29.11
Project Support CPH	1 341	347	20.56
Medical Supplies	2 097	437	17.25

Source: Information provided by the UNICEF Supply Division.

175. The Board noted that delays in specific purchase groups reflected the need for strengthening the centre-specific measures to improve the timeliness of the delivery of supplies. The Supply Division stated that it already actively monitored vendor performance, including timeliness of delivery through KPI-12, which was generated monthly.

176. The Board also noticed that, among different types of purchase orders used, Purchase Requisition PO and Direct Order PO showed significant delays, with 38.32 and 30.45 per cent of their deliveries delayed. UNICEF stated that the “purchase requisition” purchase orders related to the procurement of assets or consumables for the Supply Division but provided a very small data set to assess trends in/explanations for performance levels. Furthermore, the direct order purchase orders were placed directly by country offices against long-term agreements established by the Division. The Division had no direct control over those purchase orders and deliveries, and that was the main reason for the comparatively lower performance.

177. A further analysis of suppliers’ performance revealed that six major suppliers were responsible for more than half of the delayed deliveries (see table II.11).

Table II.11
Significant delays in deliveries by six suppliers

Total number of delayed deliveries	*Vendor A*	*Vendor B*	*Vendor C*	*Vendor D*	*Vendor E*	*Vendor F*
4 052	647	480	392	204	192	168

178. The Board noticed that those six suppliers were also responsible for the majority of delays in deliveries for the purchase groups highlighted in table II.11. Liquidated damages were imposed only on one of the six suppliers in the case of one purchase order. The action taken in respect of the other purchase orders of the same supplier, and the action taken, if any, on the other five suppliers, along with the reasons, were not found in the documents provided to the Board.

179. UNICEF stated that, for the other purchase orders, it was felt there was no fault on the part of the vendor and that the country offices that had placed the purchase orders did not update the data points in VISION to reflect supplier delivery performance, despite being instructed to do so. It also pointed out that liquidated damages were just one of five contractual remedies that could be imposed on a supplier when there was delayed delivery; and in the event that liquidated damages were enforced, it should be done in a consistent manner, taking the principle of equal treatment into account, and decided on a case-by-case basis whether liquidated damages should be applied. The records show that liquidated damages are considered

consistently when there is a record of delay, that they are applied only on a case-by-case basis and when there is a purpose for applying them.

180. While the Board noted the reply of UNICEF, it did not find any written individual justification for action not taken or details of any other possible action taken for the purchase order lines other than the one for which liquidated damages were imposed.

181. **The Board recommends that UNICEF facilitate the improved monitoring and understanding of direct order long-term agreements with country offices in order to identify reasons for delays in direct order purchase orders and that UNICEF take the remedial measures necessary to improve the timeliness of deliveries.**

182. UNICEF, in acknowledging the recommendation, stated that the Supply Division would arrange options to facilitate improved monitoring by country offices of direct order purchase orders and the timeliness of their delivery, as well as guidance, training and/or awareness-raising sessions in relation to the importance of updated VISION entries for the direct order purchase orders, among other necessary remedial measures for improvement.

183. **The Board recommends that UNICEF ensure that applicable contractual remedies are applied consistently in the cases of delays in deliveries and, in particular, record the basis for the decision whether to apply the contractual remedies for each case of delay by all the suppliers.**

184. UNICEF noted the recommendation and stated that it would update, by the second quarter of 2021, its division procedures so that the application of the other possible contractual remedies for delay provided for under the UNICEF general terms and conditions of contract were also recorded. There would be no requirement to justify occasions in which contractual remedies had not been applied in cases of delay, given that it could be assumed that it was not in the best interest of UNICEF to apply them.

185. The Board noted the proposed improvement in the division procedures. It is of the view that recording the reasons for not applying any contractual remedy and maintaining the related audit trail was very important for transparency and accountability, and holds the view that reasons for not applying any contractual remedy in cases of delay should be properly and specifically recorded.

(ii) Emergency supply response

186. A UNICEF Supply Division procedure prescribes that the monitoring and management of all emergency processes and activities are the responsibility of the Emergency Coordinator. The Emergency Coordinator assesses a sales order received with a reason for the emergency order 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;

(d) Emergency response with agreed targeted arrival date of the shipment at port: used to flag emergency orders ready for shipment more than 10 days and/or more than 14/60 days in-country, which are placed by specific categories of countries for supplies that are not in stock owing to long lead times, high demand, vaccines, large quantities and the production of kits on demand, among others. The emergency order response is based on an agreed targeted arrival date between the country office and the Supply Division.

187. The performance of emergency orders is being monitored under KPI-3 (percentage of international orders delivered at port of entry at or within agreed upon targeted arrival date). The Board noticed from the data provided by the Supply Division that 693 (25.5 per cent) of 2,718 total emergency orders had not been delivered on time. The delays included one for a rapid response emergency, 178 for emergency, 160 for other emergency and 354 for emergency response with agreed targeted arrival date.

188. The Board was also informed that lead times were used to identify bottlenecks in the supply chain. To test whether, for some types of orders, one or more of the lead times tended to be processed relatively slower, the average processing times were estimated for three lead times in the supply chain. The definitions of lead times are as follows:

(a) Lead 1 is the time taken from the first release of the sales order to the creation of the Supply Division warehouse delivery or purchase order;

(b) Lead 2 is the time taken from the creation of the Supply Division warehouse delivery or purchase order to the actual shipment sailed date;

(c) Lead 3 is the time taken from the actual shipment sailed date to the actual shipment end date.

189. The Board noted the status of lead time taken, as shown in table II.12.

Table II.12
Details of average lead time taken
(Number of days)

Type of emergency	*Average lead 1 time*	*Range of actual time taken*	*Average lead 2 time*	*Range of actual time taken*	*Average lead 3 time*	*Range of actual time taken*	*Total average lead time of Supply Division*
Rapid response	0.17	0–1	1.8	1–2	0.5	0–3	2.5
Emergency	8.1	0–100	17.9	0–192	8.2	0–39	34.2
Other emergency	21.4	0–192	36	1–498	39.9	0–79	97.3
Emergency response with agreed targeted arrival date	26.5	-10–320	30.7	1–307	25.2	0–165	82.4

190. The Board noticed that prescribed lead times for rapid response orders were adhered to on an average. However, the lead times were not adhered to in the other three emergency orders. Furthermore, there was a large number of cases in which the time taken was very high. The Board also noticed that the average lead 2 time taken from the creation of the Supply Division warehouse delivery or purchase order to the actual shipment sailed date was long and needed further analysis to identify the reasons for the longer time taken at that level and identify corrective action.

191. UNICEF stated that it had reviewed and maintained its delivery time commitments in the corresponding Supply Division procedure, developed a solution to monitor the deliveries in line with the time commitments and integrated that solution into the regular system to monitor the timeliness of orders. Since mid-2019, it had monitored the delivery timeliness of emergency orders according to emergency

type and was focusing on taking corrective action and expected to see an improvement in performance by the first quarter of 2020.

192. **The Board recommends that UNICEF analyse the reasons for the delays in processing emergency orders other than rapid response emergencies and reiterates its recommendation (A/74/5/Add.3, para. 169) to make efforts to reduce the lead times, especially lead 2.**

193. UNICEF agreed with the recommendation and stated that it planned to analyse the reasons for the delays in processing emergency orders other than rapid response emergency orders, and would make efforts to reduce the lead times, especially lead 2. Given the ongoing COVID-19 pandemic and the resulting specific supply chain challenges, it would consider a specific monitoring arrangement during the pandemic and include the timeliness of COVID-19 emergency orders in a specific lessons learned exercise.

7. VISION and inSight

194. UNICEF embarked on the VISION (Virtual Integrated System of Information) project to supersede the legacy systems in operation. The legacy systems included the Financial and Logistics Management System, adopted in 1999, and the Programme Manager System, a field-based enterprise resource planning module for programme planning, human resources, payroll and supply management in regional and country offices, adopted in 1997. Those two legacy systems were to be integrated into one system, termed "One ERP", also known as VISION. It was envisaged that it would be a fully integrated enterprise resource planning and an IPSAS-compliant system. VISION consists of SAP (the enterprise resource planning application) for transaction processing and financial reporting and a performance management system/inSight for integrating data from multiple data sources and providing information delivery tools such as scorecards, dashboards, analytics and standard reporting. The system covers finance, logistics, funds and grant management, human resources and payroll and performance management. VISION was rolled out to all UNICEF offices globally at once, and the system went live in January 2012.

(a) VISION platform modernization: SAP HANA project

195. Following the global launch of VISION in 2012, a multiphase platform modernization was planned, spanning from 2017 to 2021. The Board noted that platform modernization, SAP licences for all UNICEF staff and a sound data warehouse strategy were identified as critical and a priority for 2017–2018. The project objectives of the SAP platform modernization charter included significant performance improvements by implementing SAP HANA High Performance Analytic Appliance and recommendation for a strategic UNICEF data warehouse platform to monitor and report results in real time. The SAP HANA project commenced in September 2017 and was completed in October 2018.

196. During a review of the implementation of the project, the Board noticed the following:

(a) A study to recommend a strategic platform for UNICEF data warehouse and business intelligence (inSight) was supposed to be undertaken by the third quarter of 2018. However, the strategic UNICEF data warehouse platform was at an early stage, with the process of selecting a platform still under way;

(b) In accordance with the UNICEF policy on ICT project management and governance, each project should formally close when ended and share with the Information and Communications Technology Division lessons learned that could benefit current and future projects. However, no such document had been prepared for the SAP platform modernization project, even though SAP HANA was to be completed in October 2018;

(c) To secure real-time access and updates to VISION data for UNICEF and partners, the licences procured also provided for access to implementing partners; however, no access had been given to them. In addition, licences purchased to allow implementing partners to record acknowledgements were also not made available to them.

197. UNICEF stated that consultations were ongoing on the best way to align that activity in the framework of the repositioning of the Information and Communications Technology Division into the field results and innovations cone that had been effected in the third quarter of 2019, with a new Deputy Executive Director coming on board in the fourth quarter of 2019. It also stated that a lighter version of project closure had been undertaken in 2019. UNICEF further stated that initiatives to provide real-time access and updates to implementing partners were in the early stages and expected to be implemented in multiple phases over the coming two years.

198. The Board noted that a formal closure report had to be prepared in accordance with the UNICEF policy on ICT project management and governance, which could add value for future projects through lessons learned. The Board also noted the delay in recommending a UNICEF data warehouse strategy.

199. **The Board recommends that UNICEF take measures to implement the data warehouse strategy as a priority, especially because this is identified as a critical need to build a long-term, sustainable platform.**

200. UNICEF agreed with the recommendation and stated that the Information and Communications Technology Division was developing a data warehouse strategy that would feed into future options for enhancing and potentially modernizing the existing data warehouse capabilities.

(b) VISION data and system security

(i) Penetration testing

201. Penetration testing is a method of evaluating the security of an information system by simulating an attack from a malicious source. It is intended to identify weak spots in an organization’s security posture and measure the compliance to its security policy. The Board noted that, owing to the criticality of the applications used by UNICEF and the dependency on different network nodes to enable access to those applications globally, carrying out such testing was important.

202. The Board noticed that a penetration test of critical applications such as VISION, inSight and other ancillary applications, as well as the various network nodes through which those applications were accessed, was not carried out. A vulnerability test was carried out in April 2019 but had limited scope, and a cybersecurity audit was conducted in January 2019, in which the internal vulnerability testing was limited to specific network hosts and ranges provided by UNICEF.

203. UNICEF agreed that penetration testing was a defence-in-depth strategy for unveiling weakness in the IT ecosystem and reported that a decision to run a penetration test on the VISION ecosystem would be made following an internal vulnerability test as part of the information security programme. It added that results from the exercise would enable it to calibrate the degree of risk that a level 2 penetration test would place on the ecosystem and enable a better-informed decision to be made on whether to conduct a level 2 test.

204. **The Board recommends that UNICEF take steps to get an appropriate level of penetration testing done on the critical applications and networks through**

which these applications are accessed, which would help to identify the security vulnerabilities and result in urgent action to patch.

(ii) Information security risk assessment

205. In line with the office management plan (2018–2021) of the Information and Communications Technology Division, a high-risk level was assigned to information security (InfoSec) residual risks, and InfoSec risk assessment was identified as one of the important mitigation measures.

206. The Board was informed that, as part of the InfoSec risk assessment process, the Information and Communications Technology Division and Office of Internal Audit and Investigations had conducted an audit of ICT and cybersecurity in 2019 at headquarters, Geneva (Private Fundraising and Partnerships Division) and the Global Shared Service Centre. However, the Board noticed from the report that the Centre was excluded from the audit's scope. It was also informed that an informal InfoSec risk assessment had been conducted, with some actions said to be performed to mitigate the risks. The Board, however, noted that there would be a need for a comprehensive and formal InfoSec risk assessment.

207. **The Board recommends that UNICEF carry out the implementation of the residual InfoSec risk mitigation measures, including a formal InfoSec risk assessment, as outlined in the office management plan (2018–2021) of the Information and Communications Technology Division.**

208. UNICEF stated that management already performed annual InfoSec risk assessments. As part of ongoing operational activities, it would continue to perform InfoSec risk assessments for VISION and inSight annually or as major changes to the environment were introduced.

(c) Maintenance of user accounts in VISION

(i) Linkage with human resources master data

209. The master data in the human resources module consists of all-important milestone information pertaining to active and non-active individuals associated with UNICEF. The Board carried out an analysis of data of user IDs in VISION with the human resources master data, and noted the following:

(a) Human resources master data was not being updated with the user ID of the active users in UNICEF, indicating that synchronization between the VISION login data and the human resources master data was not automatic;

(b) A total of 259 user IDs (after excluding 22 system users) included in the VISION user ID report were not available in the human resources master data. UNICEF attributed that situation to user IDs not being captured from the human resources data because the account number of the user had been left blank when creating the user ID. The Board was informed that a personnel number/account number was mandatory for user ID creation for every staff/consultant as of November 2019;

(c) A total of 276 users, with validity ranging from March 2020 to August 2042, available in the human resources master database could not be located in the VISION user ID report;

(d) Validity dates for 858 users went beyond their relevant contract dates, extending up to 6,464 days. In addition, another 45 users had been provided with unlimited validity up to the year 9999. The Board was informed that user ID validity, which is linked to contract validity, was managed manually by the Global Shared Service Centre for new staff. UNICEF also reported that, although the risk of using a valid user account after the contract expiry date was said to be very low, it would investigate automation possibilities to sync user ID validity with contract validity dates in the 2020 workplan;

(e) Names of users in the human resources database and the VISION user ID data did not match for 1,730 users. The Board was informed that the user ID report did not compare the middle name, which was stored as a separate field in the human resources database, and UNICEF stated that some of the user accounts had been created before automation of the talent management system. It was also informed that user accounts were created manually in VISION owing to system gaps, such as the account name field length being shorter than the human resources master name field length, which caused data discrepancies because human resources master data were not automatically used to create the user data. The Board is of the view that human resources master data, which are generated after due verification during the onboarding process, should be used to create user data. UNICEF stated that the same would be investigated, while agreeing to modify the user ID report accordingly;

(f) Twenty-six users were mentioned in the human resources data as withdrawn but their date of separation was not captured. The Board was informed that the extracted data might not have captured the old separation data, given that a future reappointment action had been created. However, the Board noted that, at any given time, a user would either be active or separated from the organization and that the same should be reflected in the report generated.

210. **The Board recommends that UNICEF take steps to ensure automatic data synchronization between human resources master data and VISION user ID credentials by instituting the mandatory input of account number/personnel number while creating the ID. The Board also recommends that account/personnel numbers be updated in all such cases in the database.**

211. **The Board recommends that UNICEF explore ways of further strengthening the existing controls over the creation and maintenance of the user ID database in VISION to avoid the recurrence of the issues highlighted in the present report.**

(ii) Access of inactive/separated users

212. The Infor Risk and Compliance (IRC) tool is a role-provisioning and role-monitoring tool utilized by the UNICEF Global Shared Service Centre team to assign roles to the users on the basis of requests from field offices/headquarters and to monitor and report on segregation of duties violations.

213. The Board noticed that the following:

(a) Older user IDs were neither locked nor disabled in terms of their validity in VISION. UNICEF agreed to ensure the uniqueness of active users by setting up a process by the Information and Communications Technology Division and the Global Shared Service Centre;

(b) There was a time lag of up to 2,950 days since the last login for 14,230 users (excluding system users) having unlocked status but for whom the data for login were available. A total of 14,132 of those users were still associated with UNICEF, but the user IDs were kept unlocked even after a considerable duration of non-usage;

(c) A total of 4,420 user accounts were marked as not in use, which included 2,325 accounts having validity beyond February 2020, extending to varying periods up to 31 December 2043. The Board was informed that that status meant that the password remained the initial one and that the user had not logged into the system, but that did not imply that the ID was no longer needed or had expired. It was also stated that there might be few users who were separated from UNICEF and that, although their user ID might be still valid in VISION, it was not considered a risk because the LAN ID of those users would have expired and the roles would have been removed;

(d) Thirty-one users had gained access to VISION even after their separation, with a time gap of 1 to 2,604 days, and all those user accounts were valid and unlocked. The Board was informed that the decommissioning of user accounts was done on demand and not automatically and that some of the users had rejoined the organization after their separation.

214. The Board noted that users who rejoined the organization as non-staff were given a different personnel number but with the same user ID, which made the linking of the data in human resources master data difficult. In addition, some users had access to their VISION account even after separation. The Board also noted that the non-removal of roles from the user IDs consequent to separation from the organization created vulnerabilities in the system and that there remained a risk that users could reset their password by logging in to IRC if they remained valid in LAN. The Board is of the opinion that there is value in addressing these identified vulnerabilities to avoid any exploitation of the same, especially because there were cases in which users had gained access to VISION even after their separation.

215. **The Board recommends that UNICEF consider deactivating and locking all older user IDs in lieu of which new user IDs were issued to the same user.**

216. UNICEF accepted the recommendation and stated that the Information and Communications Technology Division and the Global Shared Service Centre would deactivate and lock all older user IDs to ensure the uniqueness of active users.

217. **The Board recommends that UNICEF explore ways of improving the interface between LAN and VISION to sync the validity of the users.**

218. UNICEF stated that the recommended action was already in place and was being followed.

219. The Board noticed that there was a possibility for users with a valid status in LAN to log in to IRC and reset the password, even though the user was no longer valid in VISION. This demonstrates the need for improving the existing mechanism to ensure the syncing of the validity of users between LAN and VISION.

(iii) Password and access policy

220. The UNICEF standard on information security: access control provides that users should change their initial password immediately. The standard also provides that the user passwords should have an expiry period of a maximum of 180 days. In that regard, the Board noticed the following issues in various user accounts:

(a) A total of 5,075 users had not changed their initial password. In addition, 870 active user IDs were in use without changing the initial password, with a time lag of up to 3,016 days;

(b) A total of 888 user accounts created prior to 1 August 2019 with a validity beyond 1 February 2020 did not change passwords for more than 180 days. In addition, 205 of those users were recorded as logged into VISION after the lapse of the stipulated 180 days from date of last change in password;

(c) In 23 cases, passwords were changed after the expiry of the validity of the user account, with a time gap ranging from between 1 and 1,383 days. The Board was informed that a user who was valid in LAN could log in to IRC and reset the password, even though the user was not valid in VISION. That, however, did not change their validity in VISION.

221. UNICEF stated that, if a user had not logged in for a long time and had been locked for non-use, upon request, the user would be unlocked for use. When users gained access to the VISION applications using Fiori,[5] the access was through a LAN account in which the password reset policies were already enforced. However, UNICEF would continue to refine and update the password expiry attribute to include those users who had access to VISION through Fiori only. Furthermore, it could review the automation that was in place and fix any gaps identified as a part of the regular maintenance for user IDs kept unlocked despite non-usage. UNICEF also stated that scripts were in place to handle expiration dates and that an effort was under way for 2020 to further improve the scripts and automation.

222. **The Board recommends that UNICEF enforce the change password policy, as detailed in the UNICEF standard on information security: access control.**

(d) Issues in selected functionalities of VISION

(i) eZHACT (VISION)

223. In line with the HACT framework, implementing partners prepare funding authorization and certificate of expenditure (FACE) forms on the basis of the cash transfer modality: direct cash transfers, direct payments and reimbursements. A standard FACE template should be used by all implementing partners to request cash transfers and report on their use, along with an itemized cost estimate. At present, the implementing partner submits the request to UNICEF through a physical FACE form, which is processed for payment by the country offices in the eZHACT application in VISION through the creation of an electronic FACE form.

224. The Board noted that there was no direct electronic interface between implementing partners and eZHACT and that there was no provision to create and submit FACE forms electronically by the implementing partners. Therefore, eZHACT does not electronically capture the itemized cost estimate and expenditure undertaken by the implementing partners of the activity area. The Board also noticed that the FACE forms submitted by the implementing partners were not attached while processing transactions in eZHACT in a large number of cases in which either the disbursement was made or was under various stages of processing for final payment.

225. **The Board recommends that UNICEF explore the feasibility of providing a direct e-interface between implementing partners and eZHACT (VISION) for the creation and transmission of electronic FACE forms by the implementing partners.**

226. UNICEF stated that business stakeholders and the Information and Communications Technology Division were undertaking due diligence to evaluate options for developing electronic FACE forms and would develop a business case in due course. In addition, VISION developments to address the recommendations would be scheduled for 2020.

(ii) Unverified payment requests

227. Pursuant to the UNICEF VISION guide for implementing partner management, the HACT MANAGER is a web application that is part of the suite of applications of a VISION (SAP) system and can be accessed through VISION. VISION payment requests are created to represent the actual item for which the funding request or the expenditure reporting is made through the FACE form. A single FACE form can have

[5] Fiori is a new user experience for SAP software and applications that is intended to provide a set of applications that are used in regular business functions such as work approvals, financial apps, calculation apps and various self-service apps.

multiple payment requests, in particular when the activities are funded from different grants or linked to different activities in the country programme outline.

228. The Board noted from the report on unverified payment requests on direct cash transfers direct payments and reimbursement in VISION that a number of payment requests were pending after the stage of certifying/approval or were still in the pipeline from 2017 to 2019. UNICEF attributed that situation to initial year migration or stabilization of eZHACT and stated that the pending payment requests were the uncompleted transactions that were abandoned by country offices because they had completed the process of payment with a new one. The Board was also informed that, once payments had been executed, old uncompleted transactions were abandoned, and UNICEF was in the process of improving the functionality to automatically close abandoned transactions.

229. The Board noted that the pending unverified payment requests had increased over the years. The length of the delays had increased more than four times in 2019 from 2017, which indicated that cases of unverified payment requests had increased significantly after the initial year of stabilization. Furthermore, abandoning the existing payment requests after certification and approval without recording any reason and creating a duplicate payment requests for the existing payment requests reflected a system lapse, and the creation of multiple payment requests for the same payment under the same grant was not in line with the business rules.

230. **The Board recommends that UNICEF explore the creation of a mechanism to prevent the creation of multiple payment requests for the same payment under the same grant and take steps to complete the process of data cleaning through necessary action on pending unverified payment requests as a priority.**

231. UNICEF agreed with the recommendation and stated that it was in the process of implementing it. It was undertaking an enhancement of eZHACT to ensure that implementing partner activities were recorded along with the payment requests. Such action was expected to result in a single payment requests, while the activities were recorded separately. Follow-up with country offices and data cleaning of existing unverified payment requests was scheduled to take place during 2020.

(e) Business continuity and disaster recovery

232. UNICEF implemented a business continuity management strategy, which included the development of business continuity plans for all UNICEF offices based on a thorough analysis that include a risk assessment exercise and business impact analysis. A strategic business continuity plan and an operational business continuity plan were developed and approved by UNICEF for headquarters in New York in 2013. UNICEF also began to capture enterprise risks, including ICT risks in the enterprise risk management application in inSight from 2013 onwards. Subsequently, the policy on the organizational resilience management system, which included a “Maintenance, Exercise and Review (ME&R) Programme” integrating all the system’s elements and comprising specific actions and their frequency in relation to business continuity, was approved by the United Nations System Chief Executives Board for Coordination in 2014 and adopted by UNICEF in 2016, replacing the earlier strategy.

(i) Review and updating of business continuity plan

233. In line with COBIT[6] 2019 (DSS-04), business continuity plans have to be exercised, tested and reviewed at regular intervals and the plans have to be changed to reflect current business requirements. In addition, in accordance with the United

[6] Control Objectives for Information Technologies, developed by the Information Systems Audit and Control Association to support the development and management of reliable information systems.

Nations organizational resilience management system, emergency management plans have to be updated semi-annually and endorsed and approved annually. The UNICEF strategic business continuity plan also stipulates that UNICEF headquarters will conduct an annual review of the business continuity plan and that the business continuity plan document will be updated after, for example, system and application changes, changes in business processes and major personnel changes.

234. The Board noticed that the business continuity plan for headquarters in New York had been formally updated most recently in 2013. The Board was informed that UNICEF offices had provided feedback that the template was too cumbersome and ineffective during disruptive events and that work was ongoing to integrate the organizational resilience management system into the existing business continuity programme. It was also informed that business continuity strategies for headquarters included telecommuting and devolution and that UNICEF was implementing various elements of the organizational resilience management system so that they were in coordination and harmonized with business continuity plan.

235. UNICEF stated that the updated business continuity plan for headquarters was scheduled for completion during the second quarter of 2020 and that a business impact assessment would be strengthened through the dissemination of the procedure on business continuity management, planned for 2020.

236. The Board, however, noted that, while telecommuting and devolution were important, it would be important to prepare a comprehensive business continuity plan and update it regularly, taking into account the elements of the organizational resilience management system, especially if a major/serious event occurred.

237. **The Board recommends that UNICEF take action to formally review and update the headquarters business continuity plan on top priority and other areas, including ICT risks identified in enterprise risk management, developments/changes in IT systems such as SAP HANA, and ensure that the requirements of the United Nations organizational resilience management system should inform the review and updating exercise.**

(ii) Review and updating of disaster recovery plan

238. In accordance with the United Nations organizational resilience management system, emergency management plans need to be updated semi-annually and deficient plans, policies and procedures need to be identified for corrective action, with plans endorsed and approved annually.

239. The Board noticed that the disaster recovery plan of the New York data centres had not been updated since September 2016. In addition, the existing disaster recovery plan did not contain details of hardware and software procured after 2016 for the implementation of SAP HANA and essential details such as priority contact lists of persons responsible/backup personnel. The Board noted that the absence of such crucial information potentially limited the effectiveness of the disaster recovery plan owing to the exclusion of the most recent crucial hardware and software.

240. **The Board recommends that UNICEF take urgent action to formally review and update the headquarters Information and Communications Technology Division disaster recovery plan and to incorporate details of critical hardware and software and up-to-date contact lists.**

241. UNICEF agreed with the recommendation and stated that the Information and Communications Technology Division would formally review and update the disaster recovery plan and associated documents. UNICEF had already reviewed and updated details of critical hardware and software and the contact lists in response to the COVID-19 pandemic.

(iii) Testing of business continuity plans and disaster recovery plans

242. In accordance with the United Nations organizational resilience management system, a simulation exercise and functional tests have to be conducted annually. The strategic business continuity plan of UNICEF (2013) also indicates that the business continuity plan will be amended to integrate lessons learned from simulations and testing.

243. The Board noticed that annual disaster recovery plan tests and the simulation exercise, for headquarters and data centres, were not conducted in 2018 and 2019. In addition, failover tests were conducted by SAP only for VISION as a part of the upgrade done in 2019, which was not an alternative to annual disaster recovery tests. The Board is of the view that carrying out tests of the disaster recovery plan and the simulation exercise is very important in order to identify the state of readiness in the event of an actual disaster, which would also help to identify gaps in the existing plans.

244. **The Board recommends that UNICEF ensure that comprehensive testing of the headquarters business continuity plan and the Information and Communications Technology Division disaster recovery plan, including necessary simulation exercises, is carried out regularly, at defined intervals.**

245. UNICEF stated that simulations would be conducted in 2020 to validate its degree of disaster recovery preparedness.

(iv) Meetings of crisis management structures

246. UNICEF established a headquarters crisis management team to facilitate crisis management and business continuity planning in UNICEF offices globally, as well as to support the business continuity plan for headquarters. The crisis management team is entrusted with the execution of the IT disaster recovery plan, ensuring a high level of availability of ICT infrastructure and of all mission critical systems and services for offices globally. In addition, in line with the United Nations organizational resilience management system, crisis management structures or their equivalent have to meet biannually.

247. The Board noticed that no meeting of the crisis management team had been held after December 2018 and that many issues identified for action were not followed up, which was in contravention of the United Nations organizational resilience management system. In addition, at its last meeting, in December 2018, follow-up action was recommended for 10 issues, including finalizing crisis response protocol and disseminating it globally. However, those issues were not followed up because no subsequent meeting of the crisis management team was held. This indicated a lack of adequate attention given towards important issues which could have an impact on IT operations in crisis situations.

248. UNICEF stated that no formal crisis management team meetings had been held in 2019 and that the next one was scheduled for March 2020. In addition, a crisis management team meeting to formally discuss the status of the action items from the December 2018 meeting was held in March 2020.

249. **The Board recommends that UNICEF ensure regular meetings of crisis management structures at headquarters, pursuant to the United Nations organizational resilience management system, and ensure timely action to address the risks identified.**

(v) Data centre and backup locations

250. UNICEF is an organization with a global footprint and VISION is a single instance of SAP running in a centralized location. A failure of the VISION data centre due to a natural or man-made disaster would jeopardize transactions of UNICEF offices around

the world. In accordance with best practices for recovery from disasters due to natural calamities, a recovery solution should involve disaster recovery facilities in a location away from the affected area. In line with the UNICEF standard on information security: physical and environmental security (January 2018), to avoid damage from external and environment threats, fallback equipment and backup media will be kept at a safe distance to avoid damage from a disaster affecting the primary site.

251. The Board noticed that the UNICEF primary data centre for VISION and inSight was hosted by a vendor in New Jersey, United States of America, and that the disaster recovery site was located in Manhattan, New York. The Board noted that, owing to the primary data centre and disaster recovery site being located at very close proximity, there was a risk that disasters affecting that area could potentially jeopardize business continuity at UNICEF.

252. The Board also noticed that the backup for the tapes of the disaster recovery site in Manhattan were stored on the premises of the backup service provider at an undisclosed site in New York. The Board noted that, because the backups were also located in the same geographical areas as the relevant primary and disaster recovery sites, the threat of data loss due to disasters affecting the same geographical area was not mitigated.

253. **The Board recommends that UNICEF consider ensuring a safe distance between the headquarters primary data centre and the disaster recovery data centre without significantly affecting productivity and access to real-time data.**

254. **The Board recommends that UNICEF consider keeping the headquarters backups at geographical areas away from the primary and disaster recovery sites in order to mitigate the risk of data loss in case of disasters without significantly affecting productivity and access to real-time data.**

255. UNICEF agreed with the recommendations, adding that relocation would be considered and the storage of back up media would be segregated as part of the Information and Communications Technology Division transformation plan.

(vi) Maintenance of data centre and backup services

256. UNICEF had outsourcing contracts for the maintenance of its data centre and backup services. It entered into a contract in May 2009 for the relocation of and hosting solution for its disaster recovery data centre in Manhattan to New Jersey. Subsequently, the disaster recovery data centre at New Jersey was converted to a primary data centre and the primary data centre in Manhattan was converted to a disaster recovery data centre, following Hurricane Sandy in 2012.

257. The Board noticed that the UNICEF general terms and conditions for contracts, service level agreement requirements and performance standards/conditions related to hosting services, among others, were detailed in annexes A to J to the contract with the vendor. However, the Board was provided only with a copy of annex B (relating to revisions). The original contract had been amended 21 times to extend the contract and modify annex B. However, the Board was not provided with any document relating to a review of the performance standards and other contract conditions carried out by UNICEF since 2009. Furthermore, UNICEF had not documented the measures in place related to security or disaster management at the primary data centre.

258. The Board was informed that environmental conditions at the primary data centre had been validated through a physical inspection and that adequate safety measures had been included in the contract. However, no document was shared to confirm the results of the physical inspection and indicate how they were incorporated into the contract. UNICEF also stated that the tier IV rating[7] provided assurances that

[7] A certification given by a private institute to reflect that certified facilities have redundant and

the facility met the stringent standards, including strict environmental and safety standards, the provision of a power facility and an uptime of 99.995 per cent. However, the Board was not provided with documents relating to that certification.

259. In the absence of important annexes to the contract, documentation of measures in place related to security or disaster management and results of the physical inspection, the Board could not review or derive assurances regarding adequate environmental controls and safety measures required for a primary data centre in the contract and whether the service provider had fulfilled the performance standards/conditions.

260. UNICEF entered into a contract with a vendor in March 2007 for providing backup services. The Board noticed that UNICEF had not carried out an assessment of security and disaster management measures put in place by the vendor, and vendor facilities were also not inspected by UNICEF. The Board also did not note any specific measures taken regarding environmental controls included in the contract with that vendor.

261. UNICEF stated that running a modern and effective IT operation involved identifying and engaging with companies that provided specialized services and that partnering with such entities ensured that the risks attendant with the in-house management of UNICEF backup media were reduced to acceptable levels.

262. The Board noted the reply of UNICEF and is of the view that effective controls and remedies need to be ensured in the contract, along with a mechanism for periodical assurance over the services provided.

263. The Board noted that IT solutions had become more critical to the operations of UNICEF, especially with the launch of applications such as VISION and inSight. Therefore, there is an urgent need to review the safety measures at the data centre and backup facilities, taking into account the new and evolving risk perceptions and their probable impact. Furthermore, it is very important to regularly review the performance of the vendor and the environment controls and disaster management measures in place, and to document the same.

264. **The Board recommends that UNICEF ensure that regular inspections of the headquarters data centre and backup sites and regular monitoring of performance of the relevant vendors are carried out and duly documented, so that there are adequate assurances regarding controls, including environmental and safety measures and regarding the performance of the vendors in accordance with the agreement.**

265. UNICEF agreed with the recommendation and stated that it considered it to have been implemented. Vendor performance was already actively monitored against the applicable contractual provisions and reported on annually. The Information and Communications Technology Division would require the backup service provider to make available biannual reports on environment and safety. These would form the basis for an annual review of the vendor's environment and safety posture.

8. Global Shared Service Centre

266. The Global Shared Service Centre officially began to function in September 2016 and became fully operational by the end of December 2016. Core functions and in-scope activities covering finance, invoice processing, payroll management, master data management, customer care and service quality management underwent a transition to the Centre from September 2016 to mid-2017.

dual-powered instances of servers, network links and power cooling equipment. Tier IV centres guarantee 99.995 per cent availability, with 26.3 minutes of downtime annually.

(a) Performance against service level agreement targets

267. Services provided by the Global Shared Service Centre were formalized in service level agreements between the Centre and its client offices (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, and were different for standard and emergency cases. The Centre aimed to complete at least 90 per cent of all transactions within the time mandated in the service level agreements.

268. The Board was informed that the Global Shared Service Centre had developed a service gateway for submitting requests and that a performance dashboard had been prepared for assessing the service level agreement performance of the Centre and the country offices. Achievement of service level agreement targets was the key performance indicator of the Centre in processing transactions received from various UNICEF offices.

269. The Board noticed that, in 26 of the 38 business processes pertaining to finance, service level agreement targets had been met in 90 per cent or more of the transactions handled. The Board also observed that, in 24 of the 34 business processes pertaining to human resources administration, service level agreements had been met in more than 90 per cent of cases, although, in 6 of those 24 processes, the service level agreement targets had not been met in some of the months.

270. The master data management team works to maintain the UNICEF global list of vendors, customers and bank accounts, and this process is part of the business process. The customer care team, based in the Global Shared Service Centre, in coordination with human resources, payroll and finance specialists in the Centre and other divisions, provides responses and process guidance to UNICEF staff globally. For customer care services, emergency areas were given priority, with accelerated service level agreements and special agreement targets. Details of the performance of the Centre against the service level agreement targets in these master data management and customer care services are shown in table II.13.

Table II.13
Performance against service level agreement targets

Type of business process	*Cases processed*	*Service level agreement met (number of cases)*	*Service level agreement met (percentage)*	*Average processing time where service level agreement is met (number of days)*	*Service level agreement not met/overdue (number of cases)*
Master data management					
Standard/normal	36 214	32 512	89.8	1.70	3 702
Emergency	8 616	7 658	88.9	1.22	958
Total	**44 830**	**40 170**	**89.6**	**1.61**	**4 660**
Customer care					
Standard/normal	23 151	19 951	86.2	4.88	3 200
Emergency	1 198	960	80.1	7.97	238
Total	**24 349**	**20 911**	**85.9**	**5.02**	**3 438**

Source: Global Shared Service Centre performance dashboard.

271. The Board thus noted instances of non-achievement of service level agreement targets in a number of individual processes in the areas of finance, human resources and master data management. The overall achievement in the area of customer care was also less than the service level agreement targets.

272. The Global Shared Service Centre attributed the delay in business processes to the replacement of the case management tool (Mycase) at the end of February 2019 by a new one (Service Gateway). It also stated that peak transactional volume in the last quarter of 2019 was higher than forecasted and that additional temporary resources to address the increased volumes had contributed to the delay. The Centre also flagged its concerns regarding the availability of limited staff resources. UNICEF reported that some service level agreements had expanded in the first quarter of 2019 to provide a buffer and that, since then, the agreements had been close to or on target. The Board noted that, instead of exploring the means of improving the efficiency in performance, the Centre had increased the service level agreement time targets. While the Board appreciates that the Centre has met the service level agreement targets in large part, there is a need to explore ways to achieve the targets for all business processes.

273. The Global Shared Service Centre stated that the reasons for not meeting the service level agreement targets in human resources administration varied on the basis of the processes. It acknowledged that, in some months, the achievement rates were slightly below the target. It reported that some of the services, such as rental subsidy, changing permanent address and inter-agency move were lengthy processes and needed a thorough review. Because those cases were received alongside other processes during peak seasons, a couple of cases had been processed over periods longer than service level agreement targets. It also stated that all of those processes had met the service level agreement targets annually. The Board noted that service level agreement compliance referred to the percentage of transactions for a given service that had been processed within a specified service level agreement time frame, which did not always need to be measured annually. While the Board appreciates that service level agreement targets were achieved in 18 processes, even on a monthly basis, it considers that reasons for the non-achievement of targets in other processes should be analysed and that efforts should be made to achieve the targets for all the business processes.

274. The Global Shared Service Centre reported that the processing time for overdue cases in customer care services was not populated in the system owing to a data source defect and that they were working to address that issue. The Board was also informed that the high average processing time was due to a delay in one business process with regard to the closure of tier 3 cases by an expert, which was done as a part of clean-up exercise before migration to the new Service Gateway case management tool.

275. UNICEF stated that the Global Shared Service Centre already had robust mechanisms in place for reviewing service level agreements and related achievements. While it worked to bridge gaps, it was not always possible to move staff into different roles at short notice owing to the need to observe controls related to the segregation of duties, among other challenges. The Board notes the response. In fact, the Board, in its previous report (A/74/5/Add.3), had also flagged instances of delays in processing the cases beyond the service level agreement time frame in the areas of payroll, finance, human resources and HACT and recommended better efforts to address those gaps. The Board reiterates that UNICEF/the Global Shared Service Centre should focus on processes in which gaps in performance have been constantly noticed, identify the reasons why and take measures to address them.

(b) Returned cases

276. Service delivery time is measured in business days, which is equal to the processing time taken to complete the service at the Global Shared Service Centre. If the Centre returns or rejects the request, time taken for the resubmission of the request is not included in the calculation of service delivery time. The service level agreement clock begins after the case is submitted by the client to the Centre but stops if the case is pending additional information required for processing.

277. The Board was informed that the Global Shared Service Centre had used the Mycase service management tool until 22 February 2019 and the Service Gateway tool thereafter. Cases generated until 22 February 2019 were closed through Mycase. It was also informed that the Centre had returned 733 cases through Mycase and 37,560 through Service Gateway in 2019.

278. The Board noted the following regarding returned cases:

(a) The number of cases returned increased continuously from September to December 2019. A considerable number of those cases were suspended and closed in July, October, November and December 2019;

(b) Of 37,560 cases returned through Service Gateway, 37,254 had been suspended and closed for want of information, while the other 306 were shown as open. The Board also noticed that Service Gateway return cases were highest in payroll (47.71 per cent), followed by human resources administration (23.11 per cent). The Board was informed that a major reason for that situation was missing/inaccurate information (22.45 per cent) and missing, inaccurate or illegible documents (20.76 per cent);

(c) The average age of return tickets at the time of suspension and the average age from the date of suspension varied among categories of service. The maximum average age of suspended cases ranged from 14 days for master data management cases to 108 days for human resource-related cases;

(d) A total of 306 cases created in 2019 were pending closure until February 2020. Those cases were under suspension for want of information/documents, with their age ranging between 1 day and 273 days.

279. UNICEF replied that, although the absolute number of returned cases increased, the actual percentage remained constant. A 2 per cent increase in July 2019 was ascribed to vacations. UNICEF informed the Board that an increase of 0.75 per cent in the last quarter of 2019 had been caused by increased submissions by country offices, along with less experienced local focal points. UNICEF also reported that, depending on the service type, the required fields for information or attachments were mandatory in all web forms. However, the system was unable to check the validity or legibility (including language of the submission) of the documents attached and cases were returned because of the content not being correct or complete, not because of missing documentation. UNICEF further reported that the service quality management dashboard was used to review ageing of suspended cases. There were ticket-handling guidelines that detailed the steps that the processor had to take to follow up on returned cases.

280. The Board noted the response of UNICEF and is of the view that attributing the increase in return tickets to less experienced local focal points indicates inadequate training of staff. The Board was informed that the Global Shared Service Centre was working to address this issue by introducing induction training for local focal points in all relevant process areas and had, to date, rolled out training on finance and planned to complete all relevant modules by the end of 2020 and ensure that relevant Centre induction training had been taken by local focal points.

281. The Board appreciates that the Global Shared Service Centre may not have control over the content of the documents. The Board is of the view that further steps could be taken to clarify the documents to be attached, considering that a significant number of cases (22.4 per cent) were returned on this count. The Board also noted that a majority of the cases returned in the category of fund missing/insufficient pertained to the finance area, even though the information on the open balance on fund commitments was available in Service Gateway before submission of the case.

282. While the Board appreciates the monitoring mechanism of the Global Shared Service Centre for suspended cases through service quality management, there is a

case to be made for stipulating a time frame for the resubmission of return tickets, taking into consideration service type and reasons for suspension. The Board also noticed that ticket-handling guidelines stipulated the procedure for suspending the case but did not prescribe a time frame for the resubmission of cases by field offices. Given that the reasons recorded for these cases remaining open for a long time include missing/inaccurate documents or non-receipt of documents by post, necessary action needs to be taken to close them at an early date.

283. **The Board recommends that UNICEF engage with the offices concerned to analyse the reasons for a large number of cases being returned and take action to improve the case submission process to minimize their return by the Global Shared Service Centre.**

284. UNICEF, in acknowledging the recommendation, stated that it would continue the efforts already under way in engaging directly with offices that had notable return and reject rates in order to develop solutions. Regular analysis of return/reject rates, by volume, would be performed by region and shared with regional office senior management for review and action to drive improvement.

285. **The Board recommends that UNICEF ensure that all streams enforce compliance with ticket-handling guidelines and clearly communicate to offices the need to resubmit in a timely manner and the consequences for late resubmission.**

286. UNICEF accepted the recommendation and stated that it planned to complete the implementation efforts by the fourth quarter of 2020.

(c) Invoice processing

287. UNICEF disbursements are based on an invoice from a vendor or based on an approved purchase order/contract with valid evidence that the goods or services have been received and that payment is due. In line with UNICEF procedures, the invoice date must be entered in VISION and a posted invoice selected for payment on the basis of the payment due date.

288. The Board noticed some issues during a sample check of the invoice data furnished by the Global Shared Service Centre (see table II.14).

Table II.14
Details of issues in invoice processing

<table>
<tr><th>Issue</th><th>Number of cases</th><th>Details of issue identified</th><th>UNICEF reply</th></tr>
<tr><td>Erroneous document date</td><td>11</td><td>Years recorded as 2109, 2209, 2219, 0219 and 0201</td><td rowspan="3">• Accepted the errors in document date/baseline payment date and stated that it had rectified the two erroneous entries of document date and that, for the nine other cases, it was not possible to rectify except through reversal
• Additional controls were placed on baseline dates in September 2019 to flag invalid ones
• Planning date was a system-generated date and not entered manually. Two of those five cases were erroneous entries, and a subsequent reversal was done to rectify the erroneous baseline entry</td></tr>
<tr><td>Erroneous baseline payment date</td><td>3</td><td>Years recorded as 2219, 0219 and 2109</td></tr>
<tr><td>Erroneous planning date</td><td>5</td><td>Years recorded as 2219, 0219 and 2109</td></tr>
<tr><td>Posting date prior to document date</td><td>367</td><td>1 to 73 044 days</td><td></td></tr>
<tr><td>Baseline payment date prior to document date</td><td>547</td><td>1 to 73 048 days</td><td></td></tr>
</table>

Issue	*Number of cases*	*Details of issue identified*	*UNICEF reply*
Clearing date prior to document date	95	1 to 73 044 days	• Accepted that there were manual data entry errors in 97 cases, which resulted in the posting date being prior to the document date. Manual date entry errors also occurred in 514 cases, which resulted in a baseline payment date prior to document date, and in 55 cases the clearing date was prior to the document date • Changing date values after an invoice was posted/paid was not possible except through reversal, which was not deemed worthwhile • Stronger controls on baseline date were devised and implemented in September 2019 • Additional validations were implemented in SAP/VISION to validate baseline dates
Processing of old invoices Delay in payment from baseline date	178 1 475	Invoices relating to the years 1991 to 2017 Delays ranging from 180 to 3 660 days	• Offices were responsible for timely submission of invoices to the Global Shared Service Centre. Records for the years 1991 to 2013 were input errors and balance invoices were valid invoices • The Global Shared Service Centre had updated the standard operating procedure, which required senior processors to seek clarification and validate with country offices regarding any invoices submitted for processing that were older than 6 months. Major efforts are under way to train processors and to enhance data monitoring and corrective measures in order to continually improve quality in that area
Payment earlier than baseline date	55	Early payment by 1 to 303 days	No reason provided

289. While noting the steps taken to reduce the errors and correct the issues identified, the Board is of the view that continuing data input errors remain an area of concern because similar issues were also noticed during the previous audit. The Board also noticed data entry errors in the baseline payment date after September 2019, indicating that the efforts in that regard need to be continued with greater focus.

290. **The Board reiterates its recommendation (A/74/5/Add.3, para. 284) that UNICEF incorporate necessary input controls and improve validation checks in VISION for all important parameters for the processing of invoices.**

291. UNICEF, while acknowledging the recommendation, stated that it was expected that the baseline date would be used in the future. Process and system improvements were introduced in 2019, as demonstrated during the on-site audits, with minimal exceptions identified. In that regard, upon further review, UNICEF will install further input controls on critical invoice processing fields, as applicable.

292. **The Board also reiterates its recommendation (A/74/5/Add.3, para. 285) that UNICEF plan and implement a mechanism for the timely submission of invoices by all its offices.**

293. UNICEF acknowledged the recommendation and stated that a monitoring tool was being developed to increase visibility for the offices in order to manage their performance and complement the existing efforts on monthly closures and inSight dashboard that are already in place.

(d) Management of advances

294. The Global Shared Service Centre administers three types of advances: salary advances, rental advances and education grant advances.[8] The Centre also processes cases of salary advances to offset/allow for the recovery of overpayments in instalments. UNICEF procedures provide that advances are to be recovered by regular payroll deductions and at a constant rate in consecutive pay periods. If the staff member separates from service, any outstanding part of an advance is recovered in full against his/her final entitlements. The prescribed time frame for the repayment of the advance is from 1 to 10 months under normal circumstances and up to 12 months in case of a medical advance. In 2019, the Director of the Global Shared Service Centre was vested with the power to grant an approval of salary advances with a repayment period beyond 10 months, which was later delegated to the chief payroll officer in 2020.

295. The Board was informed that advances amounting to $5.39 million in 1,151 cases pertaining to the period 2006–2019 were open for adjustment. A total of 48 cases of outstanding advances pertained to the period 2006–2018, which included 33 pertaining to staff who had separated on or before 31 December 2019. The Board was informed that the Global Shared Service Centre had cleared 19 of those cases during 2020. The Board noticed that there were delays in the clearing of 17 of those 19 cases from their loan end date, which included 2 cases following the establishment of the Centre. In 13 of those cases, even the contracts had expired between 2010 and 2018. Furthermore, in 14 other cases, the clearance of advances was pending for staff separated as early as 2009.

296. The Global Shared Service Centre stated that 30 of the 1,151 cases were outside its purview. In addition, four cases pertaining to the period after the establishment of the Centre that had been outstanding for a long period of time, in which the delay was only in updating the records in January and February 2020, were settled, demonstrating that the risk of delayed action by the Centre was insignificant.

297. To assess the repayment/recovery plan processed by the Global Shared Service Centre, the Board reviewed the total number of instalments allowed in the outstanding cases and noticed that, in 55 of 1,151 of them, the number of instalments was higher than the maximum of 12 allowed instalments. A total of 53 of those cases were approved between 2017 and 2019, 48 of which had 24 or more instalments, with 5 having 25 to 30 instalments.

298. The Global Shared Service Centre accepted that the normal recovery period for advances was 10 to 12 months. It reported that, of the 48 cases with 24 instalments, 30 pertained to salary advances processed in December 2019 for the Haiti office owing to the security situation at the end of 2019. The remaining cases resulted mostly from positive action taken by the Centre to clean up human resources legacy data. It explained that, owing to system limitations, the recovery of overpayments as a result of retroactive human resources master data updates could be set up in instalments. Salary advances were processed in the same month to offset the recovery and thereby recover the amount in monthly instalments, which could be greater than 12, depending on the amount of recovery.

299. **The Board recommends that UNICEF prepare a plan of action for the clearance of old outstanding cases and that the Global Shared Service Centre review the current policies and procedures on repayment/recovery of advances/overpayments and put in place standard criteria for their management, as well as ensure adherence to the repayment plan.**

[8] Salary and rental advances are recovered from the staff member's salary in monthly instalments, whereas the education grant advance is recovered in full following the end of the school year, in accordance with the guidelines.

300. UNICEF stated that the Global Shared Service Centre, in coordination with the Division of Human Resources, was committed to putting in place a standard procedure on terms of the recovery of advances and overpayments.

9. Human resources management

301. Human resources are among the most important assets for an organization and constitute a significant part of its expenses. The Board noticed some trends regarding human resources management at UNICEF (see table II.15).

Table II.15
Analysis of human resources management

Trend	*2016*	*2017*	*2018*	*2019*
Total staff	13 090	13 792	14 396	15 327
Increase (percentage)	3.63	5.36	4.38	6.47
Staff cost (millions of United States dollars)	1 207.85	1 310.27	1 416.29	1 519.51
Increase (percentage)	1.86	8.48	8.09	7.29
Total revenue (percentage)	23.27	19.92	21.22	23.70
Programme expense[a] (millions of United States dollars)	3 532.98	3 784.58	3 681.28	3 806.44
Increase (percentage)	12.48	7.78	-2.73	3.40
Total revenue (percentage)	72.34	57.54	55.14	59.36
Total expense (millions of United States dollars)	5 447.85	5 863.43	5 969.76	6 261.62
Increase (percentage)	6.91	7.63	1.81	4.89

[a] Expenses on programme = cash assistance (+) transfer of programme supplies (+) other programme-related expert services.

302. The Board noticed that the total staff strength of UNICEF had been increasing over the past four years at an average of 5 per cent annually and that the staff cost had shown an increase of approximately 8 per cent in the past three years. During the same period, an increase in programme expenses had been decreasing.

(a) Maintaining gender equality

303. The Board noted that 48 per cent of UNICEF staff were women as at 31 December 2019. The representation of women was 50 per cent in the Professional (international) category and 47 per cent in the National Officer and General Service and related categories. The Board also noticed that there was considerable variation among the regions, with the Europe and Central Asia region having 63 per cent female representation, followed by Latin America and Caribbean region and headquarters at 60 per cent and East Asia and the Pacific region at 58 per cent. The representation of women was less than 50 per cent in the West and Central Africa region, at 37 per cent, in Eastern and Sothern Africa and South Asia regions, at 42 per cent, and the Middle East and North Africa region, at 44 per cent.

304. UNICEF stated that regional offices, as part of their oversight role, were responsible for monitoring the status of key performance indicators, including gender diversity, and developing a strategy on how to address the issue of diversity.

305. **The Board recommends that UNICEF take steps to prepare a road map to improve gender balance in the West and Central Africa, Eastern and Southern Africa, South Asia and Middle East and North Africa regions.**

306. UNICEF agreed with the recommendation and stated that the Division of Human Resources, in partnership with other offices, would continue to monitor the status of key performance indicators, including the one on gender diversity and supporting offices in achieving the planned targets.

(b) Sourcing from talent groups

307. The UNICEF administrative instruction on staff selection, issued in 2016, provides for talent groups. They are composed of eligible candidates who have undergone a competitive selection and assessment process, reviewed by the appropriate central review body, where required. Talent groups provide a pool of pre-assessed candidates who can be recommended for direct selection to the approving authority. The administrative instruction also provides that the preferred sourcing method to fill a vacant post should be done through talent groups.

308. The Board noticed that direct selection from the talent groups was 15 per cent in 2018, which declined to 12 per cent in 2019. UNICEF acknowledged that the selection rate from the talent groups was not as robust as intended, and it was reviewing its efficacy and issues that might be contributing to a low selection rate. The Board was also informed that UNICEF was reviewing the staff selection policy, and that the revised policy, to be introduced in the third quarter of 2020, would envisage higher selection rates from the talent groups.

309. **The Board recommends that UNICEF explore ways to improve the utilization of the pre-assessed talent group for its recruitment, which is also the preferred sourcing method in accordance with the administrative instruction.**

310. UNICEF agreed with the recommendation.

(c) Management of consultants

311. UNICEF hires individuals as consultants and contractors to temporarily assist UNICEF in meeting its mandate. The UNICEF procedure on consultants and individual contractors provides that a consultant is an individual who is a recognized authority or specialist in a specific field, who is engaged by UNICEF under an individual contract for a specific period of time. He/she has an advisory or consultative capacity and shall not perform any of the existing functions or responsibilities of staff members.

312. The UNICEF procedure provides that open competitive selection is the preferred method for the selection of consultants/contractors. Single-source selection is allowed in exceptional cases, provided the decision is properly documented in a note for the record and duly approved by the head of office/division director with the delegated authority.

313. The Board noted that 6,425 contracts for the hiring of consultants and individual contractors (5,477 consultants and 948 individual contractors) were in operation during 2019. A total of 353 of those contracts had been awarded using the single-source selection method. The Board reviewed the award and management of those contracts and noticed the following issues:

(a) The Board carried out a sample study of 37 of the 45 contracts awarded using single-source selection in headquarters divisions. In 64 per cent of the cases, there were gaps in the required process of justification and/or approval by a competent authority. The note for the record justifying the use of single-source selection was not available in the system (VISION) for 12 of the 37 cases reviewed. In three cases, the note on the record was unsigned and, in four cases, it was signed by a consultant manager and not approved by a competent authority. In two cases, it was signed by the deputy director instead of the division director. In four cases, the selection was done through competitive selection but was shown under single-source selection, which raises the risk that single-source selections may have also been shown as competitive selection;

(b) The procedure provides that, if the contract amount is equal to or exceeds $100,000, it has to be reviewed and recommended by the Contracts Review Committee before it is approved. The Board noticed that, of 6,425 consultant contracts, 171, including 93 at headquarters, were above the threshold value of $100,000 and hence were to be reviewed by the Committee. However, the column “Contracts Review Committee date” was blank in 110 of those cases, including 83 pertaining to headquarters;

(c) The UNICEF procedure provides that, with respect to the engagement of retired UNICEF staff who had retired at the P-5 level or above, clearance by the Director of the Division of Human Resources is required. The Board noticed that the level of a retired staff member hired as a consultant or contractor was not captured in VISION. In the absence of that information, the status of approval by the Director could not be ascertained. The Board noted that, of 6,425 contracts, there were 709 consultants who were retired employees of UNICEF, and the database reflected the authorization of the Director only in 295 cases;

(d) The UNICEF procedure provides that, where the contract amount exceeds $2,500, consultants and individual contractors may not commence work until the contract has been duly approved and signed by both parties. The Board noticed that, in 331 contracts above $2,500, work had been assigned before the contract was signed, which included 19 contracts at headquarters;

(e) The UNICEF procedure provides that an output evaluation shall be conducted and recorded in a central roster maintained by the Division of Human Resources as a reference for future contracts. In addition, the payment of fees shall be subject to the contractor’s full and complete performance of contractual obligations. The Board noticed that 1,619 had been closed in 2019, but it was recorded in the database that the evaluation form had not been completed in 800 of those contracts, involving an amount of $9.33 million. The Board noted that, in that situation, it was difficult to verify whether payment had been made to those consultants only after ensuring the completion of all contractual obligations;

(f) The UNICEF procedure provides that, in order to ensure that all required information on candidates is on file, all consultants and individual contractors, including former staff members and retirees, are required to fill out a valid personal information form (P-11). The Board noticed that such forms were not updated in 2,178 contracts, which included 160 cases at headquarters.

314. UNICEF took note of the exceptions observed by the audit team with regard to the above observations. The sample cases pertaining to headquarters contracts were being reviewed, and specific corrective actions would be taken to address the issues. In addition, most of the sample cases had the required documentation on file, but they were not reflected in VISION.

315. The Board took note of the response provided by UNICEF. The Board is concerned that the present status of management of consultancy contracts reflects weaknesses in the internal controls and the way in which the database in updated and maintained in VISION.

316. **The Board recommends that UNICEF ensure compliance with the established procedure with regard to the selection of consultants, securing approval from a competent authority and undertaking an output evaluation in all cases.**

317. UNICEF, while agreeing with the recommendation on compliance with procedures for hiring consultants, stated that the management of consultants and individual contractors followed a decentralized model by which ownership rested with every office. The Division of Human Resources was committed to further strengthening its processes and would partner with offices through webinars to enhance staff understanding and compliance with the requirements for managing consultants and individual contractors.

C. Disclosures by management

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

318. UNICEF reported to the Board that losses in assets of $7.43 million (2018: $4.42 million) had been written off during 2019, including inventory of $4.85 million, contributions receivable of $2.28 million, and other receivables and property and equipment of $0.30 million.

2. Ex gratia payments

319. UNICEF reported that one event qualifying for ex gratia payment was authorized by the Executive Director in 2017. During 2019 a total payment of $10,819 was made in one office to qualifying national staff in duty stations subject to danger pay.

3. Cases of fraud and presumptive fraud

320. 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.

321. 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.

322. UNICEF reported 15 cases (2018: 19 cases) of fraud or presumptive fraud closed during the year 2019 by the Office of Internal Audit and Investigations and 413 cases of fraud or presumptive fraud relating to cash-based transfer project cases closed during the year 2019 (2018: 184 cases), which were investigated by an independent organization engaged by UNICEF. The total financial loss established on cases completed by the Office during 2019, amounted to $679,441 of which $26,827 was recovered. The investigations by the independent organization for project-specific cases in the cash-based transfer projects substantiated fraudulent transaction loss amounting to an equivalent of $70,262 of which $65,825 was recovered. The total loss for cases closed by OIAI and cases investigated by the independent organization was $749,703 of which $92,652 was recovered.

D. Acknowledgement

323. 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 audit.

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

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

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

21 July 2020

Annex

Status of implementation of recommendations up to the year ended 31 December 2018

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.	UNICEF strengthened the guidance on the preparation of multi-year/rolling workplans for country offices so that it included the development of assumptions for budget preparation. A results-based management training module was developed and successfully rolled out. In addition, workplan guidance was developed and issued in the fourth quarter of 2017, thereby completing the implementation of this portion of the recommendation. Following the system design, build-out phase and the user acceptance testing, the budget formulation tool was rolled out to all UNICEF offices effective 1 July 2019. The global "go-live" training for all regions and headquarters divisions was completed in June 2019. By November 2019, more than two thirds of all UNICEF offices had completed financial planning in the tool application, with data transferred to VISION or in the process of transfer. Following regular use of the tool post go-live, system performance slowed, for which enhancements are underway to ensure acceptable performance speeds.	The Board noted that the budget formulation tool was not operational in approximately one third of the countries. Therefore, the recommendation is considered 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
				The functionality related to the application of fully justified budget assumptions was successfully designed, developed and built in a way that responds to the recommendation. UNICEF considers the recommendation to have been implemented and requests its closure.					
2	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.	UNICEF has a clear existing framework, in line with IPSAS, that outlines the annualization of amounts from the various budget sources. This framework is the basis on which statement V of the UNICEF financial statements has been prepared and audited. UNICEF has further developed a new budget management tool (budget formulation tool) that links budgeted resources at the activity level with results at the outcome level. Following the system design, build-out phase and user acceptance testing, the budget formulation tool was rolled out to all UNICEF offices effective 1 July 2019. The global go-live training for all regions and headquarters divisions was completed in June 2019. By November 2019, more than two thirds of all UNICEF offices had completed financial planning in the budget formulation tool application, with data transferred to VISION or in the process of transfer. Following	The Board noted that budget formulation tool was still not operational in approximately one third of countries. Therefore, the recommendation is considered 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
				regular use of the tool post go-live, system performance slowed, for which enhancements are under way to ensure acceptable performance speeds. The functionality related to the inclusion of budgeted amounts for various activities under each outcome at the appropriate business unit level were successfully designed, developed and built in a way that responds to the recommendation. UNICEF considers the recommendation to have been implemented and requests its closure.					
3	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 a new budget management tool (budget formulation tool) that links budgeted and actual expenditure at the activity, output and outcome levels to facilitate effective budget management and expenditure monitoring. Accompanied by related policies and procedures, the tool was rolled out to all UNICEF offices effective 1 July 2019. The global go-live training for all regions and headquarters divisions was completed in June 2019. By November 2019, more than two thirds of all UNICEF offices had completed financial planning in the budget formulation application, with data transferred to VISION or in the process of transfer. Following regular use of the tool post go-	The Board noted that the budget formulation tool was still not operational in approximately one third of the countries. Therefore, the recommendation is considered 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
				live, system performance slowed, for which enhancements are under way to ensure acceptable performance speeds. The functionality related to the alignment of output indicators with focus areas and activities towards achievement of outputs under the respective outcome was successfully designed, developed and built in a way that responds to the recommendation. UNICEF considers the recommendation to have been implemented and requests its closure.					
4	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 program budget and the institutional budget.	Appropriate assumptions were applied with regard to office structures and funding sources. The criteria for the review were based on the agreed guidance, as approved by executive management, and were shared with the Board. UNICEF implemented the guideline and applied appropriate criteria and typology in 2018 as part of the 2018–2021 integrated budget.	In view of the action taken, the recommendation is considered to have been implemented.	X			
5	2016	A/72/5/Add.3, chap. II, para. 36	The Board recommends that UNICEF engage with the National Committees and pursue them to achieve the desired contribution rate of 75 per cent of gross proceeds set in the Cooperation Agreement for the National Committees.	UNICEF actively engages with the National Committees. It closely monitors the contribution rate of every National Committee and has clear plans and road maps towards reaching the 75 per cent contribution rate. Progress in this respect depends on the specific context of the National Committee and their relevant markets.	In view of the action taken in the specific context of the issue highlighted in this paragraph, the recommendation is considered to have been implemented.	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Recommendation of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				The road maps represent the mutually agreed timeline for improving contribution rates. These plans are included in the joint strategic plans of the National Committees. This is in accordance with financial rule 107.8, under which the Executive Director may agree to vary the 25 per cent retention target, and such variances shall be documented. The management of the National Committees is delegated to the Director of the Private Fundraising and Partnerships Division. The Director approves variances to the 25 per cent retention target annually by way of the approved joint strategic plans. The plans include an annex, entitled "Pathway to 75 per cent", which shows the approved contribution rate for the next five years. Management considers this recommendation to have been implemented, in alignment with the UNICEF Financial Regulations and Rules, and requests its closure.					
6	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 (HACT) has been implemented in all country offices that transfer cash to implementing partners. There are robust reporting mechanisms put in place for country offices, regional offices and headquarters to enhance and monitor the level of HACT	The Board noted the status explained by UNICEF and, in view of the level of global achievement, considers this recommendation to have been 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
				implementation and identify areas of improvement. The HACT policy and procedure manual has been issued, with various supporting guidelines and system tools to assist country offices in effectively implementing the framework. UNICEF has continuously met and exceeded the HACT policy indicator targets that have been set at a global level over the past several years. In accordance with the 2017 and 2018 year-end HACT status report, on a global level, UNICEF country offices achieved, respectively, 158 per cent and 134 per cent of the minimum required programmatic visits and 105 per cent and 114 per cent of the minimum required spot checks. All regions showed improvement, compared with the prior year, over the same period. A total of 24 of the top 25 country offices met the programmatic requirements in 2019. Six missed the target on spot checks in 2019, typically due to extremely challenging contexts and lack of access to sites conducting assurance activities, such as with regard to the Syrian Arab Republic cross-border and Turkey programmes. In 2019, UNICEF country offices completed 16,160 programmatic monitoring visits (128 per cent of the minimum					

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
				required), 4,213 spot checks and 454 audits (99 per cent of the minimum required). Noting that perfection is not feasible and that the strengthening of HACT implementation is an ongoing effort for all United Nations agencies, UNICEF believes this recommendation has been implemented, as evidenced, and requests its closure.					
7	2016	A/72/5/Add.3, chap. II, para. 99	The Board recommends that UNICEF ensure that proposed new enterprise risk management policy is appropriately crafted to incorporate the organization's functional requirements and at the same time to ensure that incongruities are avoided.	UNICEF has redrafted the current regulatory content of the enterprise risk management policy to address the incongruities noted and align it with the Fund's enterprise risk management strategy. The updated draft is in the final stages of review, following consultation with key stakeholders. It will be rolled out in conjunction with the enterprise governance, risk and compliance strategy system.	The Board noted that the policy was under review and that the entire enterprise risk management framework was yet to be implemented. Hence, the recommendation is considered to be under implementation.		X		
8	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 developed training materials and delivered training for risk liaison personnel on risk management in April and May 2019.	In view of the action taken, the recommendation is considered to have been 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
9	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 formulate a risk tolerance and risk appetite statement at the organizational level linked to its Financial Regulations and Rules after the new risk structure and risk taxonomy are widely and fully implemented, by 2020. The feedback, lessons learned and information collected will enable the formulation and standardization of risk statement and risk tolerance.	The Board noted that the policy was under review and that the entire enterprise risk management framework was yet to be implemented. Hence, the recommendation is considered to be under implementation.		X		
10	2016	A/72/5/Add.3, chap. II, para. 125	The Board recommends that UNICEF ensure periodic review of vendor master records and removes all inconsistencies.	During 2016, vendor maintenance was centralized at the Global Shared Service Centre. As shared with the Board, during the second quarter of 2017, the Centre removed more than 38,000 inactive records from the master data management records and a further 1,500 duplicates. Thereafter, each new record processed at the Centre has been checked for possible duplicates according to standard operating procedures that are in place. The Global Shared Service Centre performs data clean-up and archiving exercises periodically (at least semi-annually) in order to remove duplicate records and long-term inactive vendors. This periodic control is further enforced by concurrent, regular transactional checks for duplicate records for every vendor creation request. As demonstrated and discussed with the Centre audit team	The Board noted that issues in the maintenance and review of vendor master data continued to be noticed during the current audit. The Board holds that the issues highlighted during the audit at the Global Shared Service Centre and of VISION are yet to be resolved and therefore considers the recommendation to be under implementation.		X		

						Status after verification			
No.	*Audit report year*	*Report reference*	*Recommendation of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				during the onsite walk-throughs and the exit meeting, the recommended action is already in place and is part of ongoing management efforts. On the basis of the evidenced implementation of the recommended action, UNICEF considers the recommendation to have been implemented and requests its closure.					
11	2016	A/72/5/Add.3, chap. II, para. 170	The Board recommends that UNICEF ensure timely receipt of vaccine arrival reports.	The Supply Division has been conducting extensive analyses of the timeliness of vaccine arrival reports since 2017 and has seen some improvements. In 2019, its overall efforts were supported to better understand the root causes of challenges in the timely inspection and submission of the vaccine arrival reports through the following: (a) Providing up-to-date statistics directly to country representatives; (b) Developing collaborative action plans informed by a decision tree that captures the issues with vaccine arrival reports and recommendations for operational changes or the application of technical assistance such as targeted effective vaccine management assessment, the mobile vaccine arrival report application (m-VAR), bottleneck analysis, proactive communication and follow-up. Currently, various improvement initiatives are ongoing for 2020,	In view of the action taken, the recommendation is considered to have been 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
				including in countries where customs and inspection are generally completed within 24 hours but that take longer than the required three working days to submit the vaccine arrival reports. In this regard, it is recommended that m-VAR be implemented to help to accelerate timely submissions. Fifteen countries will be asked to consider a targeted effective vaccine management tool (2.0) assessment to gauge their compliance with effective vaccine management E1 standards and requirements, including prearrival, clearance, logistics and monitoring processes. Countries (consignees and country offices) are notified of upcoming shipments by receiving the pre-advice/documents sent out by the freight forwarders. This is, in general, at least seven days before shipment arrival. A detailed process for follow-up and reminders has been established. Shipments are also now in the vaccine arrival reports database once the shipment has arrived in country (updated at least once a day). Vaccine arrival reports are followed up with countries from the third working day after arrival, with a focus on countries in which the country office experiences delays from the implementing partner. After the first follow-up, additional					

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				ones are undertaken at least weekly. Late vaccine arrival reports that are received are replied to with a reminder of the timeliness requirement in order to reiterate that those reports should be sent within three working days of arrival. Country offices are also requested to provide reasons for the delay in submitting the vaccine arrival report. Countries with known issues, which mean that the timely submission of vaccine arrival reports is not possible (e.g., due to customs clearance), receive regular follow-up from the Supply Division requesting updates on the status to ensure that UNICEF receives all vaccine arrival reports, even though they are late. When a vaccine arrival report is received by a country, an additional check is made on other reports that are outstanding and is followed-up immediately in the reply to the country office. Constant follow-up reports are shared with those countries that have a large backlog of vaccine arrival reports, on an ongoing basis, in order to ensure that the country office has visibility regarding pending vaccine arrival reports in order to assist with their follow-up. The Director and Deputy Director of the Supply Division					

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				have included presentations on performance regarding vaccine arrival reports in their regional visits to reinforce messaging on the importance of monitoring the delivery and supply of vaccines (East Asia and Pacific Regional Office and South Asia Regional Office), in addition to letters from the Deputy Director to the country office representatives to highlight the challenges in the timely submission of vaccine arrival reports and to have them take action to improve timeliness.					
12	2016	A/72/5/Add.3, chap. II, para. 184	The Board recommends that UNICEF identify the reasons for detention of containers for long periods and provide guidance to the country and regional offices to reduce the container detention time.	The Supply Division is responsible for global oversight of container status and highlights risks, in term of delays in the timely return of containers, to regional and country offices for their prompt action in expediting customs clearance processes. Country offices are responsible and accountable for the customs clearance process. The Division shares the container status report biweekly with the regional offices for their dissemination to countries within their region. The Supply Division, in line with the contract with the global freight forwarders and its relationship with carriers, has obtained advantageous conditions in terms of allocated free time after discharge for its country offices, benefiting from	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				30 days' free time for port-to-port destinations and 45 days' free time for landlocked countries before the demurrage period begins. In 2019, with a 10 per cent increase in the volume of containers discharged compared with 2018, UNICEF managed to improve the average delivery time, from discharge to return (empty container), by two days. As of December 2019, 66 per cent of all containers returned had been done so within the allocated free time, compared with 63 per cent in December 2018. It is to be noted that the root causes for delays in container returns are often beyond the control of the country offices.					
13	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.	UNICEF notes that this recommendation was not accepted owing to the high transaction and efficiency costs that the recommended reproduction and distribution of individual reports to more than 150 offices would incur. The trip closure information was already included in UNICEF management dashboards. UNICEF has demonstrated improvements in trip closures over the years, as shown in the information shared with the audit team during the 2018 audit at headquarters. There was a 42 per cent decrease in 2017 open travel authorizations compared with 2016. In 2018,	The Board noted the steps already taken and in progress. In view of the new developments under way, this recommendation is considered to have been overtaken by events.				X

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				the open travel authorizations decreased by 41 per cent compared with 2016. To further strengthen this reduction, management has decided on the automatic closure of trips upon 30 days after their completion, in line with reports obtained from airlines. Claims made after the deadline will require approval of the director or head of office. UNICEF requests the closure of this recommendation on the basis of the demonstrated action and the fact that it has been overtaken by events.					
14	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.	On the basis of its experience with the Millennium Development Goals, UNICEF has learned that ensuring a complete baseline for and periodic monitoring of the Sustainable Development Goals will require the following: (a) Systematic coordination among different organizations that support data monitoring to identify and help to close data gaps; (b) 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 (e.g., surveys and administrative data) are not feasible (e.g., conflict settings);	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				(d) Greater commitment from countries themselves to support Sustainable Development Goal monitoring; (e) Strengthened capacity of countries to conduct credible data monitoring. Since the issue of this recommendation in 2016, UNICEF has done the following: (a) Identified the five most strategic lessons learned, which have been reported as described in (a) to (e) in the previous paragraph; (b) Prioritized evidence generation as a core strategy to support the monitoring of results of its Strategic Plan, 2018–2021; (c) Created key performance indicators to be reported on an annual basis for the Strategic Plan results; (d) Established intermediary targets for the annual review of results; (e) Noted that one of the outcomes of the five key outcomes for the Division of Data, Research and Policy is to establish a baseline for key Sustainable Development Goal indicators on children; (f) Planned to produce a flagship publication on the status of the achievement of the Sustainable Development Goals. Management requests the closure of the recommendation,					

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				given that action to implement it is completed and acknowledged by the Board. A new recommendation may be issued for other matters observed.					
15	2016	A/72/5/Add.3, chap. II, para. 236	The Board recommends that UNICEF review the Charter of Office of Internal Audit and Investigations to ensure adherence to the International Standards for the Professional Practice of Internal Auditing.	The Office of Internal Audit and Investigations has recently completed its external quality assessment and is assessing the impact of its recommendations for the new Charter. In addition, it is reviewing its internal audit strategy for 2020 and beyond (with the help of an external consultant) and preparing for its midterm review submissions. Upon the conclusion of these key events, which will inform the changes essential for the revised Charter, the Office of Internal Audit and Investigations will present a new Charter for the approval of the Executive Director (after review by the Audit Advisory Committee). Following recent discussions with the Office of the Secretary of the Executive Board, it was agreed that the Office of Internal Audit and Investigations would submit the revised Charter (after consultations with the Executive Director and the Audit Advisory Committee) to the Executive Board during the annual session of the Office of Internal Audit and Investigations with the Board, in June 2021.	Given that the revised Charter has not been prepared, the recommendation is considered to be under implementation.		X		

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16	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 five-year audit cycle as per the OIAI Charter of the Office of Internal Audit and Investigations.	The Office of Internal Audit and Investigations has recently completed its external quality assessment and is assessing the impact of its recommendations for the new Charter. Furthermore, the Office is reviewing its internal audit strategy for 2020 and beyond (with the help of an external consultant) and preparing for its mid-term review submissions. Upon the conclusion of these key events that will inform the changes essential for the revised Charter, the Office will present a new Charter for the approval of the Executive Director (after review by the Audit Advisory Committee). Following recent discussions with the Office of the Secretary of the Executive Board, it was agreed that the Office of Internal Audit and Investigations would submit the revised charter (after consultations with the Executive Director and the Audit Advisory Committee) to the Executive Board during the annual session of the Office of Internal Audit and Investigations with the Board, in June 2021.	Given that the revised Charter has not been prepared, the recommendation is considered to be under implementation.		X		
17	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.	As indicated in the IPSAS policy supplement, UNICEF has framework agreements or standard agreement formats in place with most of its major donors. Management has reviewed all framework	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				agreements, in line with IPSAS 23: Revenue from non-exchange transactions (taxes and transfers), and concluded that the performance obligations present in these framework agreements were found to be restrictions rather than conditions. Consequently, the revenue should be recognized upfront when the specific agreements are signed and asset recognition criteria are met. A detailed checklist for each donor has been created for the Global Shared Service Centre to complete when grants are created. If the grant processor identifies a deviation from the framework agreement through the checklist, the grant agreement is forwarded to the Division of Financial and Administrative Management immediately. The Centre proceeds with creating the grant, and the Grants Management Unit within the Division reviews the agreement with regard to contractual process compliance, contacting relevant UNICEF teams, where necessary. The Financial Reporting Unit will review the agreement for revenue recognition purposes. During 2019, Global Shared Service Centre processors did not identify any deviation of the specific agreement, in line with the comparison made with the					

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				framework agreements checklist. Consequently, the revenue was recognized, in line with the conclusion of the framework agreement review. For the large agreements (higher than $10 million) not governed under framework agreements, DFAM/FRGM/FRU has reviewed 50 individual agreements for a total cumulative amount $1.41 billion (recognized as revenue). UNICEF confirms that there are no agreements with clear condition clauses requiring it to return all funds to the donors because the objectives/targets were not met.					
18	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.	UNICEF highlights that the required presentation has been disclosed in the financial statements.	In view of the action taken, the recommendation is considered to have been implemented.	X			
19	2017	A/73/5/Add.3, chap. II, para. 28	The Board recommends that UNICEF depict the contributions receivable at their fair value in compliance with IPSAS.	UNICEF calculated the impact of discounting receivables at year-end in 2018 and shared the results with the headquarters audit team in response to audit requisitions. An assessment was carried out, in which it was concluded that the amounts were not material. As a result, the depiction of the contributions receivable at their fair value would not have an impact on the users of the financial statement. Management has completed the agreed recommendation action	The Board is of the view that showing fair value of receivables is a requirement under IPSAS. Therefore, the recommendation is considered to be under implementation.		X		

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				and requests the closure of this recommendation.					
20	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 has implemented the requested changes, which are now in the system. The new certification measures 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; (c) A “hard stop” (i.e., the system would not permit further processing of the travel authorization) on new travel authorizations when more than three are already open. In addition, UNICEF has decided on the automatic closure of trips upon 30 days after trip completion. It requests the closure of this recommendation on the basis of the implementation action and the fact that it has been overtaken by events.	The Board continued to note weakness in the system related to open travel authorizations. Therefore, the recommendation is considered to be under implementation.		X		

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						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
21	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 reviewed the policy on release of 100 per cent of daily subsistence allowance. Management has decided on an automated solution that will close trips in VISION after 30 days of trip completion. Any claim after that period will require approval from senior management to be processed. This recommendation is considered to have been implemented and further overtaken by events.	The Board noted the steps already taken and in progress. In view of the new developments under way, this recommendation is considered to have been overtaken by events.				X
22	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.	In 2016, UNICEF engaged an external consultancy organization to carry out a partial review of custom-developed solutions in preparation for future improvements to the systems. The code review exercise provided useful input to actions that had been incorporated into the ongoing enhancement of the UNICEF SAP solution landscape. Given that UNICEF conducted a verification of the compatibility and customization process of VISION in 2016, it does not believe that completing the same again will add value. UNICEF therefore addressed the elements noted in the audit findings on the travel process through enhancement to the system and training given to users. In this regard, UNICEF implemented the enhanced functionalities (also noted in the	The enhanced functionalities referred to in the response were not working properly, as commented in previous reports. In addition, the issue of working on a new functionality was also noticed during this year's audit. Therefore, the recommendation is considered to be under implementation.		X		

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				recommendation contained in paragraph 48 of A/73/5/Add.3) in VISION, namely: (a) A formal warning mechanism for staff having more than two trips open; (b) Automated reminders for open travel authorizations in VISION; (c) A hard stop on new travel authorizations when more than three are already open.					
23	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 to update the user access management guide and the segregation of duty rules.	Given that the user access management guide is being updated, the recommendation is considered to be under implementation.		X		
24	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 is updating the user access management guide and the segregation of duties report mentioned in the previous recommendation. The resulting segregation of duties reporting will reflect the mitigation of the conflict in the segregation of duties by the Global Shared Service Centre process and incorporate transaction-level monitoring.	Give that the action in this regard is under way, the recommendation is considered to be under implementation.		X		
25	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	UNICEF has implemented this recommendation. The reasons for the later submission of the financial statements of National Committees are known and understood by UNICEF and the Committees. They are due primarily to the fact that the	In view of the action taken, the recommendation is considered to have been implemented.	X			

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			certified final revenue and expenditure reports.	audited financial statements must be approved by their relevant boards, which happen 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 through the revenue and expenditure reports. This is part of an annual exercise that entails an effective monitoring process with respect to the submissions from National Committees. UNICEF considers this recommendation to have been implemented and requests its closure.					
26	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 they respect the cooperation agreement. The clause of the cooperation agreement that relates to the management of funds and assets was not violated by any National Committee mentioned by the auditors because it allows investments that are otherwise in accordance with existing national charity standards. There were no cases identified when the National Committees were not in compliance with the national charity standards and their investment policies. A clause of the cooperation agreement restricts investment in	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				speculative assets, and there were no cases identified in which investments made by the National Committees were speculative. Given that this is an annual exercise and UNICEF has reviewed and noted that there are no National Committees that are not in compliance, UNICEF considers this recommendation to have been implemented and requests its closure.					
27	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 requested closure of the recommendation. Through the IMPACT Plan, management has formulated appropriate mechanisms to enhance the level of contribution from potential income channels such as corporate donors. Management has provided considerable evidence of UNICEF investment in strategies to improve performance. UNICEF will most likely not reach every target across every market because this is not a realistic goal. The original recommendation requires analysis and formulation of an appropriate strategy, which has been implemented in full. UNICEF requests closure on the basis of the mentioned implementation action.	In view of the action taken, the recommendation is considered to have been implemented.	X			

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28	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 the monitoring of donor reports to improve their timeliness and quality. UNICEF is developing a donor-reporting portal. The donor report tracker component of the portal is scheduled to be completed in the third quarter of 2020. The donor report tracker will replace the current report tracker and records management in VISION. As part of migrating information to this new donor-reporting monitoring system/ mechanism, information on submission of donor reports will be updated.	Given that the donor reporting portal and related aspects are under development, the recommendation is considered to be under implementation.		X		
29	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 agrees to further strengthen the monitoring of donor reports to improve their timeliness and quality. UNICEF is developing a 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.	Given that the donor reporting portal and related aspects are under development, the recommendation is considered to be under implementation.		X		
30	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.	Since 2017, UNICEF has been strengthening its internal control framework on cash transfers to implementing partners. In 2018, UNICEF issued the revised procedure on a harmonized approach to cash transfers to implementing partners that outlined	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				instructions, roles and responsibilities concerning 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 allow country, regional and headquarters management to provide effective monitoring and oversight. The implementation of eTools is further evidence of the action taken to implement the recommendation.					
31	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.	In the context of audit of the Sri Lanka country office in 2017, by which the observation was made, the recommendation is implemented. To address the recommendation, UNICEF established a supply plan within the emergency preparedness platform in the first quarter of 2018. In addition, in the second quarter of 2018, it established long-term arrangements for the procurement of the most critical supplies and services. UNICEF further established a qualified vendor list for the procurement of potential emergency supplies and supplies locally. UNICEF therefore requests closure of this recommendation.	In view of the action taken, the recommendation is considered to have been implemented.	X			

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32	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.	See reply above to recommendation No. 11 (A/72/5/Add.3, chap. II, para. 170).	In view of the action taken, the recommendation is considered to have been implemented.	X			
33	2018	A/74/5/Add.3, chap. II, para. 15	The Board recommends that UNICEF disclose information regarding target and actual revenue in the notes to the financial statements.	UNICEF disagrees with this recommendation. The current disclosures on expenditure authority that are included in statement V of the annual financial statements on the comparison of budget to actual amounts are fully in line with IPSAS and the harmonized position of the United Nations system. Under the United Nations task force harmonization agreement, it is established that organizations with assessed contributions (expenditure authority granted by the General Assembly) would apply the requirement to present revenue information noted in the recommendation. This requirement would not be applicable to agencies that do not receive assessed contributions, such as UNICEF. For UNICEF, as a voluntary funded entity, expenditure authority is not granted by the Assembly but pursuant to each agreement with the relevant	Given that no action has been taken by UNICEF on the recommendation, it is considered to be not implemented.			X	

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				donor. As a result, the information presented in statement V is in line with other voluntarily funded agencies and programmes of the United Nations system and fully in line with IPSAS, and a different presentation would run contrary to the aforementioned references.					
34	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF provided a thorough explanation of material differences between the "original budget" and "final budget" by budget categories in the 2019 financial statements, under note 5 (comparison to budget).	In view of the action taken, the recommendation is considered to have been implemented.	X			
35	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has included in the 2019 financial statements, under note 18 (employee benefits liabilities), the split disclosures regarding defined benefit plans for active and former employees.	In view of the action taken, the recommendation is considered to have been implemented.	X			
36	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has policies and procedures in place regarding the management of outstanding advances. Accordingly, advances are reviewed periodically, as a result of which an amount of $1.87 million in education grants and $0.7 million in salary advances had been cleared subsequent to the 2018 audit.	The Board continued to note some numbers of old outstanding advances in the current audit and considers this recommendation to be under implementation.		X		

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				Further supplementing this, UNICEF has analysed outstanding advances. Where amounts are not recoverable, write-offs have been approved. For other outstanding advances, an action plan has been put in place according to the case, either through payroll or specific actions to target a timely settlement. Action has been developed and implemented, including the Comptroller's memo on personnel advance recovery accounts. The remaining advances relate to accounts in which recoveries are made in line with agreed payment plans.					
37	2018	A/74/5/Add.3, chap. II, para. 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.	As acknowledged in the report of the Board for the year ended 31 December 2018, UNICEF implemented this recommendation. Management reviewed and considered the feasibility of the proposed recommendation. As shared with the headquarters audit team, UNICEF has implemented alternatives to simplify the various levels of certification required for the initiation and completion of travel authorizations. As a result, the certification noted in this recommendation is no longer a requirement or applicable. UNICEF requests closure of the recommendation on the basis of alternative measures implemented, and the recommendation has been overtaken by events.	The Board noted the steps already taken and in progress. In view of the new developments under way, this recommendation is considered to have been overtaken by events.				X

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38	2018	A/74/5/Add.3, chap. II, para. 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 on the cases of quantity mismatch.	UNICEF has continued to follow up on open goods receipt/invoice receipt with monthly closure activity and year-end schedules, as recommended by the Board in prior years. The performance with regard to ageing must be measured in the context of the general trend in open items. While the absolute number of items pending for more than 120 days has increased in volume, the increase was at a rate lower than the total increase in open items, and the value of the open items greater than 120 days was 33 per cent lower than in 2019. While the total of items open increased by 946 (16 per cent), the total of items open for longer than 120 days increased proportionally less, by 79 (only 10 per cent). In addition, the number of items open for longer than 365 days decreased, contrary to the general trend in all open items, from 246 items in 2018 to 193 items in 2019, a drop of 22 per cent by count and 55 per cent by value.	In view of the action taken, the recommendation is considered to have been implemented.	X			
39	2018	A/74/5/Add.3, chap. II, para. 61	The Board recommends UNICEF review the feasibility of improving the mapping of country-level targets to the strategic plan targets in the programme information database coding structure.	UNICEF has already implemented this recommendation through the robust programme information database coding currently in place. UNICEF maintains the primacy of the nationally led country programme and its focus on achieving results for	The Board noted that a large number of outcomes and output indicators were yet to be assessed and that, for different outcome and output indicators, ratings		X		

						Status after verification			
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				children and women through the realization of national development priorities and goals (see report on the accountability system of UNICEF, E/ICEF/2009/15). Programmes of cooperation represent the UNICEF contribution to national efforts to implement the 2030 Agenda for Sustainable Development and achieve the child-related goals. The programmes contribute to the achievement of results outlined in the UNICEF Strategic Plan, 2018–2021. Goal Areas and result areas within the country programme documents speak to the accountability of the organization towards children and to placing national development priorities first. They are developed and designed in consideration of the Strategic Plan second. The programme information database codes inform the formulation of country programme documents and, specifically, enable the association between country programme document results and the Strategic Plan. All levels of UNICEF results (outcomes/outputs) and workplan activities entered into the UNICEF enterprise resource planning system (VISION) are associated with the Strategic Plan using programme information database codes.	were yet to be finalized. Moreover, the Board was not provided with document related to any exercise carried out to review and improve the mapping in the programme information database coding structure for the potential overlaps. The Board considers the recommendation to be under implementation.				

						Status after verification			
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				This enables UNICEF to track the contribution of all expenditures to the strategic plan. On the basis of the existing robust and effective mechanism that is in place for mapping programme components, outcomes and indicators in country programme documents with those of the strategic plan, UNICEF considers this recommendation to have been implemented.					
40	2018	A/74/5/Add.3, chap. II, para. 67	The Board recommend 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.	UNICEF stated that the gaps identified during 2018 were measured in programmes conducted from the Amman hub in the southern Syrian Arab Republic. The gaps are the result of limited access to the territories by UNICEF partners. UNICEF has already set up a plan of action with the related government ministry for an effective distribution of micronutrients for 2019–2020, which includes an activity to explain to caregivers the importance of these micronutrients for the most vulnerable families, especially among Syrian refugees who have limited options to diversify the diet of their children. UNICEF further examined shortfalls in the achievement of targets during the year-end and conducted annual review meetings internally and with partners to review the	The Board noted the response about steps taken by UNICEF, in particular the country offices. However, the recommendation was included for the gaps highlighted against achievement of targets for output indicators for UNICEF as a whole for Goal Area 1, and in this regard the Board also noticed some gaps in the achievement of targets for 2019. Therefore, the Board considers the recommendation to be under implementation.		X		

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				humanitarian results based on the situation reports. Results were reflected in the 2019 workplans. The Middle East and North Africa Regional Office undertook both mid-year and end-of-year reviews of development and humanitarian results in 2019, assessing the related achievements. UNICEF further reported that there was a clear distinction between the Syrian Arab Republic country office results (managed by that country office) and the Syrian cross-border operations, which are related to the southern Syrian Arab Republic and overseen/operated by/out of the Middle East and North Africa Regional Office. The context of the original recommendation was in relation to the Syrian cross-border operations, in which case the Syrian Arab Republic country office's indicators selected in the Board's comment above are different and not applicable. UNICEF requests the closure of the recommendation on the basis of evidence of implementation.					
41	2018	A/74/5/Add.3, chap. II, para. 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	UNICEF replied that it had implemented action to complete data sets and prepare baselines for the improved planning, monitoring and implementation of programmatic activities in both the Lebanon country office and the Latin America and the	The Board noted that information regarding the Latin America and the Caribbean Regional Office, the Panama country office and other business areas		X		

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			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.	Caribbean Regional Office. Regarding the issue of a vaccination survey not updated since 2016, UNICEF furnished the data on immunization for 2019 and submitted a rolling workplan for 2020–2021 for Lebanon with baseline data and target set for 2020 under various indicators. The rolling workplan included some of the indicators being added, removed or tweaked.	of UNICEF were yet to be furnished, together with the suitable measures to address the concerns highlighted in the recommendation. The Board considers the recommendation to be under implementation.				
42	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF continues to close gaps in HACT assurance activities. On the basis of progress achieved in the Middle East and North Africa Regional Office and the Latin America and the Caribbean Regional Office, UNICEF requests the closure of the recommendation. By the end of 2019, the Middle East and North Africa region had achieved 198 per cent of the programmatic assurance visits. All offices reached the HACT key performance indicator target. With respect to financial assurances, the overall achievement was 93 per cent, with 572 spot checks (minimum requirement of 613). The slight underperformance related to some offices' operations being affected by natural disasters and deteriorating security conditions owing to an escalation in conflict. The State of Palestine achieved 100 per cent compliance, Iraq 98 per cent,	The Board noted that similar issues had been noticed during the current audit. In addition, the recommendation was issued for all of UNICEF only in the draft audit report issued to UNICEF for comments. After considering the response of UNICEF, the language was adjusted to focus more on the specific offices. However, the result of the analysis of a sample can also indicate a need for review of the systems in place at other places in the organization. The Board therefore considers this recommendation to		X		

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				Lebanon 98 per cent, the Sudan 98 per cent, Yemen 91 per cent, Iran 71 per cent, Djibouti 44 per cent and Libya 6 per cent. For 2020, the Middle East and North Africa Regional Office will advise country offices to engage audit firms early enough for reports to be submitted in eTools before year-end and work with small offices where staff capacity is limited. In 2019, the Latin America and the Caribbean Regional Office continued to invest and strengthen HACT quality assurance activities across country offices, reaching 104 per cent in programmatic visits and 94 per cent in spot checks. With regard to spot checks, 19 country offices have now met the minimum requirements. Only four country offices, which are situated in the context of a humanitarian response, were yet to reach targets for spot checks in 2019, compared with five that did not reach the targets in 2018. This slight improvement is the result of follow-up action taken with country offices as UNICEF continues its oversight of quarterly results of HACT status reports. Additional support and attention are being prioritized in 2020 to those four country offices working in a humanitarian context, in particular on implementing partnerships and guidance and	be under implementation.				

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				support regarding findings to ensure that they can meet their targets. Similar to the response to the recommendation contained in paragraph 71 of A/74/5/Add.3, regarding the second part of the recommendation, UNICEF noted the inclusion of the second part of the recommendation, for the first time, only in the final report. Given that the basis of the global recommendation is unclear and this recommendation was not raised during the global audit visits, the relevant management letters or the Board’s draft report, UNICEF requests removal of this section of the recommendation on the basis of the points noted and considers it to have been implemented, as illustrated in the detailed action taken across the offices in which the matter was noted.					
43	2018	A/74/5/Add.3, chap. II, para. 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,	UNICEF stated that the Lebanon country office had completed the follow-up on the findings/recommendations of spot checks related to 2018. Similar to the responses to the recommendations in paragraphs 71 and 79 of A/74/5/Add.3, UNICEF noted the inclusion of that part of the recommendation, for the first time, only in the UNICEF final report. Given that the basis of the global recommendation is unclear and this	The status of action taken to review status in other offices was not clear. In addition, the recommendation was issued for the entire UNICEF only in the draft audit report issued to UNICEF for comments, and after considering the response of UNICEF, the		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
			take the measures necessary to fill the gaps.	recommendation had not been raised during the global audit visits, the relevant management letters or the Board's draft report, UNICEF requests the removal of this section of the recommendation on the basis of the points noted and considers the recommendation to have been implemented, as illustrated in the detailed action taken across the offices in which the matter was noted.	language was adjusted to focus more on the specific offices. However, the result of an analysis of a sample can also indicate the need for a review of the systems in place at other places in the organisation. The Board considers this recommendation to be under implementation.				
44	2018	A/74/5/Add.3, chap. II, para. 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.	Noting that the recommendation arose from the Board's observation that the details such as name, title and signature of the approving authority may not have been included on some funding authorization and certificate of expenditures forms, UNICEF considers this recommendation to have been implemented by way of the ezHACT module, for it enabled the automatic routing of those forms for approval within VISION. Accordingly, no physical signatures are required for UNICEF staff because all approvals are captured electronically through SAP. The existing system controls ensure that neither payment of an advance nor liquidation is possible without appropriate UNICEF policy-mandated approvals being captured.	Similar issues were also noticed in the current audit. In addition, the status of remedial measures taken in these specific offices will be verified during next audit. The Board therefore considers the recommendation to be under implementation.		X		

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				In addition, to strengthen the controls over the completion of mandatory fields on the funding authorization and certificate of expenditures forms, the State of Palestine and Lebanon country offices organized refresher training for all staff in January and February 2019, respectively. The training emphasized the importance of completeness of funding authorization and certificate of expenditures forms. Chiefs of section are reviewing the forms to ensure completeness of information in advance of cash transfers. The form guidelines have also been shared with partners.					
45	2018	A/74/5/Add.3, chap. II, para. 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.	Acknowledging the attachment of supporting documentation as a good practice, UNICEF wishes to highlight the challenging environments in which its offices operate, by virtue of which the mandatory attachment of funding authorization and certificate of expenditures forms is not feasible. Given that offices currently attach supporting documentation, as applicable, UNICEF will encourage offices to continue this practice. However, owing to varied, challenging operating contexts in the field, including intermittent Internet connectivity and lack of equipment to scan, mandating the upload of supporting documentation is not feasible.	In view of the review carried out, the recommendation is considered to have been overtaken by events.				X

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				However, offices retain such documentation in the office, in line with UNICEF policy on the retention of recorded information. The recommended feasibility review has been conducted. The attachment of funding authorization and certificate of expenditures forms in VISION is highly encouraged and applied in most cases but is currently not mandatory.					
46	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF stated that, in the State of Palestine country office, follow-up on the recommendations and suggestions of the partnership review committee was conducted and the related outcomes were reported. The committee reviewed the results of the follow-up action and endorsed the programme document for approval. It also confirmed that all related forms had been updated in accordance with the new global procedures and guidelines, with the commitment to overseeing the use of the forms, including the recording of action taken. Similarly, checklists are now used systematically to ensure complete documentation from committee reviews.	In view of the action taken, the recommendation is considered to have been implemented.	X			
47	2018	A/74/5/Add.3, chap. II, para. 109	The Board recommends that the Panama and Ecuador country offices carry out a formal process for the open selection of civil society organizations	UNICEF considers this recommendation to have been implemented through the initiatives undertaken by the Latin America and the Caribbean Regional Office and	The Board noted that most civil society organizations in Ecuador and Panama had been		X		

						Status after verification			
No.	*Audit report year*	*Report reference*	*Recommendation of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
			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.	the Panama and Ecuador country offices. The Regional Office continues to guide offices in the region in applying more strategic selections of partners and ensuring that every partner identified in an expression of interest is reviewed during the selection process. In the case of direct selection, documentation of the process and the review of the partnership review committee is documented. The Regional Office continues to support the global roll-out of eTools and the UN Partner Portal to document the selection process more transparently.	chosen through the direct selection method in 2019. In addition, the status of review of selection methodology across other country offices was not clear. The recommendation is therefore considered to be under implementation.				
48	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has continued to follow up outstanding direct cash transfers, and the age of outstanding direct cash transfers has continued to improve. At year-end, the global total of direct cash transfer balances was 0.9 per cent of total transfers, which is within the key performance indicator set for offices of <1 per cent of transfers more than nine months old. UNICEF considers that action taken supports the closure of the recommendation.	The Board noted that outstanding direct cash transfers had increased to $857.37 million (2019) from $788.30 million (2018). The recommendation is therefore considered to be under implementation.		X		
49	2018	A/74/5/Add.3, chap. II, para. 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	The Latin America and the Caribbean Regional Office considers this recommendation to have been implemented. The Regional Office continues to advise country offices on adequate adherence to the	Similar issues were also noticed in the current audit, and the recommendation is therefore considered to be		X		

						Status after verification			
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			follow the provisions of the framework while processing direct cash transfers.	HACT framework. Support is executed through visits to country offices and webinars to country teams. Additional support is given to country offices in addressing their questions through emails and Skype calls. On a bimonthly basis, country offices are reminded to keep track of direct cash transfers outstanding for periods longer than six months. In 2019, 16 of 23 country offices had reduced their number of implementing partners with direct cash transfers pending for more than six months, compared with 2018.	under implementation.				
50	2018	A/74/5/Add.3, chap. II, para. 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 the strategies to address the issues having an impact on their performance to help to achieve the targets for the current strategic plan period.	UNICEF acknowledges this recommendation and has already completed implementation. The Private Fundraising and Partnerships Division identifies underperforming markets and works closely with the related offices on the strategies to address any matters affecting performance, regularly adjusting for market changes. In 2019, the Division developed an "acceleration plan", which is a pre-COVID-19 strategy designed to increase the rate of growth in private sector revenue by identifying and tackling global opportunities and issues and working with relevant markets and UNICEF divisions to make changes. The strategy has shifted once again with the	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				outbreak of COVID-19. The risk that the recommendation is trying to address is whether UNICEF monitoring and management of National Committee/country office performance is robust enough to address performance. UNICEF regularly analyses performance and adjusts strategy accordingly. The original objective of reaching the goals of the IMPACT Plan was overtaken by events. UNICEF now works with markets to assess the forecasted funds and respond to the changing situation.					
51	2018	A/74/5/Add.3, chap. II, para. 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.	In accordance with financial rule 107.8, the Executive Director may agree to vary the 25 per cent retention target, and such variances shall be documented. The management of the National Committees is delegated to the Director of the Private Fundraising and Partnerships Division. The Director approves variances to the 25 per cent retention target annually through the approved joint strategic plans. The plans include an annex, entitled "Pathway to 75%", which shows the approved contribution rate for the next five years. Consequently, the recommendation is considered to have been implemented and aligned with the UNICEF financial rule. In addition, the	In view of the action taken in the specific context of issue highlighted in this paragraph, the recommendation is considered to have been implemented.	X			

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				recommendation is a duplicate of the one contained in paragraph 36 of A/72/5/Add.3, which has now been closed.					
52	2018	A/74/5/Add.3, chap, II, para. 140	The Board recommends that UNICEF constructively engage with the National Committees to have a reserve policy that is aligned to maintenance of benchmark requirements for reserve levels.	UNICEF engaged with all the National Committees that had reserve policies due for review. As a result, 14 policies were reviewed and updated; 14 will be reviewed and updated during 2020 (as a result of the action undertaken in 2019). A remaining four are not due for review in 2020. A review of reserve policies when they are due for update will be an ongoing activity. Consequently, UNICEF requests the closure of this recommendation.	The Board noted the response and considers the recommendation to be under implementation.		X		
53	2018	A/74/5/Add.3, chap. II, para. 144	The Board recommends that UNICEF take the measures necessary for 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.	UNICEF has implemented this recommendation through the 2019 joint strategic plans with its National Committees. UNICEF considers this recommendation to have been implemented and requests its closure by the Board	In view of the action taken, the recommendation is considered to have been implemented.	X			
54	2018	A/74/5/Add.3, chap. II, para. 150	The Board recommends that UNICEF improve the management of fundraising development programme portfolio through a more realistic assessment of the return on investment and put a robust monitoring mechanism in place for	UNICEF agrees with this recommendation and considers it to have been overtaken by events through the revised investment fund framework. In accordance with the current framework, UNICEF expects the return on the comprehensive portfolio to reach 3:1, rather than all individual activities	In view of the present status of change in the framework, the recommendation is considered to have been overtaken by events.				X

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			timely interventions in cases of below par performances.	funded under the fundraising development programme achieving the same return. This approach facilitates management of the overall portfolio result. It also incentivizes offices to submit more realistic forecasts for returns on proposals. Consequently, the recommendation is considered to have been implemented.					
55	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF agrees with this recommendation and states that, through its Private Fundraising and Partnership Division, it developed and launched a payment module and a fundraising reduction module in April and June 2019, respectively, in which data from VISION (inSight) are used.	In view of the action taken, the recommendation is considered to have been implemented.	X			
56	2018	A/74/5/Add.3, chap. II, para. 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.	In 2019, UNICEF prioritized other enhancements to the investment funds platform (e.g., the introduction of management screens and dashboards, which assist in managing the budgeting and performance of funds). This was a higher priority than documenting why duplicated or mistaken requests were deleted, which, to the people managing the fund, is self-evident (i.e., they can see what is not approved or complete). UNICEF focused its attention on introducing the management tools that were a higher priority. Since then, the investment fund budget was cut by the organization, and	In view of the present status, the recommendation is considered to have been overtaken by events.				X

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				UNICEF paused any further development of the platform. Resources are now focused on reviewing how investment funds are to be deployed, given the reduction in the budget, and on developing alternative funding mechanisms (e.g., a revolving fund). Consequently, the recommendation is overtaken by events.					
57	2018	A/74/5/Add.3, chap. II, para. 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.	As part of the close monitoring of goods in transit, UNICEF developed and introduced a new monitoring approach to country offices in August 2019. This logistics-based monitoring has helped them to monitor supplies within their control, with a focus on emergency supplies. Country offices justify bimonthly goods in transit beyond 60 days after shipment end, including emergency supplies. Management strives to achieve the lowest level of goods in transit; however, it is important to highlight that perfection is not feasible, in particular considering the challenging contexts in which UNICEF operates. That situation notwithstanding, management has achieved a 37 per cent reduction of goods in transit beyond 100 days on the basis of the implemented actions and requests the closure of the recommendation.	The Board noted that cases of goods in transit for a long period of time continued to be noticed in the present audit. The recommendation is therefore considered to be under implementation.		X		

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58	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF reviewed and elected to maintain the maximum delivery time commitments, as noted in Supply Division procedure 010. The Division has focused on monitoring the timeliness of deliveries of emergency items in line with the procedure. The Division developed a report and has further integrated it into the regular system to monitor the timeliness of orders. The Division has also taken corrective action, as evidenced by the improvement demonstrated by the end of the first quarter of 2020, where the timeliness of delivery of emergency orders increased to 85.88 per cent, up from 74.5 per cent at the end of 2019. Delivery of orders entails aspects that are beyond UNICEF control. While UNICEF strives to achieve the highest level of timeliness in the delivery of emergency orders, it is important to highlight that perfection is not feasible, in particular given the challenging contexts in which UNICEF operates, such as in Nigeria, Somalia, and Yemen. UNICEF therefore respectfully requests the closure of this recommendation on the basis of the implemented actions and the reduced lead times in the performance in first quarter of 2020.	The Board noted that cases of delays in emergency supplies continued to be noticed in the present audit. In addition, the Board will verify the action taken and results, as detailed in the response, during its next audit. The recommendation is therefore considered to be under implementation.		X		

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						Implemented	Under implementation	Not implemented	Overtaken by events
59	2018	A/74/5/Add.3, chap. II, para. 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.	To address issues on freight forwarders performance, the Supply Division amended the definition of the dispatch key performance indicator. It currently measures the period from actual loading end date (instead of notification of goods readiness date) to actual shipment start date, with the allowable number of working days adjusted accordingly. Data validation steps were implemented to avoid incorrect data input. In order to address low performance, the West and Central Africa region ended contracts with non-performing freight forwarders. Furthermore, the freight forwarders were notified in February 2020 quarterly business review that low performance would result in UNICEF exercising its contractual right to waive handling fees on failing shipments.	In view of the action taken, the recommendation is considered to have been implemented.	X			
60	2018	A/74/5/Add.3, chap. II, para. 183	The Board recommends that necessary action be taken by the specific regional and country offices to minimize container retention and consequent demurrage expenses.	UNICEF undertook a root cause analysis of the reasons for delays in the return of containers and provided information to regional offices and country offices to enable specific action to be taken to prevent demurrage charges. On the basis of the detailed information provided to the Board on this matter, the related recommendation in paragraph 206 of its report for the year ended 31 December 2017 (A/73/5/Add.3, chap. II) was deemed implemented and closed.	In view of the action taken, the recommendation is considered to have been implemented.	X			

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				Following the root cause analysis and on the basis of responsive action undertaken, UNICEF has demonstrated the minimization of container retention. This is evidenced in (a) in the information shared with the Board teams in the Supply Division and at headquarters during the 2019 audit of the Division on the status of implementation of the recommendations, and (b) the response to an audit query on this matter (AQ 27 – demurrage and container detention charges). While management strives to achieve the lowest level of container retention, it is important to highlight that perfection is not feasible. This is particularly applicable considering the specific political and administrative challenging contexts that UNICEF operates in, for example, Afghanistan and Yemen, which account for the majority of container retention in their relevant regions, owing to factors beyond UNICEF control. Furthermore, in 2019, with a 10 per cent increase in the volume of containers discharged compared with 2018, UNICEF managed to improve the average delivery time, from discharge to empty return. As of December 2019, 66 per cent of all containers returned had been done so within the allocated free time, compared with 63 per cent					

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				in December 2018. UNICEF requests confirmation of the closure of this recommendation.					
61	2018	A/74/5/Add.3, chap. II, para. 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.	Requirements to incorporate container information and tracking in the electronic data interchange have been defined as part of phase II development and were implemented in December 2018. Phase II development of the electronic data interchange led to container information and tracking in the exchange being available in VISION for real-time monitoring. A report has been developed for this purpose and will be made available to country offices in 2020. UNICEF continues to share an improved version of the biweekly report to facilitate continuous review by country offices and regional offices and to highlight high-level risks in term of timelines. The data accuracy from freight forwarders has been improved through continuous reviews and discussions with freight forwarders.	In view of the action taken, the recommendation is considered to have been implemented.	X			
62	2018	A/74/5/Add.3, chap. II, para. 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	See reply above to recommendation No. 11 (A/72/5/Add.3, chap. II, para. 170).	In view of the action taken, the recommendation is considered to have been implemented.	X			

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						Implemented	Under implementation	Not implemented	Overtaken by events
			of vaccine arrival reports and further strengthen the monitoring of delivery and supply of vaccines.						
63	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF is developing a web-based procurement case management tool. Management has completed the discovery phase and development has begun, and the project is on track to be completed by the fourth quarter of 2020.	The Board noted that the procurement case management tool was under development and considers the recommendation to be under implementation.		X		
64	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has implemented this recommendation by way of the inclusion of the clause on levy of liquidated damages as part of the standard contractual documents in English (March 2019), and the provision in Spanish was included in April 2019, in line with the attached evidence. As part of ongoing operational efforts, the Latin America and the Caribbean Regional Office also continues to strengthen its communication with contractors regarding applicable penalties in case of non-compliance. Management has implemented the recommendation and requests its closure.	In view of the action taken, the recommendation is considered to have been implemented.	X			
65	2018	A/74/5/Add.3, chap. II, para. 204	The Board also recommends that specific dates on which the final delivery of services was	To monitor the dates when final delivery of services was completed and to improve the documentation of delivery dates for services, the Latin America	The Board noted that that reply did not address specific action taken to ensure dates on		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
			made be properly documented.	and the Caribbean Regional Office issues monthly monitoring reports to all country offices for each office's review and management of contracts, including final delivery and closure of expired contracts, among other efforts.	which the final delivery of services or goods received was properly documented, and the Board was also not provided with any related documentation. The Board therefore considers the recommendation to be under implementation.				
66	2018	A/74/5/Add.3, chap. II, para. 210	The Board recommends that existing internal controls be reviewed to put in place a robust mechanism over the bank guarantees received by UNICEF.	UNICEF assessed ways of strengthening its due diligence, in addition to the existing controls surrounding bank guarantees. Noting that the origin of this recommendation was related to a fraudulent activity committed by a vendor, management confirms that the case is being handled in line with the relevant UNICEF financial regulations and rules. In addition, the Lebanon country office has implemented additional control mechanisms in cooperation with the financial institution concerned to verify and validate the authenticity of letters of guarantee provided by suppliers' banks. The country office has revised the procedure for the management of bank guarantees to implement additional control mechanisms in cooperation with the applicable financial institution to verify and validate the	The Board noted that the revised mechanism had been issued for the Lebanon country office. It awaits details of the exercise carried to identify similar risks in other offices 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
				authenticity of the letters of guarantees provided by suppliers' banks.					
67	2018	A/74/5/Add.3, chap. II, para. 211	The Board also recommends that investigation in the fraud case be completed in a timely manner and that necessary remedial action be taken.	The referenced case was handled in line with relevant UNICEF policies and procedures relating to investigations. As a result of the investigation findings, UNICEF took necessary remedial action, which included the vendor being blocked. Upon follow-up with the contractor and local authorities, all works due from the contractor were satisfactorily completed and delivered.	The Board noted that relevant documents for the action taken were not provided and considers the recommendation to be under implementation.		X		
68	2018	A/74/5/Add.3, chap. II, para. 219	The Board recommends that UNICEF further strengthen the monitoring mechanism over submission and follow-up of VAT claims. The Board also recommends that available measures be explored for timely settlement of long outstanding claims.	UNICEF has operationalized the monitoring over submission and follow-up of VAT claims and considers this recommendation to have been implemented. VAT exemptions are fully taken advantage of, where available. Delays in collections do occur, but these are beyond UNICEF control and are followed by diplomatic efforts at the local and inter-agency levels involving sister agencies and the resident coordinator. At UNICEF, reinforcement through a new policy, entitled "UNICEF procedure on direct taxes, value added taxes and other taxes and duties", has been introduced to provide a clear framework for the management of VAT.	In view of the action taken, the recommendation is considered to have been implemented.	X			
69	2018	A/74/5/Add.3, chap. II, para. 236	The Board recommends that UNICEF review and strengthen the methodology to calculate	The Global Shared Service Centre has recently developed a robust methodology for calculating the savings and	The Board will carry out verification of the benefits calculated		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
			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.	benefits achieved. This will be used for calculating all future savings and benefits and will be shared with other divisions to ensure that a consistent approach is taken to these calculations.	using the new methodology during its next audit and considers the recommendation to be under implementation.				
70	2018	A/74/5/Add.3, chap. II, para. 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	The Global Shared Service Centre agrees that the current service catalogue should be reviewed to ensure that it details all the services provided by the Centre, relevant responsibilities of the Centre and its customers and dependencies on other divisions/third parties. As a complement to this, the Global Shared Service Centre will continue to focus on the development of comprehensive internal instructions and external procedures for all process areas. In the first quarter of 2020, UNICEF issued the comprehensive service catalogue to ensure completeness in the definition of the roles and responsibilities of the Global Shared Service Centre in relationship to its stakeholders. The Centre has updated standard operating procedures, process instructions and accountability splits for all processes.	The Board appreciates the action taken by the Global Shared Service Centre in developing comprehensive internal instructions and will verify the documents during its next audit. The Board also notes that comprehensive documents defining the roles and responsibilities and revision to the service catalogue are yet to be completed. The Board considers the recommendation to be under implementation.		X		
71	2018	A/74/5/Add.3, chap. II, para. 270	The Board recommends that UNICEF review the service-level agreement targets for business processes and take into	For this recommendation, UNICEF completed the implementation by reviewing the service level agreement targets for business processes, in the	In view of the action taken, the recommendation is	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
			consideration the average time taken for processing as an important input in the exercise.	light of average processing times. Changes to service level agreement targets have been agreed following a review of average processing times. Access to the service level agreements, calculation of the agreements, real-time performance measurements and the escalation process was availed to the Board.	considered to have been implemented.				
72	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has completed the implementation of this recommendation by issuing ticket-handling guidelines, which were rolled out in December 2019 to all processors and their supervisors in the Global Shared Service Centre. The guidelines illustrate the standard approaches for handling case requests, including how to handle email requests and when to escalate long-overdue returned cases. Section 9, on prioritization and follow-up, includes service level agreement ageing, with a description of the steps to be followed to ensure that there is a tolerance limit fixed to tickets with a breached service level agreement. All cases closed beyond 200 per cent of their service level agreement target timelines will be reviewed by the service quality management team and the team leaders in the weekly performance meetings.	In view of the action taken, the recommendation is considered to have been implemented	X			

						Status after verification			
No.	*Audit report year*	*Report reference*	*Recommendation of the Board*	*UNICEF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
73	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has completed the implementation of this recommendation by issuing the ticket-handling guidelines, which were rolled out in December 2019 to all processors and their supervisors in the Global Shared Service Centre. Section 6 of the guidelines are on the review of cases in which the Centre processor may suspend a case manually. Manual suspension shall be justified according to default reason codes. Similarly, section 9 describes the need for a weekly analysis of the ageing of suspended cases based on a report from the quality assurance manager. For cases suspended for more than one calendar month, a request is made to the team leader of the case owner to prepare a root cause analysis, which is included in a monthly report to Global Shared Service Centre management.	In view of the action taken, the recommendation is considered to have been implemented.	X			
74	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF agrees with this recommendation and notes that the newly implemented Service Gateway case management tool includes drop-down menus with pre-listed reasons for return and rejection. Further enhancements, with an indicator of the reason for suspension or stoppage, have been completed, so that the ticket-handling guidelines referenced above incorporate a list of default	In view of the action taken, the recommendation is considered to have been 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
				reasons for rejecting cases in the tool. Similarly, section 8 of the guidelines presents the default list for rejecting cases in the ticketing tool.					
75	2018	A/74/5/Add.3, chap. II, para. 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.	Noting that the system already includes built-in master tables with mandatory fields and appropriate controls based on information types, the Global Shared Service Centre finance-master data management team performed an annual clean-up of vendor data. The most recent exercise was completed in July 2019. The roll-out of mandatory vendor fields was completed in January 2020. Following this, the team distributed vendor information for completion by country offices by the end of January 2020. For the human resources master data, the following actions have been taken: (a) Clear human resources master data fields have already been established and agreed to with the Division of Human Resources; (b) Data in the human resources master table will be reviewed quarterly for completeness and annually for accuracy and quality; (c) The master data management vendor data cleanse was completed in April 2020 and will continue to be performed twice annually.	The Board noted that the cleaning process was under way, but some issues were noticed in the current audit. The Board will also verify the results of the review carried out during 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
				The human resources master data completeness exercise and identification of mandatory fields was finalized on 31 December 2019. A quarterly review of completeness and an annual review of data quality and accuracy have been implemented as from January 2020. The recommendation is considered to have been implemented.					
76	2018	A/74/5/Add.3, chap. II, para. 284	The Board recommends that UNICEF incorporate necessary input controls and data checks, especially for the baseline date in VISION.	The Global Shared Service Centre-finance-master data management team introduced an automated control mechanism in September 2019. This tool checks baseline date for every invoice and flags any potential errors in data entry by comparing the invoice baseline date to document date (should be earlier or equal to) and posting date (should be later or equal to). Any invoice flagged as unusual is stopped for payment and corrected.	The Board noticed data errors during the present audit and therefore considers the recommendation to be under implementation.		X		
77	2018	A/74/5/Add.3, chap. II, para. 285	The Board also recommends that UNICEF take the measures necessary to ensure the timely submission and processing of invoices by all concerned offices.	The Global Shared Service Centre-finance-master data management invoice process instructions from December 2019 provide a reminder to the country offices that encourages the submission of invoices to the Centre within 10 days from receiving the invoice from the vendor. The monitoring of goods receipt/invoice receipt for purchase order invoices is also part of Division of Financial and Administrative Management monthly closure instructions.	The Board noticed similar issues during the present audit and therefore 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
				A monitoring tool is being developed to increase visibility for the offices to manage their performance in this area.					
78	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has undertaken the following action towards the implementation and closure of this recommendation: (a) Cases that were outstanding were identified and an email sent for approval to the Division of Human Resources; (b) The settlement case was submitted and approved by the Division; (c) The outstanding cases were identified, reviewed by the Division and settled by the Global Shared Service Centre by 31 March 2020. The recommendation is therefore considered to have been implemented.	The Board noted the response and will verify the action taken during its next audit. The recommendation is considered to be under implementation.		X		
79	2018	A/74/5/Add.3, chap. II, para. 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.	On the basis of the analysis done, cases were identified and the Division of Human Resources Director approved limiting to two years the recovery of overpayments. The settlement case was submitted to the Division by 31 December 2019, and the Division approved the settlement. The outstanding cases were identified, reviewed by the Division of Human Resources and settled by the Global Shared Service Centre by 31 March 2020. The recommendation is considered to have been implemented.	The Board noted the response and will verify the action taken during its next audit. The recommendation is therefore considered 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
80	2018	A/74/5/Add.3, chap. II, para. 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.	UNICEF has completed implementation of the recommendation as follows: (a) Payroll and the human resources administrative team identified enhancement areas for the monthly master data and fund exception report to split the responsibilities between payroll and human resources; (b) Payroll has reviewed the system’s logic for all the payroll validations embedded in the report and thereby classified them into two categories (i.e., (i) errors with payroll implications that require corrective action before actual payroll and (ii) warnings, which simply serve as a trigger for a review by the user). The validations that are redundant are removed; (c) The enhanced report is being signed off by the Information and Communications Technology Division. The monthly master data and funds exception report was enhanced and implemented in January 2020, in line with the recommendation. The human resources administrative and payroll teams have been using the updated report from February 2020 onwards. The enhanced report is reviewed every month prior to processing the actual payroll to identify the	The Board noticed cases of the expiry of the loan period identified in the master data and fund exception report, which were manually corrected to regularize the cases. In addition, the action taken, as detailed in the response, will be verified during next audit. The recommendation is therefore considered 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
				flagged exceptions or warnings, to avoid situations that can result in overpayment or underpayment to staff. As intended, the issues relating to the expiration of the loan period and the manual correction as highlighted by the Board in its observations were identified through the report and thereby validated and resolved. It has been five months since the enhanced report was implemented and it has resulted in the correct segregation of duties, including accountability splits between human resources administration and payroll and significantly stabilized the process, with the correct controls in place. Therefore, given that the recommendation has been acted upon and implemented, its closure is requested.					
Total						**33**	**40**	**1**	**6**
Percentage						**41**	**50**	**1**	**8**

Chapter III
Certification of the financial statements

Letter dated 31 March 2020 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

31 March 2020

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. The Fund's 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 the 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 Fund's independent internal oversight system 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 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, Hungary, Italy, Japan, the Republic of Korea and Switzerland and at regional offices in Ethiopia, Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

2. UNICEF helps governments and other partners to 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. The present financial statement discussion and analysis should be read in conjunction with the UNICEF audited financial statements for 2019, but does not form part of the statements. The financial statements were prepared for the calendar year 2019 in accordance with the UNICEF Financial Regulations and Rules and the International Public Sector Accounting Standards (IPSAS) and are included in chapter V of the present document. The 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

Operations

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 are led and managed by the Executive Director of UNICEF, Henrietta Fore, who is accountable to the Executive Board for all aspects of the Fund'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 prioritizes countries where children are in greatest need.

Coronavirus disease (COVID-19)

6. UNICEF and the world face an unprecedented global health crisis in the form of the COVID-19 pandemic. At the time of reporting, the pandemic is considered a material event but no adverse or beneficial impact has yet occurred. The future impact on the financial operations of UNICEF is also unclear; however, UNICEF is taking mitigation measures to reduce the impact of a possible reduction in regular resources contributions. The impact is likely to include reduced fundraising to finance other programmatic activities outside responses to COVID-19, potentially affecting the

most vulnerable. The financial results and investment returns could also be affected through changes in, among other things, interest rates, foreign exchange and equity markets.

7. The outbreak comes at a time when UNICEF is completing the midterm review and commencing the third year of implementation of the UNICEF Strategic Plan, 2018–2021. Additional discussion is included in the section entitled "Outlook for 2020 and beyond" of the present financial discussion and analysis. Financial sensitivity analyses on UNICEF financial operations are included in notes 18 and 29 to the financial statements, on employee benefits liabilities and financial instruments, respectively.

Resident coordinator system

8. In 2019, the United Nations implemented a new and independent resident coordinator system. The focus for 2019 was: (a) the establishment of resident coordinator offices; (b) the agreement of the management and accountability framework for country-level implementation; and (c) roll-out of funding, including the establishment of a mechanism for the collection of the 1 per cent levy. Resident coordinator offices were established, and UNICEF updated job descriptions for its country representatives to reflect changes in the management and accountability framework and was among the first entities of the United Nations Sustainable Development Group to pay their full contribution for 2019 of $8.3 million to the cost-sharing arrangement. UNICEF started collecting the levy from relevant donors making tightly earmarked development contributions, and collected $3.39 million related to agreements signed in 2019.

Midterm review

9. The midterm review confirmed that the greatest challenge to leveraging resources for children is maintaining and growing the organization's regular resources and other flexible funds. Despite commitments by Member States to quality funding, meaningful gains in this area have yet to be seen, while increased conditionalities and demand by partners for oversight and due diligence require more resources for risk mitigation and compliance with fiduciary requirements. The acceleration of results requires quality and flexible funding to innovate, build and leverage partnerships, strengthen capacities, generate data and enhance their use for action. It is also necessary to bridge gaps in humanitarian funding that has stringent donor conditionalities preventing the implementation of activities that will yield durable solutions. Flexible funding has become even more imperative to ensure that UNICEF has the flexibility to respond quickly in the context of the COVID-19 pandemic.

Independent Task Force on Workplace Gender Discrimination, Sexual Harassment, Harassment and Abuse of Authority

10. The Independent Task Force on Workplace Gender Discrimination, Sexual Harassment, Harassment and Abuse of Authority was established in 2018 to assess patterns of workplace gender-related discrimination, harassment and abuse of authority. The Task Force considered best practices from within the United Nations and other institutions in addressing similar issues, and provided findings and actionable recommendations to UNICEF in its report, submitted in June 2019. The report confirmed that staff were the organization's greatest assets in fulfilling its mandate for children, and that staff tried to live by the organization's core values of care, respect, integrity, trust and accountability.

11. In its report, the Task Force concluded that UNICEF needed to support a healthy organizational culture and provide checks and balances to fulfil the above-mentioned

critical role for all staff. Management responded to the Task Force's findings and recommendations (see E/ICEF/2019/26) and will continue to report to the Executive Board on the progress made in implementing the action points contained in the Task Force's report.

Programme results

Innovations

12. Innovations taken to scale included the youth engagement platform, U-Report, which reached 9 million people in 65 countries; the Learning Passport platform to improve learning access for children on the move; and health innovations, including HIV point-of-care diagnosis, the HPV+ initiative and the Scaling Pneumonia Response Innovations (SPRINT) project.

Implementation of the UNICEF Strategic Plan in 2018 and 2019

Figure IV.I
Progress made in the Goal Areas of the Strategic Plan

13. Two years into implementation, most of the Strategic Plan outputs are on track. Seventy-one per cent of output milestones have been met or almost met, with 12 per

cent somewhat off-track and 17 per cent significantly off-track. UNICEF has continued to deliver on the ground for children across the five Goal Areas of the Plan.

14. Overall, 90 per cent progress was reported in all result areas in Goal Area 1, Every child survives and thrives, and Goal Area 2, Every child learns. Ninety per cent progress was recorded for two of three result areas under Goal Area 3, Every child is protected from violence and exploitation; four of five result areas under Goal Area 4, Every child lives in a safe and clean environment; and two of five result areas under Goal Area 5, Every child has an equitable chance in life.

15. In 2019, UNICEF supported nutrition programmes in over 120 countries, advancing global efforts to address the triple burden of malnutrition – undernutrition, micronutrient deficiencies and overweight – the last of which is on the rise in every region, including in fragile contexts. In 2019, 307 million children under 5 years of age were reached with services to prevent stunting and other forms of malnutrition in early childhood; 60 million children, including 26.6 million girls and 19.3 million boys, were reached with services to prevent anaemia and other forms of malnutrition in adolescence; and 4.9 million children, including 1.8 million girls and 1.6 million boys, were reached with services to treat severe wasting and other forms of severe malnutrition.

16. UNICEF positioned itself as a thought leader in maternal and child nutrition with its 2019 publication *The State of the World's Children: Children, Food and Nutrition*, which documents the changing face of child malnutrition globally and advocates for the crucial role of food systems in supporting improved child nutrition. The midterm review confirmed that all UNICEF nutrition programmes would share a universal premise: prevention comes first, but if prevention fails, treatment is a must. This premise underlies the partnership with the Bill and Melinda Gates Foundation to deliver nutrition-specific actions for children and their mothers in 15 high-burden countries in the first 1,000 days of life through food, health and social protection systems, as well as the partnership with the World Food Programme on child wasting, which emphasizes prevention in early childhood and the integration of early detection and treatment services in primary health care, including in fragile contexts.

17. In 2019, 115 countries implemented government-owned multisectoral early childhood development programmes, up from 80 in the previous year. A national early childhood development policy or action plan was in place in 83 countries, 16 more than in 2018. UNICEF reached 615,049 children under 5 years of age in humanitarian situations in 42 countries with early childhood development interventions, including 237,167 girls and 245,943 boys (based on data from 33 countries); among them were 2,608 children with disabilities (based on data from 14 countries).

18. These efforts will build on major results achieved thus far. In 2019, 37 per cent of UNICEF-supported countries had systems to provide equitable access to education, compared with 29 per cent in 2018; effective mechanisms to reduce or prevent school-related gender-based violence were in place in 49 per cent of countries, compared with 38 per cent in 2018; 48 per cent of UNICEF-supported countries had effective education systems for learning outcomes, compared with 35 per cent in 2018; and 23 per cent of UNICEF-supported countries had effective systems that institutionalized gender-equitable skills development, compared with 16 per cent in 2018. In the Sudan, e-learning opportunities through the global "Can't Wait to Learn" programme enabled 5,136 children, 47 per cent of them girls, to gain proficiency in mathematics and Arabic.

19. In 2019, funding shortfalls, escalating insecurity and targeted attacks resulted in UNICEF reaching only 60 per cent of its ambitious target to provide education to 12.3 million children most at risk in humanitarian situations. Nevertheless, the work of UNICEF and its partners with States and armed groups to protect education from

attack resulted in the endorsement by 102 countries of the Safe Schools Declaration, while UNICEF worked with governments to implement its guidelines.

20. UNICEF worked in Goal Area 3 in 152 countries in 2019, with global programme expenses in the Goal Area totalling $707.99 million, including for humanitarian action in 74 countries amounting to $375.17 million. 2019 concluded a “deadly decade” for children in conflict, with more than 170,000 grave violations against children verified since 2010 and the number of countries experiencing conflict the highest it has been since the adoption of the Convention on the Rights of the Child.

21. Through UNICEF support, in 2019 close to 21.8 million births were registered in 47 countries, representing a 35 per cent increase over 2018. More than 158,000 girls and women received female genital mutilation-related prevention and protection services, representing a 59 per cent increase from 2018. As a testament to the significance of data in improving child protection outcomes, 125 countries supported programmes to improve the availability and quality of data on violence against children, an increase of 9 per cent from 2018.

22. Protective services were provided to 1.7 million children on the move, including through UNICEF-supported programmes in 76 countries; this number includes over 795,000 boys and nearly 714,000 girls in 50 of those countries. UNICEF also provided protective services to millions of children affected by armed conflict, natural disasters and public health emergencies in 74 humanitarian situations. Over 4.37 million children living in areas affected by landmines or other explosive weapons in 22 countries received relevant prevention and survivor assistance interventions, representing 89 per cent of the target population and including about 1.9 million girls and 2 million boys, based on data from 21 countries, and over 28,000 children with disabilities, based on data from 8 countries.

23. Since an initial investment in 2018 to scale up protection from sexual exploitation and abuse in 16 priority countries, UNICEF continued to facilitate United Nations system-wide protection from sexual exploitation and abuse processes, actively scaling up such processes in 32 countries across six regions that have a humanitarian response by the end of 2019. UNICEF co-led the development of the Inter-Agency Minimum Standards on Gender-Based Violence in Emergencies Programming, launched in December 2019. UNICEF reached over 3.3 million women, girls and boys in 2019 with gender-based violence risk mitigation, prevention or response interventions in humanitarian situations.

24. Nonetheless, good progress against most Strategic Plan targets at the outcome and impact levels has not been fast enough to achieve the Sustainable Development Goals on basic and safely managed water, sanitation and hygiene (WASH) services by 2030. Many countries, especially in Eastern and Southern Africa and West and Central Africa, are not on track to eliminate open defecation. Even as extreme weather events and disaster-induced displacement increase in severity and global greenhouse gas emissions are rising, global Sustainable Development Goal targets related to disaster risk reduction, environmental protection and the response to climate change are off track.

25. Acceleration in Goal Area 4 will build on the major results achieved thus far. In 2019, UNICEF reached 39.1 million people in 64 countries – including 19.6 million women and girls and 18.8 million men and boys, and over 750,000 people with disabilities – with humanitarian water support, the same number of countries as in 2018. Meanwhile, 9.3 million people in 50 countries – including 4.6 million women and girls and 4.4 million men and boys, and over 140,000 people with disabilities – were reached with sanitation services in emergencies, representing an increase from 46 countries in 2018.

26. In 2019, UNICEF continued its work to encourage governments to monitor child poverty and adapt social and economic policies to address it. As of 2019, 65 countries had established routine measurement and reporting on multidimensional child poverty, and 73 on monetary child poverty, surpassing the milestones for 2019 of 52 and 65, respectively. Child poverty was addressed by specific policies and programmes in 28 countries, up from 22 in 2018 and exceeding the milestone of 23.

27. UNICEF-supported cash transfer programmes recording $2.35 billion (2018: $2.26 billion) reached more than 51 million children in 78 countries in 2019, including almost 8.5 million in humanitarian settings in 30 countries. These numbers include 11 million girls and 10.9 million boys, based on data from 36 countries, and almost 700,000 children with disabilities, based on data from 21 countries. As of 2019, 47 countries had strong or moderately strong social protection systems, up from 38 in 2018, and 9 had national cash transfer programmes ready to respond to a crisis, up from 6 in 2018.

28. Over 4 million adolescents (61 per cent girls) across 113 countries, with India accounting for 2.6 million, participated in or led civic engagement activities through UNICEF-supported programmes, significantly surpassing the target of 3.2 million. UNICEF efforts to create a universal measurement tool to capture data on the outcomes of this participation, across cultures and socioeconomic contexts, are addressing the global data gap in this area. Thirty-one per cent of UNICEF country offices routinely engaged adolescents in the planning, implementation and monitoring and evaluation of programmes, exceeding the 2019 milestone of 30 per cent. At least half the engaged adolescents were girls or from marginalized backgrounds.

29. In 2019, UNICEF received $548 million from United Nations partners, including through joint programmes, for both development and humanitarian interventions, an increase of nearly 10 per cent ($53 million) in comparison with 2018. United Nations partnership arrangements have become the second biggest funding stream for UNICEF after traditional government partners, and the organization is considering developing a dedicated strategy for pooled funds, with ongoing discussions on how to guide more joint programming.

30. To address harmful gender norms, 30 UNICEF country programmes prioritized positive gender socialization in 2019, up from 22 in 2017, and 35 countries supported at-scale, gender-equality-focused capacity-building for front-line workers, up from 18 in 2017. UNICEF focused on encouraging fathers' engagement in caregiving, gender-responsive school curricula and addressing gender stereotypes in advertising.

31. In 2019, UNICEF scaled up disability-inclusive programmes to support 1.7 million children with disabilities across 142 countries, up from 1.4 million across 123 countries in 2018. Thirty-six per cent of UNICEF humanitarian responses (21 out of 59 countries) systematically provided disability-inclusive programmes and services, such as accessible classrooms constructed in refugee camps in Kenya. Over 138,000 children with disabilities were provided with assistive devices and products through emergency kits.

32. In 2019, UNICEF, as a member of the Inter-Agency Standing Committee, led the Global WASH Cluster, an open and formal platform for humanitarian WASH actors to work in partnership. As the number of countries experiencing protracted, recurrent or large-scale crises grew, the WASH response programmes became large and more complex. UNICEF responded to WASH-related activities in most of the countries with a large humanitarian response, such as the Syrian Arab Republic (trucking of water and hygiene kits); South Sudan (trucking of water and drilling and rehabilitation of boreholes performed from January to August 2019, supporting nearly 433,000 people); Mozambique (restoration of water networks in urban centres and establishment of new WASH facilities for nearly 56,000 people); and the Democratic

Republic of the Congo (prevention and control of the Ebola virus with a focus on halting its spread through the provision of health-care facilities, the provision of water and WASH kits, awareness-raising of practitioners, hygiene promotion, the set-up of handwashing stations/temperature checkpoints, and the joint supervision of health infrastructure to facilitate the development of efficient, sustainable and high-quality programmes).

33. In the Rohingya refugee camps in Bangladesh, UNICEF and other WASH partners developed and used a latrine and bathing facility checklist for women and girls, in order to minimize safety risks and ensure they can safely use those facilities.

34. The organization also integrated climate and disaster risk reduction measures throughout its WASH-in-emergencies response and helped to build the resilience of communities and national systems. In countries in crisis, it is now common for UNICEF to deliver immediate life-saving interventions and begin to provide longer-term institutional support.

35. UNICEF increased the integration of hybrid solar energy systems into emergency water pumping for more cost-effective and climate-sensitive programming. In Yemen, a 2019 analysis demonstrated that the costs of solar energy interventions in the northern province of Sa‘dah broke even against diesel-fed generator costs in less than six months of operation. UNICEF also worked with the Department for International Development and the Met Office of the United Kingdom of Great Britain and Northern Ireland, as well as several universities, to use predictive models based on weather, epidemiology and immunization programme data to help to better prepare for and target cholera outbreaks.

36. In 2019, Inter-Agency Standing Committee members scaled up their investments to deliver results in priority areas for communities affected by crises. UNICEF committed $21 million to support 32 priority countries facing humanitarian emergencies to accelerate work on protection from sexual exploitation and abuse.

Objectives and strategies

37. The financial year under review is the second of the UNICEF Strategic Plan, 2018–2021, which is anchored in the Convention on the Rights of the Child. The Strategic Plan contains a single results framework architecture for UNICEF, comprising five programme goals, two cross-cutting priorities, 25 result areas, eight change strategies and four organizational performance focus areas. It charts a course towards the 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.

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

Private sector

39. Constrained private sector market conditions saw a decline in projected revenue plans compared with the targets of the UNICEF Private Sector Plan 2018–2021: IMPACT for Every Child (developed before the global fundraising market contraction of 2018). Therefore, in consultation with UNICEF fundraising countries, revenue projections in 2020 and 2021 have been revised downwards to reflect what can be achieved in the context of continuing challenges in the global fundraising market.

40. In 2019, private sector fundraising also accelerated efforts to provide strategic guidance and technical support to National Committees to advance the implementation of the Convention on the Rights of the Child, both domestically and globally. The first ever Child-Friendly Cities Summit was hosted in Cologne, Germany, in October 2019, bringing together children, young people and mayors from 251 cities in 67 countries. The Child-Friendly Cities Child and Youth Manifesto gathered inputs from 120,000 children and youth from over 60 countries and will ensure that their voices shape the Child-Friendly Cities Initiative going forward.

Innovative financing

41. In 2019, the Executive Board approved the extension and expansion of the Vaccine Independence Initiative and its revolving fund to $100 million subject to the availability of funds. The Initiative was originally established in 1991 with: (a) a revolving fund capitalized at $10 million; (b) a vaccine procurement mechanism; and (c) a mechanism to utilize local currencies to replenish the fund. Countries use the Initiative to prevent cash-flow fluctuations from causing vaccine stock-outs and supply interruptions.

42. The Executive Board also approved the pre-financing, through the Vaccine Independence Initiative, of non-vaccine commodities (other programmatic supplies), and approved the utilization of the Initiative to support contracting arrangements that result in a secure supply or reduced prices of vaccines and other commodities. The Initiative continues to play a role in helping countries to achieve their routine immunization goals and to sustain access to essential supplies.

43. In 2019, UNICEF focused on making innovation a more effective change strategy to accelerate programme results in priority areas. As recommended in the 2019 report “Evaluation of innovation in UNICEF work”, UNICEF drafted a new strategy, initiated structural changes and introduced a portfolio-management approach. New innovations included the Giga initiative to connect every school in the world to the Internet, and the UNICEF cryptocurrency fund, a first for the United Nations.

44. In June 2019, a pilot was launched for accepting contributions in the bitcoin and ether cryptocurrencies, with the contributions being used in the cryptocurrency received. The cryptocurrency-denominated fund was approved for 1,000 bitcoins, and 10,000 ether are to be received, with the option to double the fund provided that contributions have been substantially used in line with the aims of the Office of Innovation in the field.

45. In line with IPSAS and guidance from the International Financial Reporting Interpretations Committee, UNICEF has accounted for the cryptocurrencies as inventory items and contributions in kind. The ether and bitcoins received in 2019 were distributed immediately upon receipt to implementing partners in line with the contribution agreements. There were no cryptocurrency-denominated assets or liabilities outstanding at the end of the year.

Travel

46. The travel strategy was launched in April 2019. It was put in effect to continuously focus efforts on providing new efficiencies and raising awareness of reducing travel costs. Within the travel strategy, UNICEF would work to enhance virtual conferencing capabilities and consolidate savings for global airline programmes through a joint effort with other United Nations entities.

47. Travel budget limits were set for UNICEF offices in 2019 subsequent to continued increases in travel expenditure in 2017 and 2018. The limits were set to

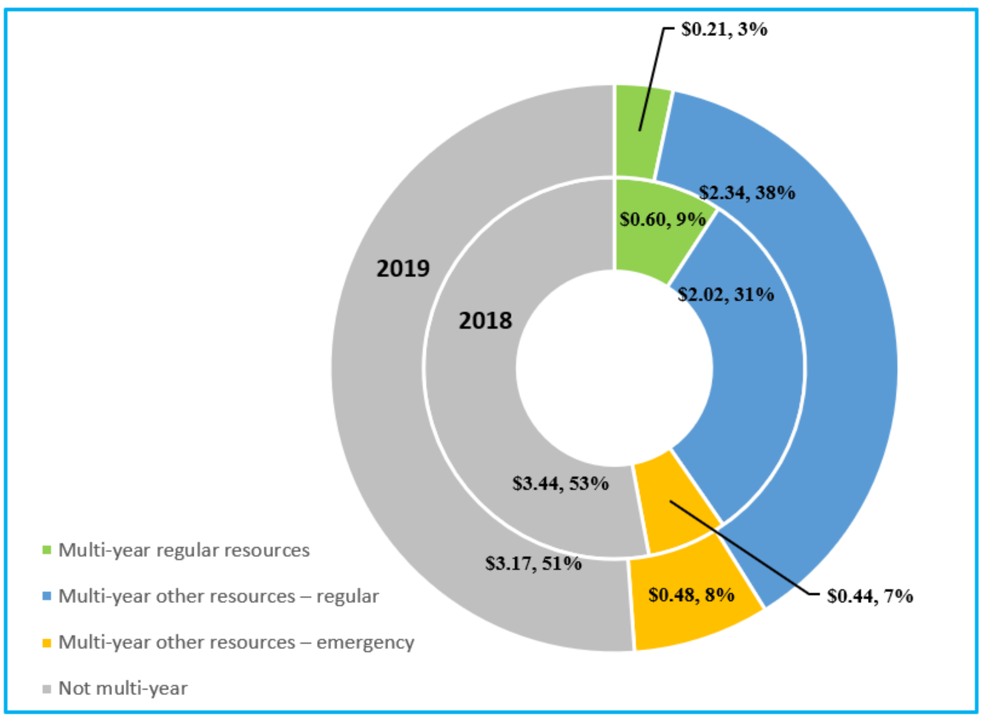
drive savings of $23 million in travel expenditure compared with the prior year and would help offices to invest some of the savings in strengthening their videoconferencing capabilities. The limits are not applicable to in-country, emergency/security, stretch assignment and entitlement travel. Overall, UNICEF achieved $18.80 million in cost savings (84 per cent of the target). The savings remained within the respective country programme and office budgets for use in activities other than travel (with the exception of in-country travel).

48. As a result of the travel strategy, UNICEF recorded a decrease in travel expenses of $18.80 million (17 per cent) in 2019 compared with the prior year for those travel categories that had been targeted for reduction. The breakdown between institutional and programme expenses changed slightly, with programme expenses increasing to 83 per cent in 2019 (from 81 per cent in 2018) and institutional expenses decreasing to 17 per cent in 2019 (from 19 per cent in 2018).

Financial performance: revenue

49. In 2019, UNICEF revenue declined slightly to $6.41 billion (2018: $6.68 billion). Revenue includes $3.03 billion of voluntary contributions related to agreements covering a period of more than two years. Multi-year funding allows for certainty in planning for development activities and are reflected as part of UNICEF reserves until spent.

Figure IV.II
Multi-year and non-multi-year voluntary contributions
(Billions of United States dollars)



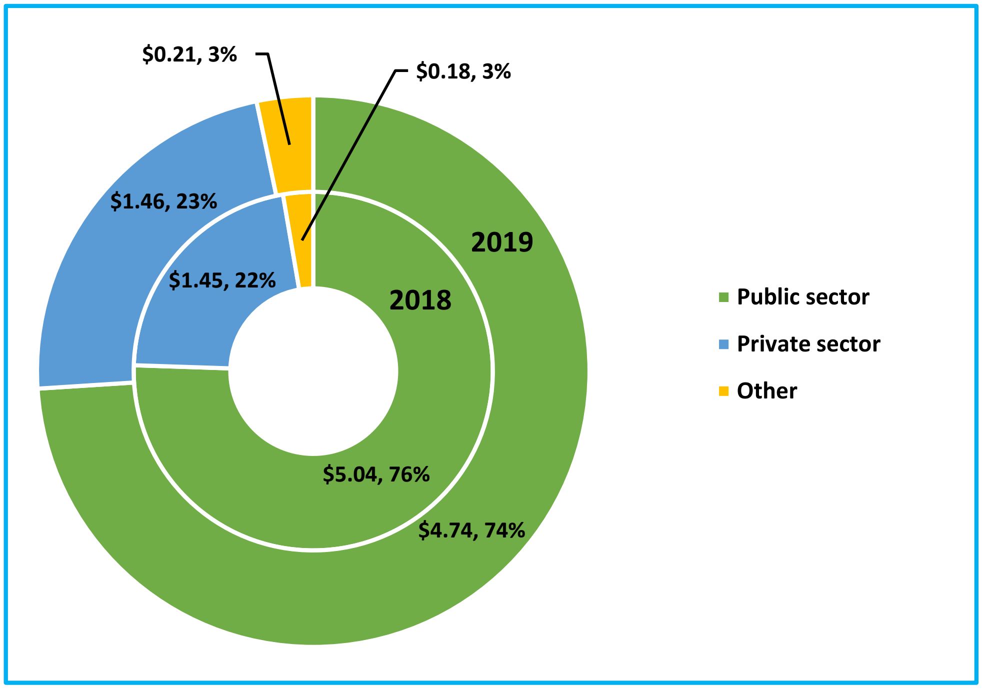
Note: Multi-year regular resources include regular resources – programme and regular resources – other.

50. Public sector donors contributed $4.74 billion in revenue in 2019 (2018: $5.04 billion), representing 74 per cent of the total. However, this was a decrease of $297.58 million, or 6 per cent, from the prior year.

51. Revenue from the private sector accounted for 23 per cent (2018: 22 per cent) of the total, at $1.46 billion (2018: $1.45 billion). The percentage share is almost consistent between 2018 and 2019. It includes revenue from National Committees, the 33 independent non-governmental organizations that promote children's rights in industrialized countries and raise funds for UNICEF programmes worldwide.

52. The remaining revenue, which relates to contributions from licensing fees, investments and other revenue, was consistent with the prior year at 3 per cent of the total revenue, with a small increase of $30.87 million to $211.38 million (2018: $180.51 million), driven by an increase of $25.49 million in investment revenue.

Figure IV.III
Revenue by source
(Billions of United States dollars)

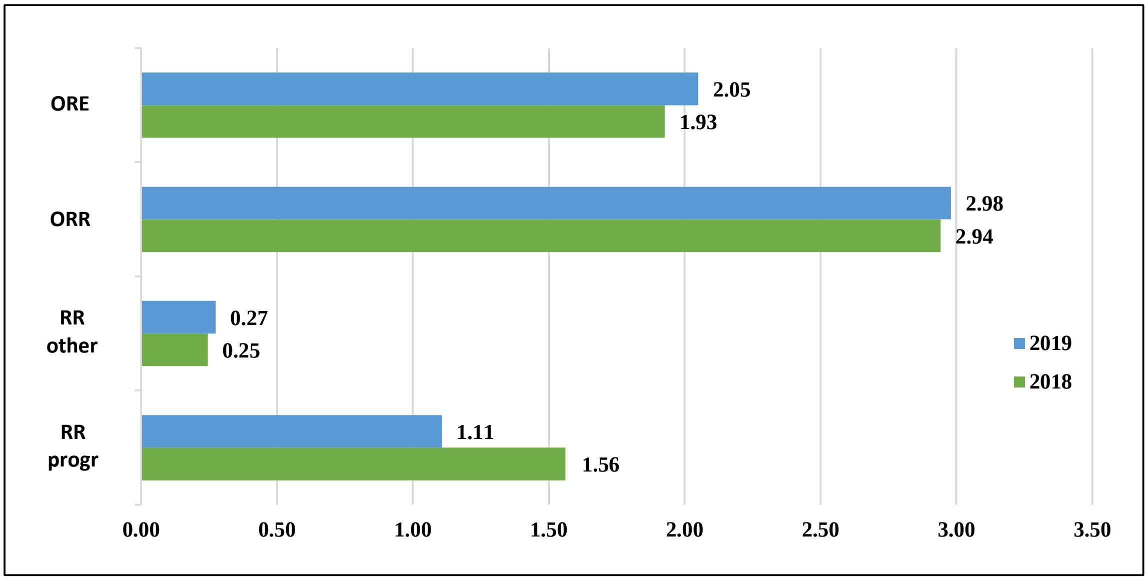


Note: Public sector includes governments, intergovernmental organizations and inter-organizational arrangements. Other includes licensing fees, investments and other revenue.

53. Regular resources for programmatic activities amounted to $1.11 billion, or 17 per cent of total revenue, which represents a reduction from 2018 of $455.01 million. Regular resources give UNICEF maximum flexibility within the confines of its Financial Regulations and Rules. Earmarked resources, both other resources – regular of $2.98 billion and other resources – emergency of $2.05 billion, increased by $39.17 million and $123.52 million, respectively, relative to 2018.

54. The total other resources – regular revenue includes thematic funding of $297.46 million, or 5 per cent of total revenue, (2018: $505.19 million, or 8 per cent), representing a decrease in thematic funding, which gives UNICEF flexibility of use within the specified thematic area, for example, education based on where the needs are greatest and the most impact can be made.

Figure IV.IV
Total revenue by segment
(Billions of United States dollars)



Note: RR other includes investment revenue, trust funds, fundraising retentions and contributions to management costs.

Abbreviations: ORE, other resources – emergency; ORR, other resources – regular; RR other, regular resources – other; RR progr, regular resources – programme.

55. Other resources – regular revenue was fairly constant at $2.98 billion (2018: $2.94 billion), and increased to 47 per cent of total revenue in 2019, accounting for almost half of the total revenue (2018: 44 per cent).

56. Other resources – emergency revenue increased by $123.52 million, or 6 per cent, to $2.05 billion (2018: $1.93 billion), representing 32 per cent of total revenue. This was driven by various donors, most notably by contributions from the United Arab Emirates of $55.80 million towards cash incentives to support teachers and school-based staff, integrated nutrition programming and cholera WASH programmes in Yemen. The United Kingdom and Canada also recorded increases of $58.63 million and $57.55 million, respectively.

57. Regular resources – programme revenue decreased by $455.01 million to $1.11 billion. The main reason for the decrease was that 2018 revenue included $528.58 million in multi-year contribution agreements that spanned the full Strategic Plan period. The resulting decrease in 2019 was offset in part by an additional $110.00 million in multi-year contribution revenue from the Netherlands, which was recorded in 2019. In addition, investment revenue in 2019 increased by $25.49 million from 2018.

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

	2015	2016[a]	2017	2018	2019
Revenue					
Regular resources – programme	1 021 543	1 139 977	1 220 417	1 561 315	1 106 310
Regular resources – non-programme	45 918	50 665	57 683	66 641	63 579
Other resources – regular	2 055 402	1 859 076	3 026 270	2 941 001	2 980 924
Other resources – emergency	1 780 489	2 015 180	2 126 629	1 926 293	2 050 081
Total voluntary contributions	**4 903 352**	**5 064 898**	**6 430 999**	**6 495 250**	**6 200 894**
Other revenue	71 174	74 486	74 046	79 846	85 223
Investment revenue	35 031	51 911	71 699	100 662	126 154
Total revenue	**5 009 557**	**5 191 295**	**6 576 744**	**6 675 758**	**6 412 271**

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

58. Total revenue has mostly been growing over the past five years, with a sharp increase being recorded in 2017, mainly driven by revenue from other resources – regular. A small decrease was recorded in 2019 owing to the multi-year agreements noted in paragraph 57 above.

59. Over the past five years (except 2016), revenue from other resources – regular accounted for the largest proportion of the total revenue, and was the largest proportion recorded both in 2017 and 2019, at 46 per cent. 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; similarly, $332.47 million was donated towards the same programme in 2019.

60. Revenue from other resources – emergency represents the contribution agreements 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 2015 to 2017. A decrease was recorded in 2018, which was followed by an increase in 2019.

61. Revenue from regular resources has risen steadily since 2015; however, a significant decrease of $458.07 million was recorded in 2019 owing to the multi-year agreements noted in paragraph 57 above. National Committees for UNICEF contributed 53 per cent of total regular resources revenue in 2019 ($615.01 million).

62. Despite making up a small proportion of total revenue, investment revenue has more than tripled, from $35.03 million in 2015 to $126.15 million in 2019, largely driven by the performance of term deposits. In 2015, the deposits of $2.37 billion earned a return of $15.42 million (0.7 per cent), and in 2019, the deposits of $2.34 billion earned a return of $76.64 million (3 per cent).

63. Similarly, cash and cash equivalents held have seen interest rates increasing from close to nil to 2.4 per cent, resulting in income of $11.24 million in 2019 compared with $4.47 million in 2015, with treasury-managed cash declining by 16 per cent from $683.66 million in 2015 to $478.70 million in 2019. After-service health insurance funds that were outsourced to external fund managers continued to yield

positive returns, recording an income of $8.80 million in 2019, which has been reinvested with the funds.

Foreign exchange impact: revenue

64. Approximately half of the organization's voluntary contributions were in currencies other than the United States dollar, resulting in currency valuations and foreign exchange fluctuations affecting the amount of revenue recorded. An immaterial realized and unrealized foreign exchange loss of $1.63 million was recorded in 2019 (2018: loss of $75.14 million), with 2018 losses driven by appreciation of the United States dollar compared with major currencies of contributions, such as the euro and pound sterling. The UNICEF Financial Regulations and Rules require that such foreign exchange gains and losses are reflected against donor contributions.

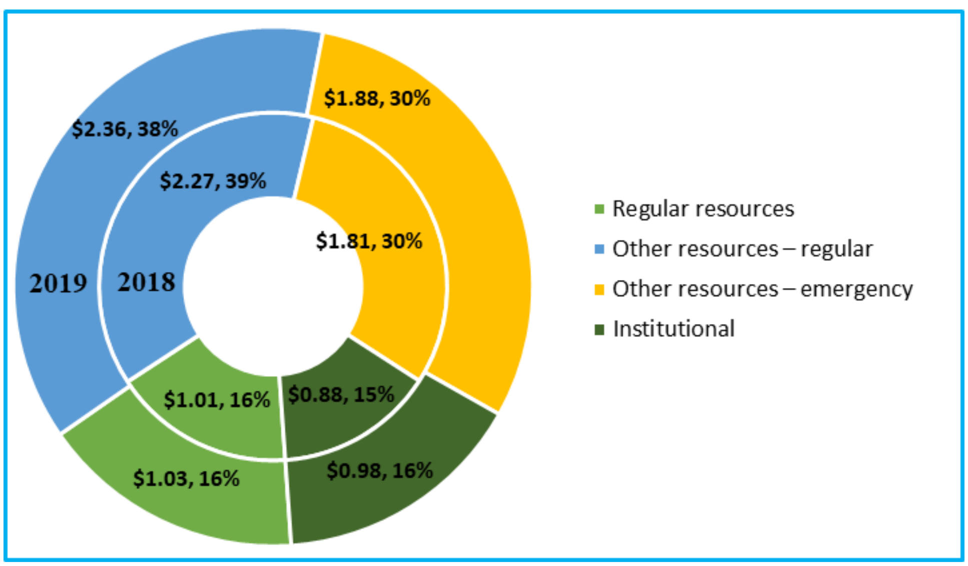
65. UNICEF also actively managed foreign currency risk through forward contracts, external investments and natural hedges. In April 2019, UNICEF started to invest in foreign currency options as a further strategy to hedge against foreign currency volatility. The strategy was to invest in options as a hedge within a set budget of $1.00 million of options, as measured by the premiums paid at the commencement of the derivative investment instrument contract.

66. In 2019, hedging activities recorded significant foreign exchange gains of $19.83 million, compared with losses of $4.61 million recorded in 2018. These are included under net gains of $37.57 million (2018: $16.68 million) in the financial statements as they do not relate directly to specific contributions agreements.

Financial performance: expenses

67. The organization's total expenses for 2019 were $6.26 billion (2018: $5.97 billion), with $5.28 billion relating to programmatic activities. Expenses by funding source are shown in figure IV.V.

Figure IV.V
Expenses by segment
(Billions of United States dollars)



Note: Regular resources includes regular resources – programme and trust funds. Regular resources – non-programme is included under institutional.

68. The organization’s total expenses mainly comprised $2.35 billion (2018: $2.26 billion), or 38 per cent, for cash assistance to implementing partners and beneficiaries; $0.98 billion (2018: $0.99 billion), or 16 per cent, for transfer of programme supplies; and $1.52 billion (2018: $1.42 billion), or 24 per cent, for employee benefits.

69. Cash-based transfers for programme implementation continued to be scaled up, particularly in countries and locations responding to humanitarian crises. Cash-based assistance increased by $88.77 million, or 4 per cent, in 2019 compared with 2018, based largely on increased transfers to implementing partners in Yemen (by $127.21 million) and Bangladesh (by $16.18 million), as well as increases in direct cash transfers to beneficiaries in Yemen (by $70.71 million), resulting in a total increase in both transfers to implementing partners and cash-based transfers in Yemen of $197.78 million. Those increases were offset by reductions totalling $143.71 million in Lebanon, Jordan and Somalia, with the value of the transfers halved in Jordan compared with 2018.

70. Other significant expenses include $472.86 million (2018: $431.20 million) for programme-related professional and expert services and $164.67 million for travel-related expenses for programme and administrative activities (2018: $157.50 million). Travel-related expenses accounted for 3 per cent of the total expenses in both 2018 and 2019.

71. The top 10 programmatic countries by expenses account for 40 per cent of total expenses for UNICEF ($2.51 billion) and are almost fully funded from earmarked contributions, with only $263.03 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 Yemen ($304.03 million), Lebanon ($216.81 million), Turkey ($163.70 million) and the Democratic Republic of the Congo ($126.45 million). The World Bank funded approximately $210.86 million of $317.65 million in other resources – regular programmes in Yemen. Other significant expenses under other resources – regular were recorded in Nigeria ($169.77 million) and Pakistan ($145.04 million).

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

	2015	*2016*	*2017*	*2018*	*2019*
Expenses					
Cash assistance	1 766 374	1 971 636	2 224 658	2 263 176	2 351 947
Transfer of programme supplies	1 117 930	1 139 096	1 086 237	986 908	981 634
Employee benefits	1 185 784	1 207 855	1 310 272	1 416 290	1 519 506
Depreciation and amortization	22 587	26 623	18 800	21 914	23 890
Other expenses	658 029	677 270	746 885	847 621	909 402
Other programme-related expert services	341 603	422 247	473 688	431 201	472 859
Finance costs	3 342	3 124	2 893	2 647	2 385
Total expenses	**5 095 649**	**5 447 851**	**5 863 433**	**5 969 757**	**6 261 623**

72. Overall, total expenses continued to increase in all five years, with an average of 7 per cent being recorded to date. Large increases of 12 per cent, 7 per cent and 8 per cent were recorded in 2015, 2016 and 2017, respectively. Smaller increases of

2 per cent and 5 per cent followed in 2018 and 2019, respectively; however, total expenses surpassed the $6.00 billion mark for the first time in 2019.

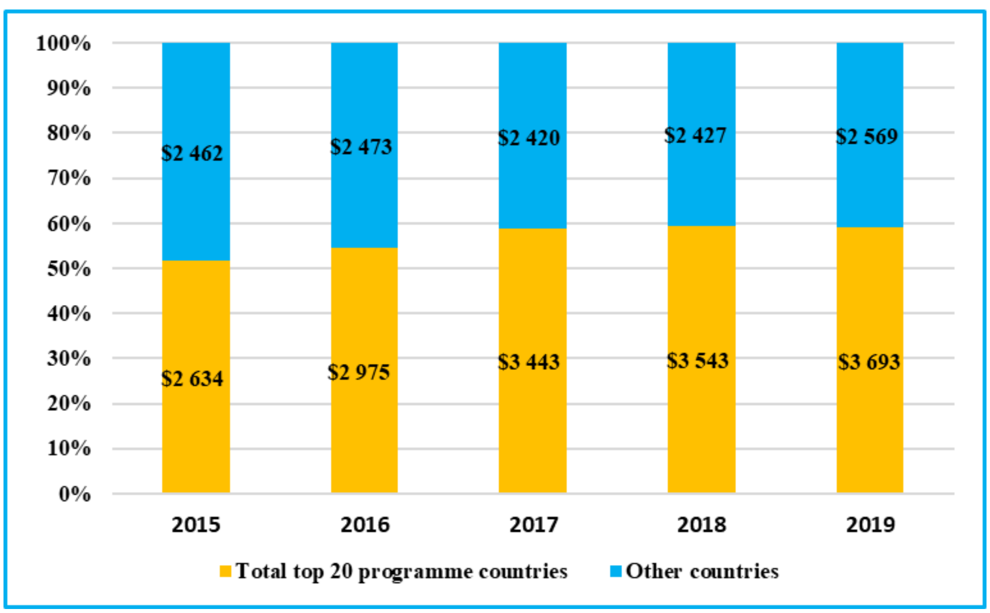
73. Cash assistance expenses increased the most in absolute terms, recording an overall average increase of 9 per cent year on year over the five-year period. This reflects the fact that the majority of the increases in responses have been through cash-transfer modalities working with implementing partners, while the transfer of programme supplies, after an initial increase in 2015 and 2016, has declined since then, with a move towards the provision of cash to beneficiaries.

74. Employee benefits increased steadily over the five-year period. A steady increase of 7 to 8 per cent was recorded from 2017 to 2019. Overall, employee benefits increased at an average of 6 per cent during the five-year period, consistent with an increase in staff.

75. Transfer of programme supplies has been decreasing since 2016, with significant decreases recorded in Iraq ($45.84 million), the Syrian Arab Republic ($31.78 million) and Sierra Leone ($28.72 million). Transfer of programme supplies in Yemen has increased over the five-year period by $85.91 million, despite a decrease of $7.91 million between 2018 and 2019.

76. Expenses related to other programme-related expert services increased by an average of 10 per cent over the five-year period, with the most significant increase (24 per cent) recorded in 2016. This was followed by a decrease of 9 per cent in 2018, with an additional sharp increase of 10 per cent further recorded in 2019. 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. The largest increases continued to be recorded in Pakistan, including an increase from $5.15 million in 2015 to $77.53 million ($49.44 million five-year average) related to the polio eradication programming. Zimbabwe also recorded a $33.34 million five-year average increase, mainly driven by health policy and management, and social protection programmes.

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



77. The largest 20 programmatic countries accounted for 59 per cent of organizational expenses in 2019, compared with 52 per cent in 2015, reflecting a steady increase over the five-year period. That trend is explained largely by the scaled-up emergency response in countries such as Yemen, where expenses rose by more than five times from $96.96 million in 2015 to $634.46 million in 2019. Similarly, in Turkey, expenses rose from $41.40 million in 2015 to $170.52 million in 2019, an increase of more than three times.

Overall surplus and net assets of the United Nations Children's Fund

78. As indicated in figure IV.II above, 49 per cent of voluntary contributions to 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. Of the total expenses of $6.26 billion in 2019, $2.29 billion related to multi-year voluntary contributions agreements.

79. Overall, revenue from earmarked contributions for programmatic activities, that is, other resources, increased by 3 per cent in 2019 ($163.71 million), mainly driven by the World Bank contribution to the Yemen programme of $332.47 million. However, contributions to regular resources programmes significantly decreased by 29 per cent ($455.01 million) owing to contributions of $528.58 million for multi-year agreements in 2018 for the full Strategic Plan period, while regular resources – other increased by 11 per cent, driven by an increase of $25.49 million in investment revenue in 2019.

80. UNICEF recorded a surplus of $188.21 million in 2019 (2018: $722.68 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. The decrease in the surplus was driven mainly by the combined effect of a decrease in total revenue of $263.49 million, or 3.95 per cent, and an increase in total expenses of $291.87 million, or 4.90 per cent.

Financial position

81. As at the end of 2019, the total assets of UNICEF were $11.17 billion (2018: $10.51 billion), as shown in table IV.3.

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

			Variance	
	2019	*2018*	*United States dollars*	*Percentage*
Assets				
Cash and cash equivalents	796 303	995 259	(198 956)	(20)
Receivables (current and non-current)	3 489 431	3 398 522	90 909	3
Advances of cash assistance	850 909	771 424	79 485	10
Inventories	380 389	370 191	10 198	3
Investments (current and non-current)	4 725 375	4 114 670	610 705	15
Other assets (current and non-current)	670 978	605 796	65 182	11
Property and equipment	256 576	243 144	13 432	6
Intangible assets	4 401	6 162	(1 761)	(29)
Total assets	**11 174 362**	**10 505 168**	**669 194**	**6**

Cash and investments

82. A significant portion of the assets that UNICEF manages in support of its institutional and programmatic activities comprises cash and investments of $5.52 billion (2018: $5.11 billion). Most of the cash and investment assets are low-risk investments in fixed income instruments, such as bonds and term deposits.

83. 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.

84. Effective 2019, UNICEF expanded into foreign currency options as a further strategy to hedge against foreign currency volatility. No open options positions existed at the end of the year, and the investment income derived from the use of these financial instruments is included within the $37.57 million (2018: $16.68 million) total net gains (see note 24 to the financial statements).

85. 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

86. 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 2019.

87. UNICEF holds reserves for long-term employee liabilities, such as after-service health insurance and other purposes approved by the Executive Board, which stood at $820.03 million (2018: $745.40 million) at the end of the year.

88. The available cash for regular resources, after taking into account payables and other commitments as well as cash reserves, was $284.91 million. The available cash was $1.81 billion for other resources – regular, after considering commitments, and $374.85 million for other resources – emergency.

Receivables

89. 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. Contribution receivables were stable at $3.33 billion in both 2018 and 2019, and mainly comprise multi-year contributions for programmatic activities in 2019 and subsequent years. In 2019, multi-year contributions represented 70 per cent of the total contribution receivables, consistent with the prior year. Governments and intergovernmental organizations continued to be the largest donors, contributing 83 per cent (2018: 82 per cent) towards the total contribution receivables at year-end. Current voluntary contribution receivables also increased to 70 per cent (2018: 66 per cent).

90. Included within other receivables is $71.77 million related to procurement, for a one-off credit note from a supplier related solely to purchases in 2019, which will be utilized in 2020. Other assets of $670.98 million (2018: $605.80 million) pertain

mainly to recurring procurement services activities, as discussed in note 11 to the financial statements.

Cash advances

91. Cash advances to implementing partners for which implementation reports had not been received at year-end increased by $79.49 million to $850.91 million in 2019 (2018: $771.42 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

92. UNICEF holds inventory for programmatic purposes, to distribute to beneficiaries and implementing partners. The total UNICEF inventory worldwide was valued at $380.39 million (2018: $370.19 million) at year-end. Inventory was held in 184 locations in 58 countries and in the Supply Division hub in Copenhagen. The organization's inventory, which includes items such as therapeutic food, children's clothing and 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. Effective 2019, UNICEF tracks goods in transit from UNICEF-controlled warehouses to implementing partners separately, as this additional information provides relevant insight into the location of UNICEF-controlled commodities. In 2019, $99.74 million (2018: $96.64 million) of the total inventory was in transit at year-end, consisting of $69.32 million in transit to UNICEF field offices and $30.42 million in transit to implementing partners and between UNICEF warehouses and plants.

93. In 2019, $50.08 million (2018: $51.42 million) was held as "pre-positioned". The inventory held in Supply Division hubs and warehouses was valued at $57.75 million (2018: $52.96 million).

94. 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 ($13.82 million) and schools and children's centres ($3.91 million), primarily concentrated in Africa, the Middle East and South Asia.

Liabilities

95. 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 $3.44 billion (2018: $3.04 billion) at year-end, largely relating to after-service employee benefits of $1.63 billion (2018: $1.53 billion) and funds held on behalf of others of $1.15 billion (2018: $0.80 billion). Liabilities are detailed in table IV.4 and paragraphs 96 and 97 below.

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

	2019	2018	Variance: United States dollars	Variance: Percentage
Liabilities				
Accounts payable	388 958	339 341	49 617	15
Contributions received in advance (current and non-current)	12 652	62 287	(49 635)	(80)
Funds held on behalf of others	1 154 427	803 506	350 921	44
After-service health insurance and other employee benefits (current and non-current)	1 631 156	1 532 289	98 867	6
Other liabilities and provisions (current and non-current)	255 222	302 297	(47 075)	(16)
Total liabilities	**3 442 415**	**3 039 720**	**402 695**	**13**

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

96. 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 2020 estimated employee benefit liabilities to be $1.50 billion (2018: $1.41 billion), and this has been recognized as a liability in full in the financial statement of UNICEF (see note 18).

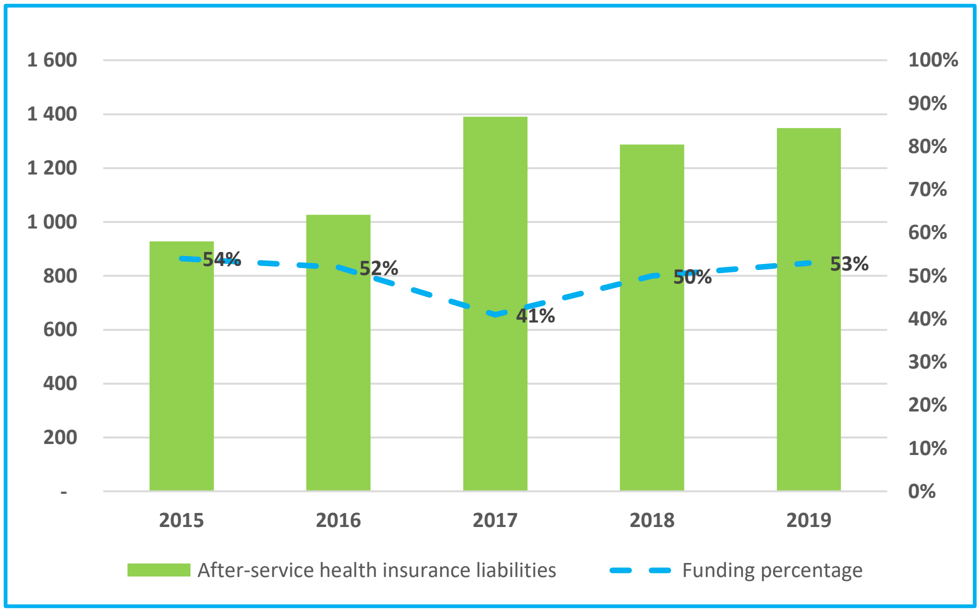
97. After-service health insurance and other employee benefits increased slightly in 2019, driven by the results of the actuarial study carried out by the external firm. A smaller actuarial gain of $1.58 million was recorded, compared with $197.90 million in 2018.

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

	After-service health insurance	*Medical Insurance Plan*	*End-of-service*	*Death benefit*	*Workers' compensation benefit*	*Total*
2018 liability	(818.35)	(468.82)	(105.05)	(1.83)	(14.71)	(1 408.76)
2019 liability	(812.24)	(536.41)	(126.87)	(4.43)	(16.53)	(1 496.48)
Funding position	578.41	133.66	105.79	–	–	817.85
Percentage funded	71	25	83	–	–	55

98. UNICEF has accumulated $817.85 million (2018: $741.10 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 2019 – at 55 per cent compared with 53 per cent in 2018 – 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 IV.VII shows the trend over the past five years for after-service health insurance.

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



Note: Includes all UNICEF after-service health insurance liabilities.

99. 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 insurance liability. At the end of the year, the value of the investments managed by the external fund manager was $541.15 million (2018: $454.03 million). The increase in the fair value of the investments at year-end was driven primarily by the positive fair value increase in the equity instruments ($41.99 million) and fixed income instruments ($12.42 million) at year-end.

100. UNICEF also held $99.42 million (2018: $92.69 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 $99.59 million (2018: $93.16 million), resulting in a net loss position of $0.17 million (2018: $0.47 million).

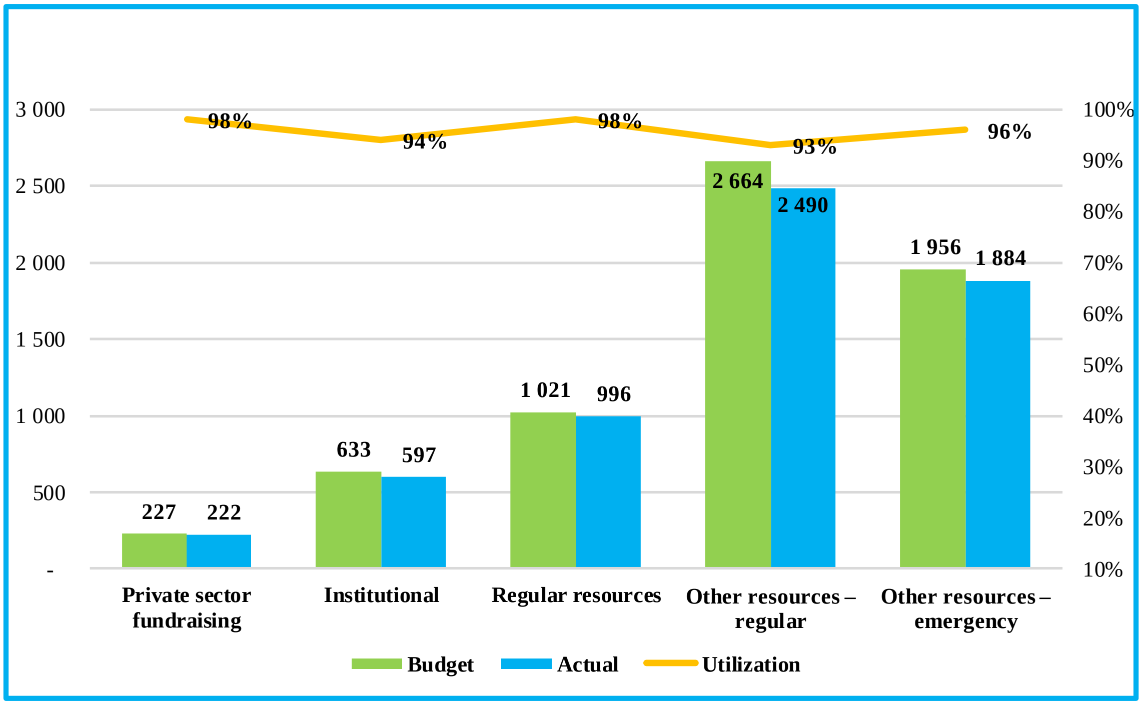
Budgetary performance

101. 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 to the financial statements contains the definitions of the various budget classifications.

Changes from original to final budget

102. 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 Executive Board-approved ceiling and planned for the calendar year.

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



Actual budget expenditures

103. The total budget utilized in 2019 was $6.19 billion, or 95 per cent of final budget. Overall in 2019, across the different budget categories, utilization was high, ranging from 93 per cent for other resources – regular to 98 per cent for regular resources. Regular resource-funded actual budgetary expenditures were $880.75 million for country programmes and $68.16 million for global and regional programmes, with a final budget utilization of 98 per cent for regular resources overall.

104. 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 amount utilized in 2019 was $46.95 million.

105. For the Supply Division, funds approved as seed funds to deliver on the products and markets global strategy were not utilized, and the Division has received approval to leverage these contributions throughout the office management plan period (i.e., they are available to spend until year-end 2021).

Other resources – regular

106. Other resources – regular comprise country, regional and global programmes. The final budget for 2019 for these was $2.66 billion, with actual expenditures incurred of $2.49 billion.

107. 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.

108. The more significant variances were driven by modifications in programming that arose as a result of emergencies; for example, two unprecedented cyclones hit one country, resulting in staff time and attention being diverted to the urgent, rapid and large-scale response, resulting in delays in the originally-planned programme activities. The normal programming activities resumed once staff became available. The UNICEF office had to deal with a polio outbreak, which impacted programme interventions in five of seven targeted districts of the UNICEF programme in one case and turnover of key staff, resulting in the slowing down of programme implementation and follow-up of key activities.

Other resources – emergency

109. 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.

110. The final other resources – emergency budget for 2019 was $1.96 billion, with actual expenditures of $1.88 billion, or 96 per cent of the total.

111. The variance in other resources – emergency of $71.71 million was due mainly to challenges in the operating environment faced by UNICEF staff. For example, the largest variance, of over $5.88 million, related to grants implementation in a level-3 country emergency, where UNICEF faced challenges in its partnership owing to the operational environment in the country particularly impacting on operations of UNICEF implementing partners.

112. Similar to other resources – regular, sometimes events beyond the control of UNICEF do not allow those activities for which the funding has been earmarked to be carried out as planned. For example, UNICEF 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. Programme implementation has been extended with the agreement of the donor.

Institutional budget

113. 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 2019 was $597.21 million, or 94 per cent of the final budget.

114. Management costs were 96 per cent utilized, with actual expenditures of $392.49 million (final budget $410.14 million). Development effectiveness was 97 per cent utilized, with actual expenditures of $165.72 million (final budget $171.01 million).

115. Special purpose had the highest variance under the institutional budget, recording 70 per cent utilization, with actual expenditures of $28.98 million (final budget $41.58 million). Special purpose budgets can be used for multi-year projects for the duration of the Strategic Plan 2018–2021.

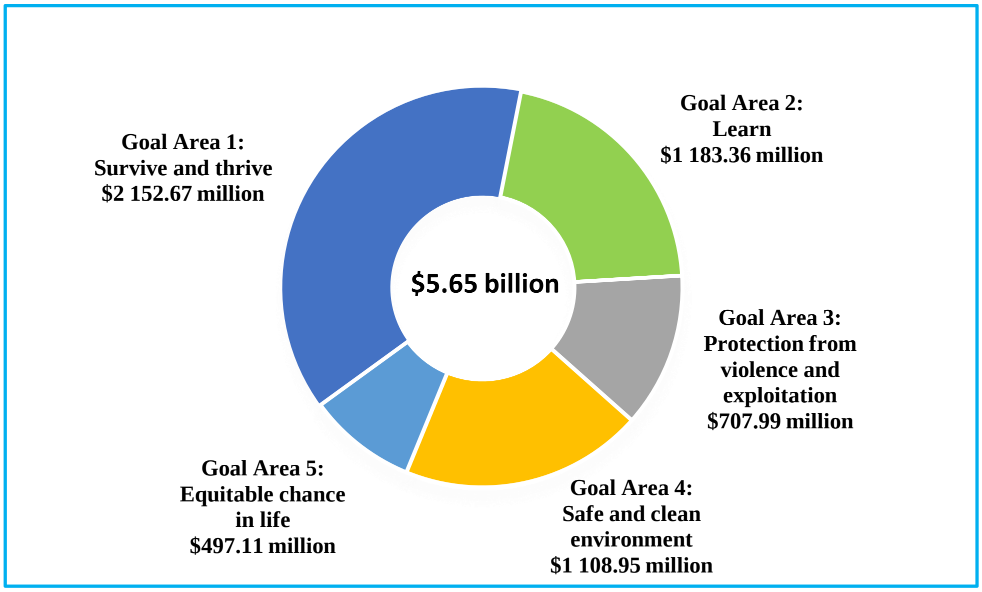
116. The actual expenditure for private-sector fundraising and partnership activities was $221.77 million, or 98 per cent (final budget $226.70 million). There were no

notable differences between final and actual private sector budgets related to UNICEF country office expenditures.

Programme expenditure by goal area

117. The budgetary expenditures related to the five programmatic goal areas of the UNICEF Strategic Plan 2018–2021 are presented in figure IV.IX.

Figure IV.IX
Programme expenditure by goal area, 2019



Forward-looking statements disclosure

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

Outlook for 2020 and beyond

119. At the threshold of the decade of action for the Sustainable Development Goals, the world faces an unprecedented global health crisis in the form of the COVID-19 pandemic. It faces this challenge at a time when it is already off track to achieve many of the Goals, and the full impact and long-term fallout from the crisis is already extraordinary but is still unclear.

120. UNICEF is striving to maintain the continuity of its programmes and operations while responding to the pandemic and adapting to its impact. UNICEF is committed to delivering assistance to children across all affected areas, together with governments and partners, to ensure that all children in need receive assistance. Management is working to strengthen the public health response to reduce COVID-19 transmission and mortality, while both monitoring and responding to the socioeconomic impact on children and families, especially the most disadvantaged, as the pandemic and efforts to contain it disrupt access to health care, learning, child protection and other services essential to children's rights and well-being.

121. An agile business continuity plan is being implemented to help UNICEF to manage business and programme continuity while keeping the safety, security and well-being of personnel at the forefront. Business continuity is an element of

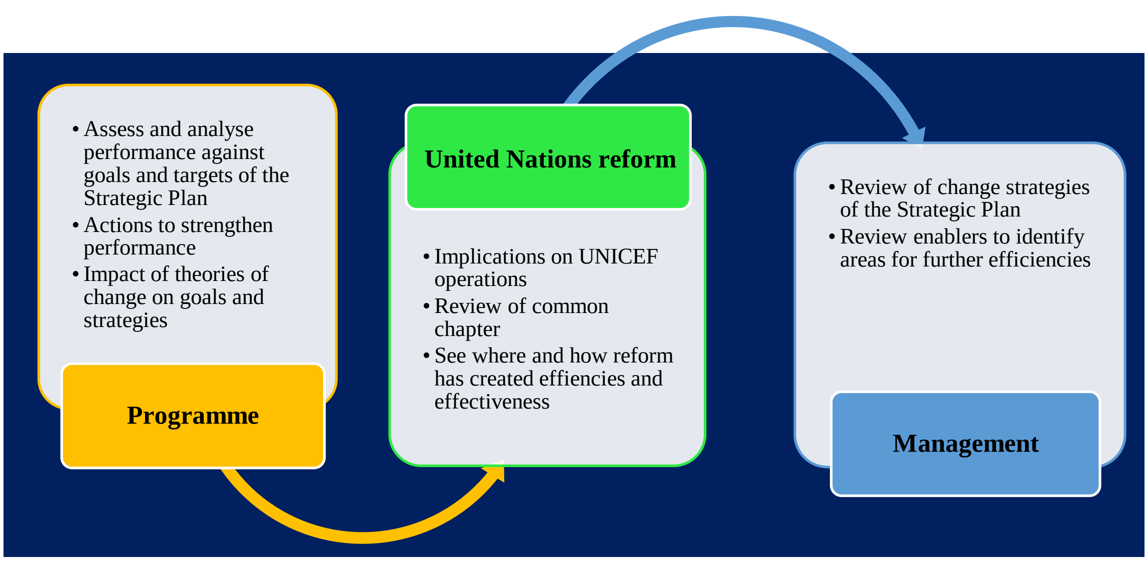
organizational resilience management, and the UNICEF business continuity plan therefore ensures that measures are in place for UNICEF divisions and offices, at all levels of the organization, to be more harmonized and coordinated in its approach to the prevention of, preparedness for, response to and recovery from any disruptive event. This business continuity plan is constantly reviewed and updated to ensure organizational resilience such that operations and programmes continue.

122. UNICEF is currently undergoing a midterm review of the Strategic Plan and integrated budget for the period 2018–2021. The midterm review covers the first two years of the implementation of the Strategic Plan, analysing the key strategies, risks and assumptions in relation to the organization's performance, emerging opportunities and initiatives, and strategic shifts and changes at the global level that will have implications for UNICEF operations and positioning. A key task of the midterm review is to analyse how UNICEF can best support and identify opportunities in these and other reforms while meeting the evolving expectations of Member States.

123. The midterm review of the Strategic Plan found that the quality of resources continues to be a challenge. Projections for the remainder of the Strategic Plan period forecast a 9 per cent overall increase in income, resulting from an 8 per cent increase in other resources – regular and a 31 per cent increase in other resources – emergencies, while regular resources are set to be 10 per cent lower than anticipated. In response, UNICEF is redoubling its efforts to demonstrate the unmatched potential of regular resources to achieve results for children. Fully achieving the needed acceleration at scale to realize the rights of every child will be possible only through increased investment in flexible funding such as regular resources.

124. While it is too early at this point to project the impact of the COVID-19 pandemic on public and private sector funding for UNICEF for the period 2020–2021 and beyond, the organization is concerned about a potential impact on overall funding and regular resources in particular. UNICEF asks all Member States and other partners to unite in protecting vulnerable children and their families, sustaining the development gains of recent years and recommitting to multilateralism and international cooperation as the only way forward.

Figure IV.X
Main components of the midterm review



125. To maximize the power of business to deliver results for children across UNICEF, private sector fundraising is rolling out the business-for-results approach,

which is aimed at building the capacity of country offices around the world to engage effectively with the business sector in support of improving the situation of children.

126. In the Global WASH Cluster, UNICEF is uniquely placed to investigate the global unmet demand for water and sanitation services in fragile settings. By leveraging its data, partnerships and operational presence in low-income countries before, during and after crises, UNICEF has an instrumental role to play in changing the way the humanitarian sector does business. The organization is actively working with partners such as the European Investment Bank and the KfW Group to create a pipeline of investment opportunities, in collaboration with public and private sector experts, including partnership arrangements with leading impact investment advisers to develop an appropriate financing model.

127. In Goal Area 1, to accelerate progress and address barriers that have limited the impact of proven early childhood development interventions, UNICEF will increase investments in the capacities and skills of both parents and frontline workers, such as health workers, teachers and social workers, through programme tools that enhance the delivery of nurturing care and stimulation in both development and humanitarian contexts. To address the challenges undermining the right of adolescents to thrive, UNICEF is accelerating its efforts to engage adolescents and prioritizing data and evidence generation to inform at-scale, multisectoral programming and resource mobilization.

128. In Goal Area 2, UNICEF has placed the learning crisis at the heart of its global education strategy for the period 2019–2030, aiming to accelerate results by focusing on three key transitions across the learning pathway. UNICEF will work to ensure that 5-year-olds are ready for school, focusing on 35 priority countries, mostly in sub-Saharan Africa and South Asia; that 10-year-olds are ready to succeed in school, in 74 priority countries, in the same regions plus Europe and Central Asia; and that 18-year-olds are ready for life and work, including through efforts in 25 frontrunner countries of the Generation Unlimited initiative.

129. In Goal Area 3, in response to the findings of the midterm review, UNICEF identified key areas in need of acceleration to inform the development of its child protection strategy in 2020. Efforts to strengthen child protection systems to prevent and respond to violence against children and to improve systems to ensure children's access to justice are not on track. While efforts against harmful practices are on the track towards Strategic Plan targets, the ambition of those targets needs to be increased to contribute to the achievement of the related targets of the Sustainable Development Goals.

130. UNICEF will leverage its leadership role within the United Nations Legal Identity Agenda to accelerate birth registration in 13 priority countries in Africa, home to one in three unregistered children worldwide. UNICEF will also strengthen its emphasis on social and behavioural change programmes and measurement, including gender transformation and norms, especially as they relate to violence and harmful practices. On the basis of data and evaluation findings, the joint programmes of UNICEF and the United Nations Population Fund on female genital mutilation and child marriage will be expanded to additional countries.

131. In Goal Area 4, the midterm review has identified the need to accelerate efforts towards universal basic sanitation and ending open defecation, ensuring access to WASH in schools and health-care facilities. To end open defecation, UNICEF will prioritize increasing high-level political commitments and investment in left-behind regions, working with the World Bank and regional platforms such as the African Union and the Association of Southeast Asian Nations. Addressing WASH inequalities in rural and urban areas is another priority for acceleration.

132. Through the midterm review, UNICEF has determined the need to accelerate efforts where Strategic Plan targets are off track, and where they are on track, to increase their ambition, sharpen priorities and accelerate programmatic efforts.

Risk management framework and key enterprise risks

133. UNICEF has an enterprise risk management programme which supports the leadership and management in identifying, analysing and monitoring risks that may impact the achievement of its strategic objectives. Priority strategic risks for UNICEF for future years are updated annually and, where needed, risk mitigation strategies are developed and monitored.

134. 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. UNICEF maintains and enhances a strong and experienced operations function at the country office, regional office and headquarters levels. The operations function, in partnership with the programme function, continues 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.

135. UNICEF is committed to following the guidance towards the system-wide harmonization of risk management practices, including on information-sharing on fraudulent behaviour of implementing partners; assessments of risk appetite and risk tolerance; incorporating acceptance of residual risk in organizational policies; implementing smarter upstream controls; examining the costs of controls compared with the value of the potential loss they are intended to mitigate; and the development of common definitions of risk categories issued by the High-level Committee on Management task force on enterprise risk management to enable a common approach to reporting risks.

136. 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. UNICEF manages several risks, which are regularly reviewed, prioritized and addressed. UNICEF monitors closely at the enterprise level and at the local level. Risk reporting is from both a top-down (enterprise level/universal level) and bottom-up approach (local level). While at the strategic level risks have been identified, offices, on the basis of their local contexts, are able to map their programmatic risks directly to the Strategic Plan and assess them. This top-down approach is coupled with a bottom-up approach, where divisions and offices identify and connect their risks, which provides for a more mature risk management process. To that end, a new risk structure and taxonomy was introduced in 2019. The results of the risk structure and taxonomy exercise constitutes the collective UNICEF portfolio of risks. This approach, supported by integrating technology, will help in managing breadth of risks for UNICEF to achieve organizational performance.

137. The key enterprise risks are set out in the paragraphs below.

Significant enterprise risks

Fraud, waste and misuse of resources

138. Fraud, waste and misuse of resources continues to be a key risk, as UNICEF implements programmes for children in local country contexts, which exposes the organization to the risk of fraud, waste and the misuse and misappropriation of resources. The risk of loss has the potential negative impact of damaging the trust and confidence of funding partners and stakeholders in the ability of UNICEF to serve as a custodian of resources for children. Loss of trust could impact negatively on the ability of UNICEF to raise funds to safeguard and advocate for children's rights globally. Funding partners and other stakeholders expect UNICEF to achieve the Strategic Plan goals and the organization's mission objectives. They need assurance that resources provided are managed adequately and risks are mitigated against fraud, loss and waste. Therefore, efficient and effective management is a priority to ensure that UNICEF retains its reputation as the organization of choice for delivering results that yield the best value for money to benefit the world's most vulnerable and disadvantaged children.

139. UNICEF is committed to mitigating the risk of fraud and the misuse and misappropriation of funds through the continuous improvement of its anti-fraud strategy.

140. UNICEF doubled its efforts to consolidate a more consistent organizational culture of integrity and accountability in 2019. During the first half of the year, the anti-fraud awareness activities and training were reinforced with the successful introduction of a mandatory online course on fraud awareness for all UNICEF staff. In a major effort to reach the widest audience possible, the course was launched in English, French and Spanish, and the completion rate as of March 2020 was 84 per cent. UNICEF also worked with other United Nations entities to develop fraud awareness training to be addressed to implementing partners. The course will be available to implementing partners in 2020.

141. In 2019, a more detailed fraud risk assessment was included as part of the annual risk assessment exercise. The fraud risk assessments will provide information that is comparable and will be used in the implementation of the anti-fraud strategy and mitigation measures.

142. Furthermore, UNICEF requires compliance with its code of ethics, whistle-blower protection policy and investigations. The Office of Internal Audit and Investigations examines cases of suspected fraud and misuse and misappropriation of resources and takes immediate action where fraud is detected. The organization is also enhancing its mechanisms for recovering funds lost owing to fraud, misuse and misappropriation. Management is aware of the challenges for the recovery of losses once fraud has occurred. The organization has strengthened the ongoing monitoring of transactions through the development of a prototype transaction-level monitoring tool aimed at deterring, preventing and detecting fraud.

143. UNICEF has successfully implemented a comprehensive fraud risk mitigation process in Yemen for cash transfers, managed and implemented by a specialized project management unit, and lessons learned will help UNICEF to design risk management strategies for future cash-based transfer modalities in programme implementation. The project management unit that implements the project in Yemen demonstrated best practice in fraud risk management, the prevention of aid diversion and zero tolerance of fraud and corruption, in line with UNICEF policies. The success of this project and the lessons learned around fraud risk assessments and fraud

prevention, detection and response are being incorporated in the implementation of the anti-fraud strategy. UNICEF continues to scale up the cash-based transfer modality in programme implementation, partnering with other United Nations entities as well as international financial institutions. This innovative funding approach has exposed UNICEF to risks related to cash-based transfer systems, processes and security. UNICEF leverages technology and best practices in information security to manage this key enterprise risk. Through the development of an organization-wide cash-based transfer strategy and the enhancement of existing infrastructure, including data management, information systems and financial policies and procedures, UNICEF is enhancing its technological capabilities. The lessons learned from the project in Yemen will be key in designing risk management strategies for future cash-based transfer modalities in programme implementation.

Funding and external stakeholder relations

144. This risk area covers the risks related to failure to meet fundraising targets on which the Strategic Plan 2018–2021 are based and fundraising market underperformance. In 2019, the fundraising markets, especially for regular resources, failed to meet the targets, while fundraising for other resources was above the estimates. The most significant risks that may prevent UNICEF from reaching its fundraising targets are the continuing contraction in global private sector fundraising markets. Strategies to mitigate these risks and identify new opportunities include the development of organization-wide fundraising acceleration strategies and a continued focus on risk prevention. UNICEF continues to encourage Member States to meet their commitments made in the funding compact, of 30 per cent of overall voluntary contributions going towards regular resources, rather than to other resources, as a way to further mitigate this risk.

Misconduct and wrongful and negligent behaviour towards others

145. This risk area includes a subcategory of risks related to abuse of authority, harassment, sexual harassment, discrimination, child safeguarding, sexual exploitation and abuse, and crimes or unethical conduct against another person. UNICEF is in the process of a global cultural change initiative to better align staff behaviours with the organization’s core values and the United Nations standards of conduct, and ensure adequate accountability for unacceptable behaviours as well as misconduct. The initiative is a concerted and coordinated response across the organization, and consists of actions to improve how the UNICEF workforce lives the organization’s core values (care, respect, integrity, trust and accountability), to bring a more people-centric focus to its human resources and investigation systems and to increase accountability for inappropriate behaviour and misconduct. A strong internal communications effort is helping to engage staff in this process, using multiple tools and channels.

Information technology system and information security

146. Information technology security and cybersecurity risks to UNICEF systems are significant threats. Corporate processes and programme delivery modalities are heavily reliant on information technology. In addition, the use of technology entails the collection of personal and other data, which is under threat of being breached. UNICEF depends on appropriate, up-to-date and innovative technology (and the security thereof) to implement some of its high-impact programmes that bring results for children. Privacy breaches and weak data governance and integrity threaten the confidentiality, integrity and availability of UNICEF financial and programmatic information, which could negatively impact programme implementation and delivery. 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. All UNICEF staff are required to take a mandatory training course on information security to ensure that they are aware of the key issues to address the risks. UNICEF makes significant investment in information and communications technology (ICT) to improve management effectiveness and efficiency and support innovative approaches to service delivery, while concurrently mitigating the dynamic and ever-evolving ICT risk landscape.

147. UNICEF has established a prototype fund that accepts donations and makes disbursements exclusively denominated in cryptocurrencies, to finance early stage, open-source technology benefiting children and young people. Cryptocurrencies and blockchain technology can help organizations such as UNICEF to benefit from additional funding sources and enhance the transparency of operations. However, they bring with them risks that come with engaging in a new activity, including cybersecurity risks (such as hacking, loss of information and malicious activity), economic risks (such as fluctuations in value) and regulatory risks. The pilot fund mirrors the purpose, structure and governance of the current UNICEF innovation fund, with the exception that it makes disbursements exclusively in cryptocurrencies. Risk management measures have been included as part of the establishment of the pilot and will form a basis for the lessons learned as UNICEF looks to expand the fund beyond the pilot.

Chapter V

Financial statements for the year ended 31 December 2019

United Nations Children's Fund

I. Statement of financial position as at 31 December

(Thousands of United States dollars)

	Note	*2019*	*2018*
Current assets			
Cash and cash equivalents	6	796 303	995 259
Contributions receivable	7.A	2 345 790	2 188 478
Other receivables	7.B	158 457	67 123
Advances of cash assistance	8	850 909	771 424
Inventories	9	380 389	370 191
Investments	10	3 397 912	3 546 819
Other assets	11	669 261	604 029
Total current assets		**8 599 021**	**8 543 323**
Non-current assets			
Contributions receivable	7.A	983 464	1 141 215
Other receivables	7.B	1 720	1 706
Investments	10	1 327 463	567 851
Property and equipment	12	256 576	243 144
Intangible assets	13	4 401	6 162
Other assets	11	1 717	1 767
Total non-current assets		**2 575 341**	**1 961 845**
Total assets		**11 174 362**	**10 505 168**
Current liabilities			
Accounts payable and accrued liabilities	14	388 958	339 341
Contributions received in advance	15	11 245	60 730
Funds held on behalf of third parties	16	1 154 427	803 506
Other liabilities	17	191 278	191 854
Employee benefits liabilities	18	133 302	122 261
Provisions	19	25 533	50 468
Total current liabilities		**1 904 743**	**1 568 160**
Non-current liabilities			
Contributions received in advance	15	1 407	1 558
Employee benefits liabilities	18	1 497 854	1 410 028
Other liabilities	17	38 411	59 974
Total non-current liabilities		**1 537 672**	**1 471 560**
Total liabilities		**3 442 415**	**3 039 720**
Accumulated surpluses	20	6 854 685	6 741 110
Reserves	20	877 262	724 338
Net assets		**7 731 947**	**7 465 448**

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	*2019*	*2018*
Revenue			
Voluntary contributions	21	6 200 894	6 495 250
Other revenue	22	85 223	79 846
Investment revenue	23	126 154	100 662
Total revenue		**6 412 271**	**6 675 758**
Expenses			
Cash assistance	25	2 351 947	2 263 176
Transfer of programme supplies	25	981 634	986 908
Employee benefits	26	1 519 506	1 416 290
Depreciation and amortization	12, 13	23 890	21 914
Other expenses	27	909 402	847 621
Other programme-related expert services	28	472 859	431 201
Finance costs	23	2 385	2 647
Total expenses		**6 261 623**	**5 969 757**
Gains net	24	37 565	16 675
Net surplus		**188 213**	**722 676**

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	*2019*	*2018*
Net assets as at 1 January	20	**7 465 448**	**6 593 772**
Actuarial gains recognized directly in net assets	20	1 580	197 896
Changes in fair value of available-for-sale financial assets	20	76 706	(48 896)
Net surplus for the period	20	188 213	722 676
Net assets as at 31 December	20	**7 731 947**	**7 465 448**

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	*2019*	*2018*
Cash flows from operating activities			
Net surplus	20	188 213	722 676
Adjustments to reconcile surplus to net cash flows			
Depreciation and amortization	12, 13	23 890	21 914
Net gain on sale or disposal of property, equipment	24.A	(2 209)	(1 821)
Unrealized (gain)/loss on foreign exchange		(40 187)	89 784
Impairments, write-offs	27	258	4 220
Investment revenue presented as investing activities	23	(126 154)	(100 662)
Contributions in kind – net	21	(68 671)	(72 431)
Actuarial gain on employee benefit liabilities	20	1 580	197 896
Unrealized loss/(gain) through net assets	20	76 706	(48 896)
Other adjustments		124 732	8 599
Changes in assets			
(Increase) in inventories	9	(10 198)	(13 916)
Decrease/(increase) in contributions receivable	7.A	439	(621 413)
(Increase) in other receivables	7.B	(91 348)	(20 267)
(Increase) in advances from cash assistance	8	(79 485)	(38 747)
(Increase)/decrease in other assets	11	(65 181)	162 864
Changes in liabilities			
Increase in accounts payable	14	49 617	65 079
(Decrease)/increase in contributions received in advance	15	(49 636)	32 886
Increase/(decrease) in funds held on behalf of third parties	16	350 921	(368 365)
Increase/(decrease) in employee benefit liabilities	18	98 867	(105 733)
(Decrease)/increase in provisions	19	(24 935)	29 118
(Decrease)/increase in other liabilities	17	(22 139)	27 811
Net cash generated by/(used in) operating activities		**335 080**	**(29 404)**
Cash flows from investing activities			
Purchases of investments		(7 460 624)	(5 658 243)
Maturities and sale of investments		6 849 919	5 760 901
Interest revenue		120 995	95 634
Dividend revenue		5 160	5 029
Purchases of property and equipment	12	(37 348)	(33 523)
Proceeds on sale of property and equipment	12	4 084	5 523
Purchases of intangible assets	13	(89)	(4 262)
Net cash (used in)/generated by investing activities		**(517 903)**	**171 059**

	Note	*2019*	*2018*
Cash flows used in financing activities			
Central Emergency Response Fund loan	17	–	(4 000)
Payment of finance lease liabilities	17.B, 23	(6 728)	(6 728)
Net cash used in financing activities		**(6 728)**	**(10 728)**
Effect of exchange rate changes on cash and cash equivalents		(9 405)	(19 246)
Net (decrease)/increase in cash and cash equivalents		**(198 956)**	**111 681**
Cash and cash equivalents			
Beginning of year	6	995 259	883 578
End of year	6	796 303	995 259

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	840 801	888 601	880 748	7 853
Global and regional programmes	5	55 500	85 055	68 163	16 892
Emergency programme fund		**75 000**	**46 951**	**46 951**	–
Total regular resources		**971 301**	**1 020 607**	**995 862**	**24 745**
Other resources – regular					
Country programmes		2 132 856	2 461 341	2 323 284	138 057
Global and regional programmes		204 401	202 271	166 490	35 781
Total other resources – regular		**2 337 257**	**2 663 612**	**2 489 774**	**173 838**
Total country programmes		**2 973 657**	**3 349 942**	**3 204 032**	**145 910**
Total global and regional programmes		**259 901**	**287 326**	**234 653**	**52 673**
Other resources – emergency	**5**	**1 500 000**	**1 956 102**	**1 884 397**	**71 705**
Total programmatic		**4 808 558**	**5 640 321**	**5 370 033**	**270 288**
Institutional budget					
Development effectiveness		179 320	171 007	165 723	5 284
Management		399 854	410 141	392 486	17 655
Special purpose: capital investments		19 950	41 576	28 984	12 592
United Nations development coordination		12 298	10 457	10 019	438
Total institutional		**611 422**	**633 181**	**597 212**	**35 969**
Special purpose: private fundraising and partnerships		**245 400**	**226 699**	**221 765**	**4 934**
Grand total		**5 665 380**	**6 500 201**	**6 189 010**	**311 191**

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

United Nations Children's Fund
Notes to the 2019 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 Ethiopia, Jordan, Kenya, Nepal, Panama, Senegal, Switzerland and Thailand.

Note 2
Statement of approval of the Executive Director

1. The financial statements were certified by the Comptroller on 31 March 2020 as required by the UNICEF Financial Regulations and Rules and transmitted for issue by the Executive Director on 29 May 2020.

Note 3
Basis of preparation

A. Basis of measurement

1. The financial statements have been prepared on a full-accrual method of accounting under the 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 2019 to the basis of estimates and judgments applied.

D. Change in accounting estimates

9. Historically, UNICEF has used the straight-line basis method for attributing the benefits to periods of service related to the death benefit obligation. However, consistent with the requirements in paragraph 72 of IPSAS 39 and in line with most other United Nations entities, UNICEF has changed the estimate for attributing death benefit obligations to the benefit formula approach. The effect of the change in estimate is to increase the liabilities and decrease net assets by $0.73 million.

10. In accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors, the change in accounting estimates has been applied prospectively effective 1 January 2019 and no restatement of comparative amounts has been performed for prior year periods.

E. Changes in accounting standards

11. The IPSAS Board issued IPSAS 40: Public sector combinations in 2017, with effect from 1 January 2019. There is currently no impact on UNICEF from the application of IPSAS 40, as there are no public sector combinations that fall under UNICEF. Should such combinations occur, any impact of IPSAS 40 on the UNICEF financial statements following the effective date of the standard will be evaluated for application.

12. The IPSAS Board also issued IPSAS 41: Financial instruments. IPSAS 41 substantially improves the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29: Financial instruments: recognition and measurement, and improves that standard's requirements by introducing: (a) simplified classification and measurement requirements for financial assets; (b) a forward-looking impairment model; and (c) a flexible hedge accounting model. IPSAS 41 will be effective from 1 January 2022. Its impact on the financial statements will be assessed prior to that date, and UNICEF will be ready for its implementation by the time it becomes effective.

13. The IPSAS Board also issued IPSAS 42: Social benefits, effective 31 January 2019. This accounting standard provides guidance on accounting for social benefits expenditure. There is currently no impact on UNICEF from the application of IPSAS 42.

14. The IPSAS Board approved exposure draft 70, on revenue with performance obligations, and agreed on an exposure period of six months from the date of publication. Exposure draft 70 is based on International Financial Reporting Standard 15: Revenue from contracts with customers, and has been expanded to apply to binding arrangements that are not necessarily contractual. Exposure draft 70 has a broadened scope with a greater emphasis on the transfer of goods or services to third-party beneficiaries.

15. An exposure draft is a document published by the IPSAS Board before the issuance of a new accounting standard to solicit public comment in order to minimize any unintended consequences before it becomes law. The paragraphs below highlight the exposure drafts that will have an impact on UNICEF; however, it is expected that the earliest they will be effective is 2023.

16. Exposure draft 71, on revenue without performance obligations, was also approved. This exposure draft updates IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). It addresses revenue that arises from binding arrangements with present obligations that are not performance obligations, and revenue not related to binding arrangements.

17. The related exposure draft 72, on transfer expenses, was also approved. Transfer expenses are transactions where an entity transfers resources to another party without directly receiving anything in return. The accounting for transfer expenses with performance obligations mirrors the accounting for revenue with performance obligations in exposure draft 70.

18. UNICEF will continue to monitor the progression of these exposure drafts and related accounting standards, noting that their application will have a significant impact on UNICEF. Assessment of the impact of standards on the UNICEF financial statements in advance of issuance and during subsequent implementation is ongoing.

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.

2. 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
Forward exchange contracts in gain	Held for trading (fair value through surplus or deficit)
Foreign currency options	Held for trading (fair value through surplus or deficit)

3. 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

4. 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.

5. 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.

6. 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. Effective 2019, UNICEF further expanded its strategy to hedge against currency volatility through investment in foreign exchange options. These derivatives (forward contracts and foreign exchange options) 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.

7. UNICEF does not apply hedge accounting to its derivative instruments. 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

8. 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.

9. 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.

10. 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.

11. 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.

12. UNICEF provides interest-free advances to staff for up to 12 months for specified purposes, in accordance with the Staff Regulations and Rules 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

13. 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 derecognized, the gain or deficit accumulated in net assets is reclassified as surplus or deficit.

14. 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.

15. 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

16. 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.

17. 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.

18. 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.

19. 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.

20. 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

21. 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

22. 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.

23. 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

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

25. 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.

26. 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

27. 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.

28. 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.

29. 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.

30. 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.

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 until the works have been completed, 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.

Post-employment benefits – 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

participates 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.

Post-employment benefits – 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 12 months after the end of the period in which employees provide the related service. These benefits comprise home leave and compensation for death and injury attributable to the performance of duties. These obligations are valued 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 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 non-governmental organizations (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. In 2019, a limited pilot for cryptocurrencies was approved. The pilot allows for a maximum of 2,000 bitcoin and 20,000 ether to be received. The voluntary contributions in cryptocurrencies are treated as contributions in kind and valued at fair value on the date of receipt. The expenses in cryptocurrencies are recognized by nature of expenses as incurred.

74. 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).

75. Contributions in-kind received or receivable of goods, such as programme supplies for distribution to partners, cryptocurrencies received from National Committees 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.

76. 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

77. 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.

78. 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

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

Transfers of cash assistance and programme supplies

80. 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, Cash assistance and transfer of programme supplies).

Commitments

81. 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

82. 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

83. 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.

84. 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

85. 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.

86. 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.

87. 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.

88. 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.

89. 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.

90. 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.

91. 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.

92. 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.

93. 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.

94. 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*	*2019*	*2018*
Total actual amount on comparable basis as presented in the budget and actual comparative statement	(6 189 010)	–	–	–	(6 189 010)	(5 946 390)
Basis differences	(239 102)	(517 903)	(6 728)	–	(763 733)	(230 076)
Exchange rate changes on cash and cash equivalents	–	–	–	(9 405)	(9 405)	(19 246)
Entity differences	350 921	–	–	–	350 921	(368 365)
Presentation differences	6 412 271	–	–	–	6 412 271	6 675 758
Net cash flows from the statement of cash flows	**335 080**	**(517 903)**	**(6 728)**	**(9 405)**	**(198 956)**	**111 681**

Changes from original to final budget

2. 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 $198.96 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 $335.08 million in operating activities, mostly related to presentation, entity and basis differences; (b) a net of $517.90 million basis difference, related to investment activities; (c) a net of $6.73 million related to basis difference in financing activities and (d) a net of $9.41 million of exchange rate changes.

3. 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 Executive Board-approved ceiling and planned for the calendar year. In 2019, the total final budget of $6.50 billion is significantly higher than the total original budget of $5.67 billion. The difference is driven mainly by funding received from other resources – regular, as well as more emergency appeals than the original budget approval amount. Regular resources funding also slightly exceeded the original target.

4. 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 $75.00 million and also subject to availability of funding. The final budget of $46.95 million for the Fund represents resource requirements for humanitarian actions for which contributions have not yet been raised.

5. The total final budget for all resources was $6.50 billion (original budget: $5.67 billion). The actual expenditures on a comparable basis were $6.19 billion, giving a total variance of $311.19 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) other resources – regular of $173.84 million; (b) other resources – emergency of $71.71 million; and (c) the institutional budget of $35.97 million. Other variances related to other resources funds were driven by the timing of contributions which were received late in December (final budget is released for the budget line when contribution agreements are received from the donors).

6. The other resources – regular variance of $173.84 million was driven primarily by modifications in programming that arose as a result of emergencies; for example, two unprecedented cyclones hit one country, resulting in staff time and attention being diverted to the urgent, rapid and large-scale response, resulting in delays in the originally planned programme activities. The normal programming activities resumed once staff became available.

7. The other resources – emergency variance of $71.71 million was due mainly to challenges in the operating environment faced by UNICEF staff. The largest variance, of more than $5.88 million, related to grants implementation in a level-3 country emergency, where UNICEF faced challenges in its partnership owing to the operational environment in the country particularly impacting on operations of implementing partners.

8. Similar to other resources – regular, sometimes events beyond the control of UNICEF do not allow those activities for which the funding has been earmarked 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. Programme implementation has been extended and has a revised finalization date of 1 September 2020.

9. The variance in the institutional budget of $35.97 million was mainly driven by the 70 per cent utilization of the special purpose budget category, with actual expenditures of $28.98 million compared with the final budget of $41.58 million. Special purpose budgets are generally issued with the final budget, representing the reprogrammed planned amount for the year. For example, funds could not be utilized owing to challenges in the operating environment that prevented the office from being able to import armoured vehicles and security equipment, such as personal protective equipment, as a result of the local government declining to issue import licences for such procurement. This impacted on several offices in a region. The UNICEF offices are currently working with the government to access the security equipment through the government's channels.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	2019	*2018*
Cash at bank and on hand – convertible	272 068	158 233
Cash at bank and on hand – non-convertible	45 531	38 039
Cash at bank in money market demand accounts	201 247	126 085
Term deposits and other (90 days or less)	277 457	672 902
Total cash and cash equivalents	**796 303**	**995 259**

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 $23.70 million (2018: $11.21 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*	*2019*	*2018*
Current receivables						
Unearmarked – regular resources	205 679	90	232 284	875	438 928	395 819
Earmarked – other resources	1 629 524	158 860	86 550	31 928	1 906 862	1 792 659
Total current contributions receivable	**1 835 203**	**158 950**	**318 834**	**32 803**	**2 345 790**	**2 188 478**
Non-current receivables						
Unearmarked – regular resources	136 780	–	2 670	600	140 050	245 575
Earmarked – other resources	780 265	26 923	28 862	7 364	843 414	895 640
Total non-current contributions receivable	**917 045**	**26 923**	**31 532**	**7 964**	**983 464**	**1 141 215**
Total contributions receivable	**2 752 248**	**185 873**	**350 366**	**40 767**	**3 329 254**	**3 329 693**

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)

	2019	*2018*
Current other receivables		
Receivables from licensing cards and products	3 408	2 917
Value-added tax receivables	48 141	39 111
Receivables from staff members	6 779	6 181
Receivables from other United Nations agencies	27 205	18 818
Unused transfers of cash assistance due from implementing partners	7 290	9 893
Other	71 754	95
Impairment	(6 120)	(9 892)
Total current other receivables	**158 457**	**67 123**
Non-current other receivables	**1 720**	**1 706**
Total other receivables	**160 177**	**68 829**

2. The exposure of UNICEF to credit and currency risks related to other receivables is disclosed in note 30, Financial risk management.

3. Included in the table above is $71.72 million (2018: nil) of the procurement services balance, which represents a credit note due from a supplier and intended for use against future procurement services. The corresponding liability is included under note 16, Funds held on behalf of third parties.

Note 8
Advances of cash assistance

(Thousands of United States dollars)

	2019	2018
Advances of cash assistance by region		
East Asia and Pacific	41 377	36 031
Europe and Central Asia	70 333	33 321
Eastern and Southern Africa	177 211	156 110
Latin America and Caribbean	37 724	31 793
Middle East and North Africa	239 780	239 072
South Asia	78 835	82 904
Western and Central Africa	195 526	194 844
Transfers to United Nations agencies and other organizations at Headquarters	15 976	9 021
Adjustment	(5 853)	(11 672)
Total advances of cash assistance by region	**850 909**	**771 424**

1. The adjustment included in the above table represents an accrual for where implementing partners have incurred valid expenses as at 31 December 2019 and reports had been received but not processed by UNICEF at the reporting date.

Note 9
Inventories

(Thousands of United States dollars)

	2019	2018
Programme supplies held in UNICEF-controlled warehouses	258 178	250 656
Programme supplies in transit	99 744	96 643
Programme construction in progress	22 467	22 892
Total inventories	**380 389**	**370 191**

Note 10
Investments

(Thousands of United States dollars)

	2019	2018
Current investments		
Term deposits (greater than 90 days)	2 309 555	2 746 827
Traded bonds	652 385	420 938
Structured deposits	–	11 411
Forward exchange contracts in gain	99 423	92 691
Equities	336 549	274 952
Total current investments	**3 397 912**	**3 546 819**

	2019	*2018*
Non-current investments		
Term deposits	35 002	–
Traded bonds	1 292 461	567 851
Total non-current investments	**1 327 463**	**567 851**
Total investments	**4 725 375**	**4 114 670**

1. UNICEF invests some of its funds held in reserves for after-service health insurance liabilities with external fund managers. Included in the investments are $181.07 million (2018: $168.33 million) in bonds; $336.55 million (2018: $274.95 million) in equities and $99.42 million (2018: $92.69 million) in forward exchange contracts in gain related to these externally managed funds.

Note 11
Other assets

(Thousands of United States dollars)

	2019	*2018*
Current other assets		
Education grant advances to staff members	18 631	18 594
Prepaid expenses and other assets	24 148	24 259
Other procurement services related assets	626 482	553 481
Promissory notes	–	7 695
Total current other assets	**669 261**	**604 029**
Non-current other assets		
Other assets	1 717	1 767
Total non-current other assets	**1 717**	**1 767**
Total other assets	**670 978**	**605 796**

1. Other procurement services assets of $626.48 million (2018: $553.48 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.

2. In previous years, UNICEF entered into secured promissory note agreements with a related party to facilitate the procurement services process on long-term arrangements. There is no outstanding principal amount of the promissory notes as at 31 December 2019 (2018: $7.70 million).

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 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**

(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 2019*
Cost								
Balance as at 1 January	81 097	120 290	28 129	25 336	37 753	18 401	105 281	416 287
Additions	–	12 914	5 954	1 663	2 099	1 451	13 267	37 348
Disposals	–	(512)	(393)	(2 099)	(3 252)	(2 873)	(8 724)	(17 853)
Balance as at 31 December	**81 097**	**132 692**	**33 690**	**24 900**	**36 600**	**16 979**	**109 824**	**435 782**
Accumulated depreciation and impairment								
Balance as at 1 January	–	34 006	7 977	18 461	27 875	15 002	69 822	173 143
Depreciation	–	4 766	3 202	2 529	1 499	2 213	7 831	22 040
Impairment	–	6	–	29	96	17	218	366
Disposals	–	(485)	(129)	(1 840)	(2 685)	(2 751)	(8 453)	(16 343)
Balance as at 31 December	**–**	**38 293**	**11 050**	**19 179**	**26 785**	**14 481**	**69 418**	**179 206**
Carrying value as at 31 December	**81 097**	**94 399**	**22 640**	**5 721**	**9 815**	**2 498**	**40 406**	**256 576**

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

2. Included within buildings are $8.36 million (2018: $5.88 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)

	2019	*2018*
Land	80 000	80 000
Buildings	63 233	57 591
Equipment	–	58
Total	**143 233**	**137 649**

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 (2018: $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 2019, 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 $20.17 million (2018: $19.54 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 2018*
Cost					
Balance as at 1 January	1 518	12 412	16	198	14 144
Additions	4 262	–	–	–	4 262
Disposals	–	–	–	(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	–	–	–	–	–
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**

(Thousands of United States dollars)

	Purchased computer software	*Internally developed software*	*Licences and copyrights*	*Intangibles under development*	*Total 2019*
Cost					
Balance as at 1 January	5 780	12 412	16	–	18 208
Additions	89	–	–	–	89
Disposals and adjustments	(86)	–	–	–	(86)
Balance as at 31 December	**5 783**	**12 412**	**16**	**–**	**18 211**
Amortization					
Balance as at 1 January	2 082	9 950	14	–	12 046
Amortization	988	860	2	–	1 850
Disposals and adjustments	(86)	–	–	–	(86)
Balance as at 31 December	**2 984**	**10 810**	**16**	**–**	**13 810**
Carrying value as at 31 December	**2 799**	**1 602**	**–**	**–**	**4 401**

Note 14
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	2019	*2018*
Accounts payable	252 113	229 654
Accrued liabilities	136 845	109 687
Total accounts payable and accrued liabilities	**388 958**	**339 341**

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)

	2019	*2018*
Current portion	11 245	60 730
Long-term portion	1 407	1 558
Total contributions received in advance	**12 652**	**62 288**

Note 16
Funds held on behalf of third parties

(Thousands of United States dollars)

	Balance as at 1 January 2019	*Funds received*	*Funds disbursed*	*Movement of accruals*	*Balance as at 31 December 2019*
Procurement services					
Governments	220 780	624 234	(546 936)	–	298 078
Inter-organizational arrangements	29 017	118 467	(95 664)	–	51 820
Non-governmental organizations	404 355	1 386 052	(1 245 152)	–	545 255
National Committees	–	14	(12)	–	2
Other arrangements					
UNICEF hosted funds	112 097	227 584	(111 020)	–	228 661
Others	43 266	159 786	(163 675)	–	39 377
Accruals	(6 009)	–	–	(2 757)	(8 766)
Total funds held on behalf of third parties	**803 506**	**2 516 137**	**(2 162 459)**	**(2 757)**	**1 154 427**

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 $228.66 million (2018: $112.10 million) representing the balance of internally hosted special funds (see note 34, Related parties, for additional disclosures).

3. Included in the table above is $71.72 million (2018: nil) of procurement services balance that represents a credit note due from a supplier and intended for use against future procurement services. The corresponding receivable is included under note 7.B, Other receivables.

Note 17

A. Other liabilities

(Thousands of United States dollars)

	2019	*2018*
Current other liabilities		
Unearned income	39 415	35 969
Forward exchange contracts	99 595	93 159
Finance lease liabilities	4 622	4 343
Firm contracts and other liabilities	47 646	58 383
Total current other liabilities	**191 278**	**191 854**
Non-current other liabilities		
Finance lease liabilities	31 262	35 884
Firm contracts	7 149	24 090
Total non-current other liabilities	**38 411**	**59 974**
Total other liabilities	**229 689**	**251 828**

1. Unearned income of $39.42 million (2018: $35.97 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 $99.60 million (2018: $93.16 million) relate to externally managed after-service health insurance investments.

3. Included in other liabilities are agreements where UNICEF has committed to procure minimum order quantities for vaccines under firm long-term agreements of $32.73 million (2018: $52.65 million), which are due within 12 months and included under current other liabilities. The long-term portion of $7.15 million (2018: $24.09 million) 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)

	2019	*2018*
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	10 093	16 822
Total undiscounted minimum lease payments	**43 735**	**50 464**
Present value of minimum lease payments		
Not later than one year	4 622	4 343
Later than one year and not later than five years	21 650	20 345
Later than five years	9 612	15 539
Total present value of minimum lease payments	**35 884**	**40 227**
Future finance charges	**7 851**	**10 237**

Note 18
Employee benefits liabilities

(Thousands of United States dollars)

	2019	*2018*
Current employee benefits liabilities		
Home leave	9 328	8 899
Annual leave	120 178	108 973
Workers' compensation	823	826
Other end-of-service entitlements	1 498	2 249
Other employee benefits	1 475	1 314
Total current employee benefits liabilities	**133 302**	**122 261**
Non-current employee benefits liabilities		
Home leave	2 197	2 091
Workers' compensation	15 706	13 888
Other end-of-service entitlements	131 303	106 880
After-service health insurance[a]	1 348 648	1 287 169
Total non-current employee benefits liabilities	**1 497 854**	**1 410 028**
Total employee benefits liabilities	**1 631 156**	**1 532 289**

[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 Professional 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*	*2019 total*	*2018 total*
Balance as at 1 January	818 346	105 053	468 823	1 827	14 714	1 408 763	1 515 602
Current service cost	28 974	10 368	21 509	102	347	61 300	65 563
Interest cost on benefit obligation	36 681	4 230	21 075	100	79	62 165	57 315
Actuarial (gains)/losses on benefit obligation	(54 538)	15 883	32 184	2 684	2 207	(1 580)	(197 896)
Benefits paid (net of participant contributions)	(17 222)	(8 668)	(7 184)	(276)	(818)	(34 168)	(31 821)
Balance as at 31 December	**812 241**	**126 866**	**536 407**	**4 437**	**16 529**	**1 496 480**	**1 408 763**

Table A.2
Defined-benefit obligation: active and retired staff
(Thousands of United States dollars)

UNICEF contributions	*After-service health insurance*[a]	*End-of-service and death benefit*	*Death benefit*	*Workers' compensation*	*2019 total*	*2018 total*
Current retirees	548 822	–	–	–	548 822	623 184
Active employees – fully eligible	282 183	55 036	2 352	16 529	356 100	289 752
Active employees – not yet eligible	517 643	71 830	2 085	–	591 558	495 827
Balance as at 31 December	**1 348 648**	**126 866**	**4 437**	**16 529**	**1 496 480**	**1 408 763**

[a] After-service health insurance in this table includes liability for the Medical Insurance Plan.

Table A.3
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*
2019 actual contributions	36 280	34 523	24 055	94 858
2018 actual contributions	33 673	31 786	21 910	87 369

Table A.4
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*
2019 actual contributions	n/a	n/a	5 867	5 867
2018 actual contributions	n/a	n/a	4 969	4 969

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.7 below, entitled "Funding of liabilities", for details).

Table A.5
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*	*2019*	*2018*
Current service cost	28 974	10 368	21 509	102	347	61 300	65 563
Interest cost on benefit obligation	36 681	4 230	21 075	100	79	62 165	57 315
Total expense included in surplus	**65 655**	**14 598**	**42 584**	**202**	**426**	**123 465**	**122 878**

Table A.6
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*	*2019*	*2018*
Due to changes in financial assumptions	(54 386)	11 448	(10 915)	536	2 182	(51 135)	(197 395)
Due to changes in demographic assumptions	(767)	(367)	476	154	101	(403)	729
Due to experience adjustments	615	4 802	42 623	1 260	(76)	49 224	(1 230)
Due to change of methodology	–	–	–	734	–	734	–
Total current period	**(54 538)**	**15 883**	**32 184**	**2 684**	**2 207**	**(1 580)**	**(197 896)**

8. Actuarial gains recognized in equity decreased from a gain of $197.90 million in 2018 to a gain of $1.58 million in 2019. Actuarial gains from changes in financial assumptions reflect the decrease in the discount rate and the change of the per capita claims assumption.

9. After-service health insurance and the Medical Insurance Plan had a total actuarial gain owing to changes in financial assumptions of $65.30 million for the year 2019, mostly composed of the following individual components: an update in per capita claims estimates based on more current data, resulting in a gain of $268.00

million ($176.00 million after-service health insurance and $92.00 million Medical Insurance Plan); a change in the discount rate, resulting in a loss of $185.00 million; and a change in the contribution rate to the United Nations Staff Mutual Insurance Society against Sickness and Accidents, resulting in a loss of $20.00 million. The estimation methods for actuarial valuation for after-service health benefits remain unchanged.

10. 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.

11. The funding deficit for the aggregate of the defined-benefit plans and other liabilities is presented in table A.7 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.7
Funding of liabilities
(Thousands of United States dollars)

	2019	*2018*
Actuarial liabilities recognized in the statement of financial position	1 496 480	1 408 763
Other liabilities and provisions recognized in the statement of financial position	121 707	111 253
Funding	(817 853)	(741 099)
Funding deficit	**(800 334)**	**(778 917)**

12. 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

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

14. An actuarial valuation conducted by UNICEF actuaries for 31 December 2019 was used for the closing balances on 31 December 2019. The valuation, performed to determine the results to be used for financial accounting purposes, was prepared on an ongoing plan basis.

15. 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

16. 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.

17. **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 (2018: 2.20 per cent) was used for the 31 December 2019 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.

18. **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.

19. Based on the analysis for 2019, the single equivalent discount rate is 3.37 per cent as at 31 December 2019 (2018: 4.50 per cent), and a discount rate, rounding to the nearest 25 basis points, would equal 3.25 per cent (2018: 4.50 per cent).

20. **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.

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

22. **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

	2019 (percentage)	*2018 (percentage)*
Discount rate		
Rate at 1 January	4.50	3.82
Rate at 31 December	3.37	4.50
Rate of inflation	2.20	2.20

	2019 (percentage)	*2018 (percentage)*
Expected rate of medical cost increase		
Medical inside the United StarTe[am]	5.26	5.38
2032 and onwards medical inside the United States[c]	3.85	3.85
United States dental[b]	4.66	4.73
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 2018, rate extended to 2032.

Table B.2
Current rates of death underlying the values of United Nations Children's Fund liabilities

	2019		*2018*	
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	0.00037	0.00522	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
Average rates of retirement for Professional staff with 30 or more years of service

	2019		*2018*	
Rate of retirement	*At age 55*	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.73	0.16	0.75
Female	0.20	0.78	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)

	After-service health insurance		*End-of-service*	*Medical Insurance Plan*		*Death benefit*	*Workers' compensation*
Sensitivity of assumptions (impact on)	*Obligation*	*Expense*	*Obligation*	*Obligation*	*Expense*	*Obligation*	*Obligation*
Discount rate							
Impact of: 0.5 per cent increase	(83 270)	–	(5 021)	(59 170)	–	(160)	(930)
Impact of: 0.5 per cent decrease	96 992	–	5 394	69 219	–	172	1 285
Health-care cost trend rates							
Impact of: 0.5 per cent increase	93 155	9 564	–	66 969	7 756	–	–
Impact of: 0.5 per cent decrease	(80 987)	(8 103)	–	(57 923)	(6 551)	–	–

Sensitivity analysis

23. 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.

24. 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

25. The average duration of after-service health insurance (including medical plan insurance), end-of-service entitlements, death benefit and worker compensation is respectively 24 years, 9 years, 8 years and 18 years.

Table B.5
Estimated benefit payments net of participant contributions for the next 10 years
(Thousands of United States dollars)

	2020	*2021*	*2022*	*2023*	*2024*	*2025 to 2029*
After-service health insurance[a]	16 946	18 963	21 069	23 324	25 646	167 579
End-of-service entitlements	11 159	9 709	8 967	8 685	8 328	38 534
Death benefit	377	359	346	334	325	1 463
Worker compensation	826	830	832	834	834	4 121

[a] After-service health insurance in this table includes liability for the Medical Insurance Plan.

C. Multi-employer pension plans

26. 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.

27. 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 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.

28. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the

obligation, plan assets and costs to individual organizations participating in the Fund. UNICEF and the 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 Fund during the financial period are recognized as expenses in the statement of financial performance.

29. The Regulations of the 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 Fund will be sufficient to meet its liabilities.

30. The financial obligation of UNICEF to the 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 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 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.

31. The most recent actuarial valuation for the Fund was completed as at 31 December 2017, and the valuation as at 31 December 2019 is currently being performed. A roll-forward of the participation data as at 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 financial statements.

32. 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. The funded ratio was 102.7 per cent when the current system of pension adjustments was taken into account.

33. 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 at the valuation date. At the time of reporting, the General Assembly has not invoked the provision of article 26.

34. Should article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Fund, 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 (2016, 2017 and 2018) amounted to $7.13 billion, of which 10.29 per cent was contributed by UNICEF.

35. During 2019, contributions paid to the Fund amounted to $292.79 million (2018: $263.35 million). Expected contributions due in 2020 are approximately $319.83 million.

36. 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 United Nations Joint Staff 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.

37. The Board of Auditors carries out an annual audit of the 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)

	2019	*2018*
UNICEF contributions	194 683	174 617
Participants' contributions	98 110	88 728
Total contributions	**292 793**	**263 345**

Note 19
Provisions

(Thousands of United States dollars)

	Returns of unused funds	*Write-down*	*Other provisions*	*Total*
Balance as at 1 January 2019	22 152	28 316	–	50 468
(Decrease)/increase in provision	(1 226)	(23 121)	3 373	(20 974)
Utilization during the period	(3 626)	(335)	–	(3 961)
Balance as at 31 December 2019	**17 300**	**4 860**	**3 373**	**25 533**

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 for specific donors where past experience indicates that the donor contribution has previously been reduced at the grant expiration date.

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 2018	**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**
Surplus	164 272	–	–	–	–	23 941	–	–	–	23 941	188 213
Actuarial gains	–	1 580	–	–	–	–	–	–	–	1 580	1 580
Changes in fair value of available-for-sale financial assets	–	–	76 706	–	–	–	–	–	–	76 706	76 706
Utilization of reserve	44 356	–	–	–	–	(9 690)	(19 853)	(12 502)	(2 311)	(44 356)	–
Transfers to/(from) the fund	(95 053)	–	–	–	–	36 280	34 523	24 055	195	95 053	–
Balance as at 31 December 2019	**6 854 685**	**(5 697)**	**62 925**	**2 000**	**115**	**578 413**	**105 785**	**133 655**	**66**	**877 262**	**7 731 947**

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 revaluations 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 facilitate the renovation and 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)

	2019	*2018*
Voluntary cash contributions		
Governments and intergovernmental agencies	3 765 120	4 374 152
Inter-organizational arrangements	900 624	641 004
National Committees	1 227 486	1 190 779
Others	225 174	257 487
Total voluntary cash contributions	**6 118 404**	**6 463 422**
Voluntary in-kind contributions		
Governments and intergovernmental agencies	67 094	66 739
National Committees	1 577	4 849
Others	–	844
Total voluntary in-kind contributions	**68 671**	**72 432**
Total voluntary contributions	**6 187 075**	**6 535 854**
Refunds and provision for returns to donors of unused contributions and write-down	13 819	(40 604)
Total voluntary contributions (net)	**6 200 894**	**6 495 250**

1. Foreign exchange gains (losses) are included above in voluntary contributions and disclosed separately in the table below.

2. Voluntary contributions comprised $2.97 billion (2018: $3.06 billion) of multi-year contributions where programme implementation is expected over a period of more than two years.

National Committees

3. The voluntary cash contribution revenue of $1.23 billion (2018: $1.19 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 $1.59 billion (2018: $1.57 billion). Of that amount, $404.55 million (2018: $382.16 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 $68.67 million (2018: $72.43 million). In-kind contributions also include right-to-use assets, such as land and buildings, valued at $20.17 million (2018: $19.54 million), with the corresponding expense included within "rental and leasing" in note 27, Other expenses.

5. In 2019, a pilot was approved for accepting contributions in the cryptocurrencies bitcoin and ether with the intention of funding the programmatic implementation activities of the UNICEF innovation fund team. Included within voluntary in-kind contributions – National Committees is $0.03 million (2018: nil) of cryptocurrencies. Expenses of the same value are included in note 25, Cash assistance and transfer of programme supplies.

6. 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 2019 include volunteer services and free advertising, such as airtime and billboards.

B. Classification of voluntary contributions

(Thousands of United States dollars)

	2019	*2018*
Unearmarked voluntary contributions		
Regular resources – programme	1 105 913	1 564 390
Foreign exchange gains/(losses)	397	(3 075)
Total regular resources – programme (net)	**1 106 310**	**1 561 315**
Regular resources – non-programme	63 555	66 641
Foreign exchange gains	24	–
Total regular resources – non-programme (net)	**63 579**	**66 641**
Total regular resources (net)	**1 169 889**	**1 627 956**
Earmarked voluntary contributions		
Other resources – regular	2 981 035	2 999 311
Foreign exchange losses	(111)	(58 310)
Total other resources – regular (net)	**2 980 924**	**2 941 001**
Other resources – emergency	2 048 762	1 940 050
Foreign exchange gains/(losses)	1 319	(13 757)
Total other resources – emergency (net)	**2 050 081**	**1 926 293**
Total other resources (net)	**5 031 005**	**4 867 294**
Total voluntary contributions (net)	**6 200 894**	**6 495 250**

Note 22
Other revenue

(Thousands of United States dollars)

	2019	*2018*
Procurement services	49 595	47 150
Warehouse goods transfers revenue	7 435	5 076
Miscellaneous revenue	23 197	21 874
Licensing revenue	4 996	5 746
Total other revenue	**85 223**	**79 846**

1. UNICEF undertakes procurement services for Governments, NGOs, United Nations agencies and other international organizations and foundations. UNICEF recognized revenue of $49.60 million (2018: $47.15 million) related to provision of these services.

2. The warehouse goods transfers revenue of $7.44 million (2018: $5.08 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 2019, total licensing revenue was $5.00 million (2018: $5.75 million).

Note 23
Investment revenue and finance costs

(Thousands of United States dollars)

	2019	*2018*
Internally managed investment revenue	117 358	92 123
After-service health insurance investment revenue	8 796	8 539
Total investment revenue	**126 154**	**100 662**

1. UNICEF generated $126.15 million (2018: $100.66 million) of investment revenue from short-term deposits and money market demand deposits, structured deposits, fixed-income securities, equities and bank accounts.

2. Finance costs of $2.39 million (2018: $2.65 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)

	2019	*2018*
Net foreign exchange gains and losses	19 833	(4 611)
Net fair value gains and losses on:		
Investments	15 523	19 465
Net gains on sale of property and equipment	2 209	1 821
Total net gains	**37 565**	**16 675**

B. Net foreign exchange gains or losses

(Thousands of United States dollars)

	Unrealized	*Realized*	*2019*	*2018*
Gains	3 078	32 986	36 064	41 262
Losses	(10 568)	(5 663)	(16 231)	(45 873)
Total net gains/(losses)	**(7 490)**	**27 323**	**19 833**	**(4 611)**

1. In addition to the above, a realized foreign exchange loss of $36.33 million (2018: gain of $7.88 million) and unrealized gain of $37.96 million (2018: loss of $83.02 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
Cash assistance and transfer of programme supplies

(Thousands of United States dollars)

	2019	*2018*
Cash assistance		
Transfer of cash to implementing partners	2 103 561	2 055 874
Transfer of cash to beneficiaries directly by UNICEF	191 719	141 986
Co-funding activities	49 652	50 899
Jointly financed activities	14 370	6 145
Subtotal	**2 359 302**	**2 254 904**
Movement in accrual	(7 355)	8 272
Total cash assistance	**2 351 947**	**2 263 176**
Programme supplies		
Transfer of programme supplies	981 634	986 908
Total transfer of programme supplies	**981 634**	**986 908**
Total cash assistance and transfer of programme supplies	**3 333 581**	**3 250 084**

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 cash assistance and transfer of programme supplies is reflected in note 36, Segment information.

Note 26
Employee benefits

(Thousands of United States dollars)

	2019	*2018*
Salaries and wages	901 488	827 660
Contribution to the United Nations Joint Staff Pension Fund	194 683	174 617
After-service health insurance expenses	58 123	63 203
Other post-employment employee liabilities	13 520	13 929
Other long-term employee benefits liabilities	26 726	31 068
Other personnel expenses	324 966	305 813
Total employee benefits	**1 519 506**	**1 416 290**

Note 27
Other expenses

(Thousands of United States dollars)

	2019	*2018*
Media production services	25 062	25 945
Advertising, promotion and public relations	10 042	11 579
Printing, binding, editing and translation	21 514	21 900
Management and operational services	60 688	55 731
Warehousing and logistical services	39 003	46 230
Personnel support	21 170	17 355
External audit	1 188	1 167
Travel	164 665	157 500
Distribution	27 863	30 395
Rental and leasing	95 930	85 792
Licensing activities	1 243	1 066
Repairs and other maintenance	41 227	39 291
Supplies and materials	50 702	40 370
Investment funds for market development	117 288	107 148
Communication	20 306	20 772
Other operating expenses	170 857	142 709
Write-offs and inventory shortages	9 454	5 417
Utilities	19 960	18 520
Warehouse goods transfers expenses (note 22)	7 435	5 076
Professional development	9 488	11 379
Insurance	3 513	3 475
Impairment loss	(9 196)	(1 196)
Total other expenses	**909 402**	**847 621**

1. Other operating expenses are composed mainly of consultancy services costs of $70.94 million (2018: $44.74 million), information technology development, maintenance and expert service costs of $36.52 million (2018: $43.12 million), Headquarters-related United Nations common service costs of $26.40 million (2018: $24.71 million), office operating expenses for hospitality of $22.14 million (2018: $13.97 million), and other office operating expenses of $13.59 million (2018: $14.89 million).

2. Write-offs and losses recorded in 2019 include inventory, receivables and property and equipment totalling $7.43 million (2018: $4.42 million).

Note 28
Other programme-related expert services

(Thousands of United States dollars)

	2019	*2018*
Other programme-related expert services	472 859	431 201
Total other programme-related expert services	**472 859**	**431 201**

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*	*Held for trading*	*Total carrying value*	*2019*	*2018*
Cash and cash equivalents	796 303	–	–	796 303	796 303	995 259
Term deposits	2 344 557	–	–	2 344 557	2 344 557	2 746 827
Traded bonds	–	1 944 846	–	1 944 846	1 944 846	988 789
Structured deposits	–	–	–	–	–	11 411
Forward exchange contracts in gain	–	–	99 423	99 423	99 423	92 691
Equities	–	336 549	–	336 549	336 549	274 952
Promissory notes	–	–	–	–	–	7 695
Contributions receivable	3 329 254	–	–	3 329 254	3 329 254	3 329 693
Other receivables	160 177	–	–	160 177	160 177	68 829
Total financial assets	**6 630 291**	**2 281 395**	**99 423**	**9 011 109**	**9 011 109**	**8 516 146**

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)

	Other financial liabilities (amortized cost)	*Other financial liabilities*	*Total carrying value*	*Total fair value*	
				2019	*2018*
Financial liabilities					
Accounts payable and accrued liabilities	388 958	–	388 958	388 958	339 341
Contributions received in advance	12 652	–	12 652	12 652	62 288
Funds held on behalf of third parties	1 154 427	–	1 154 427	1 154 427	803 506
Finance lease liabilities	35 884	–	35 884	35 884	40 227
Other liabilities	94 210	99 595	193 805	193 805	211 601
Total financial liabilities	**1 686 131**	**99 595**	**1 785 726**	**1 785 726**	**1 456 963**

4. With the exception of finance leases and firm long-term agreements (see note 17, Other liabilities), 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 the 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*	*2019*	*2018*
Assets					
Financial instruments at fair value through surplus or deficit	–	99 423	–	99 423	104 102
Available-for-sale financial assets	2 173 600	107 795	–	2 281 395	1 263 741
Liabilities					
Financial instruments at fair value through surplus or deficit	–	(99 595)	–	(99 595)	(93 159)
Total	**2 173 600**	**107 623**	**–**	**2 281 223**	**1 274 684**

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 146 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. Credit default swaps ratings are also used to monitor counterparty risk. 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)

Credit rating as at 31 December	*AAA*	*AA*	*A*	*B*	*Non-rated*	*2019*	*2018*
Cash and cash equivalents							
Cash	–	85 606	153 860	73	78 060	317 599	196 272
Term deposits	–	241 265	95 159	142 280	–	478 704	798 987
Subtotal	**–**	**326 871**	**249 019**	**142 353**	**78 060**	**796 303**	**995 259**
Investments							
Term deposits	–	1 219 181	1 100 314	25 062	–	2 344 557	2 746 827
Traded bonds	633 897	931 636	293 908	12 134	73 271	1 944 846	988 789
Structured deposits	–	–	–	–	–	–	11 411
Forward exchange contracts	–	–	–	–	99 423	99 423	92 691
Equities	–	–	–	–	336 549	336 549	274 952
Subtotal	**633 897**	**2 150 817**	**1 394 222**	**37 196**	**509 243**	**4 725 375**	**4 114 670**
Total	**633 897**	**2 477 688**	**1 643 241**	**179 549**	**587 303**	**5 521 678**	**5 109 929**

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)*	*2019*	*2018*
Contributions receivable	3 284 913	43 154	1 187	3 329 254	3 329 693
Other receivables	160 383	–	(206)	160 177	68 829
Total	**3 445 296**	**43 154**	**981**	**3 489 431**	**3 398 522**

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 2019

(Thousands of United States dollars)

	Impairment as at 1 January 2019	*Impairment losses recognized*	*Impairment losses reversed*	*Impairment as at 31 December 2019*
Contributions receivable	7 710	1 319	(5 442)	3 587
Other receivables	9 892	1 798	(5 570)	6 120
Total	**17 602**	**3 117**	**(11 012)**	**9 707**

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 the Office for the Coordination of Humanitarian Affairs.

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	2019 total carrying value	2018 total carrying value
Accounts payable	186 401	–	–	–	64 738	6	865	103	252 113	229 654
Accrued liabilities	–	–	–	–	–	–	–	–	136 845	109 687
Total	**186 401**	**–**	**–**	**–**	**64 738**	**6**	**865**	**103**	**388 958**	**339 341**

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. Effective 2019, UNICEF further expanded its strategy to hedge against currency volatility through investment in foreign exchange options.

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*	*Swedish krona*	*Canadian dollar*	*Japanese yen*	*Swiss franc*	*Other*	*2019*	*2018*
Cash and cash equivalents	542 368	171 921	8 224	305	187	8 509	5 161	59 628	796 303	995 259
Term deposits	2 344 557	–	–	–	–	–	–	–	2 344 557	2 746 827
Traded bonds	1 893 197	40 130	11 519	–	–	–	–	–	1 944 846	988 789
Structured deposits	–	–	–	–	–	–	–	–	–	11 411
Equities	232 724	41 072	9 856	4 170	3 129	19 126	4 340	22 132	336 549	274 952
Promissory notes	–	–	–	–	–	–	–	–	–	7 695
Contributions receivable	1 388 653	907 037	364 422	256 432	168 618	51 510	54 966	137 616	3 329 254	3 329 693
Other receivables	141 497	73 656	195	226	160	–	2	43 864	259 600	161 520
Total financial assets	**6 542 996**	**1 233 816**	**394 216**	**261 133**	**172 094**	**79 145**	**64 469**	**263 240**	**9 011 109**	**8 516 146**
Accounts payable	(345 435)	(25 838)	(197)	–	(2)	(330)	(803)	(16 353)	(388 958)	(339 341)
Contributions received in advance	(10 707)	(1 467)	–	–	–	–	(478)	–	(12 652)	(62 288)
Funds held on behalf of third parties	(1 083 927)	(70 238)	(99)	–	(8)	–	(33)	(122)	(1 154 427)	(803 506)
Other liabilities	(218 091)	(4 931)	(881)	(246)	(1)	–	(3)	(5 536)	(229 689)	(251 828)
Total financial liabilities	**(1 658 160)**	**(102 474)**	**(1 177)**	**(246)**	**(11)**	**(330)**	**(1 317)**	**(22 011)**	**(1 785 726)**	**(1 456 963)**
Net exposure	**4 884 836**	**1 131 342**	**393 039**	**260 887**	**172 083**	**78 815**	**63 152**	**241 229**	**7 225 383**	**7 059 183**

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)

	2019	*2018*
Fixed rate instruments	4 903 410	4 694 882
Other financial instruments	4 107 699	3 821 264
Total financial assets	**9 011 109**	**8 516 146**

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 2019	*Strengthening of United States dollar by 10 per cent*	*Weakening of United States dollar by 10 per cent*
Euro	(113 134)	113 134
Pound sterling	(39 304)	39 304
Swedish krona	(17 208)	17 208
Canadian dollar	(26 089)	26 089
Japanese yen	(7 881)	7 881
Swiss franc	(6 315)	6 315
Total	**(209 931)**	**209 931**

22. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2019 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 $0.30 million (2018 gains: $1.30 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 2019 that included a call-option feature amounted to $7.96 million (2018: $6.68 million). Bonds managed

internally at the end of 2019 amounting to $1.76 billion (2018: $820.46 million) were classified as available-for-sale. Those that included a call-option feature were $181.07 million (2018: $102.63 million).

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 2019. 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	1 944 847	–	–
Plus 100 basis points	1 906 556	(38 291)	1.97
Minus 30 basis points	1 953 790	8 943	0.46

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.

I. Cryptocurrency funds

Management of risks related to the cryptocurrency fund

30. UNICEF has established a prototype fund that accepts donations and makes disbursements exclusively denominated in cryptocurrencies, in order to finance early stage, open-source technology benefiting children and young people. Cryptocurrencies and blockchain technology can help organizations such as UNICEF to benefit from additional funding sources and enhance transparency of operations. UNICEF manages the risks that come with the establishment of the cryptocurrency fund, including volatility risks, reputational risks, cybersecurity risks (such as hacking, loss of information and malicious activity) and regulatory risks.

Volatility risk

31. The cryptocurrency fund is likely to have volatile assets, whose value can change significantly over short time periods. UNICEF manages the risk by minimizing and containing the impact of volatility. UNICEF has implemented systems and processes to actively shorten the time between receipt and disbursement of funds. This ensures that the assets are transferred within a limited time period not to be impacted by price volatility that comes with holding the assets. UNICEF does not hold the fund assets for speculative purposes.

Reputational risk

32. Cryptocurrencies are not yet a common means of performing transactions. In addition, the general public may associate cryptocurrency funds with illegal activities, and certain jurisdictions have made the use of cryptocurrency funds illegal. UNICEF has had long experience of fundraising in the private sector and from individual donors, and therefore has robust "know your customer" procedures, which will be applied to the process of accepting cryptocurrency donations from reputable organizations and individuals. UNICEF has actively sought to explain to its stakeholders the cryptocurrency fund to create further understanding of its application and potential to contribute to results for children across the world.

Regulatory risk

33. The introduction of the cryptocurrency fund brings regulatory compliance risk related to full compliance with the UNICEF Financial Regulations and Rules and with the other basis of reporting that has been adopted by the organization. To manage the regulatory risk, UNICEF established the cryptocurrency fund following its Regulations and Rules and sought technical accounting advice on the best basis of reporting the fund. The due diligence work conducted for the establishment of the fund ensured that the regulatory compliance requirements were met, and hence reduced the regulatory risk surrounding the use of the fund. In addition, the basis of receiving and disbursing funds was narrowly defined to ensure that the fund is used for the specific purpose defined, in compliance with the regulatory framework of UNICEF.

Cybersecurity risks

34. UNICEF will have to store and manage the cryptocurrencies. Cryptocurrencies cannot be stored and maintained through a regular banking environment, and therefore are subject to security risks related to information that is stored on technology platforms. UNICEF has used its current strong accounting framework that regulates authorized signatories to manage the cryptocurrency wallets. In addition to the multi-signatory framework, UNICEF has established a multi-signature wallet and incorporates physical and access controls to the wallets and related private keys to manage the security risks around the cryptocurrency fund.

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 an Executive 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 2019.

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 2019. In most cases, UNICEF has the right to cancel these open purchase orders prior to the date of delivery.

(Thousands of United States dollars)

	2019	*2018*
Commitments for purchase of property and equipment		
Buildings	281	–
Transportation equipment	3 875	7 318
Furniture, fixtures and equipment	1 291	53
Communications and information technology equipment	1 318	1 665
Other capital commitments		
Intangible assets	12	33
Total capital commitments	**6 777**	**9 069**
Operating commitments		
Contracts for purchase of supplies and other goods	288 750	252 550
Contracts for purchase of services	597 795	551 650
Commitments to transfer cash to implementing partners	84 653	70 009
Commitments to transfer supplies to implementing partners	436 267	420 262
Total operating commitments	**1 407 465**	**1 294 471**
Total commitments	**1 414 242**	**1 303 540**

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

Long-term agreements

3. UNICEF also has various long-term agreements with suppliers. The table below identifies the total remaining contract value on long-term agreements that remained open as at 31 December 2019.

(Thousands of United States dollars)

	2019	*2018*
Long-term agreements for goods	4 291 131	4 605 854
Long-term agreements for services	385 653	353 727
Total long-term agreements	**4 676 784**	**4 959 581**

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 $55.35 million (2018: $59.07 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 contributions is $556.39 million as at 31 December 2019 (2018: $387.33 million).

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 2019, 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)

	2019		*2018*	
	Revenue	*Receivables*	*Revenue*	*Receivables*
Voluntary cash contributions	1 227 486	349 753	1 190 779	320 508
Voluntary in-kind contributions	1 577	613	4 849	794
Total	**1 229 063**	**350 366**	**1 195 628**	**321 302**

3. Of the total voluntary cash contributions recorded as revenue in 2019, $615.00 million was from regular resources, $137.98 million was from other resources – emergency, and $476.08 million was from other resources – regular. The voluntary in-kind contributions of $1.58 million (2018: $4.85 million) is composed of $0.17 million (2018: $3.62 million) of other resources – emergency and $1.41 million (2018: $1.23 million) 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 2019, excluding proceeds from licensing activities, were $1.59 billion (2018: $1.57 billion). Of that amount, $404.55 million (2018: $382.16 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 $1.18 billion (2018: $1.19 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 $227.38 million (2018: $223.05 million) as at 31 December 2019.

B. Supported deliveries

7. During the reporting period, UNICEF handled supported deliveries on behalf of third parties of $139.32 million (2018: $118.17 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*	*2019*	*2018*
Key management personnel	37	6 586	3 355	1 145	11 086	10 322
Close family members	2	275	93	58	426	375
Total	**39**	**6 861**	**3 448**	**1 203**	**11 512**	**10 697**

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 $1.21 million (2018: $1.17 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 Staff Regulations and Rules of the United Nations.

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 and lower middle-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 education group in 49 countries and regions, and the grant agent in 23 countries. UNICEF serves on the Board of the Global Partnership for Education and has influenced the Partnership to support inclusion of countries in fragile contexts. Funds provided for the Global Partnership for Education, which are recorded in voluntary contributions in support of global and country-specific programmes, amount to $52.30 million (2018: $119.14 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 $1.78 million (2018: $46.95 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 28, 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. The entire balance of the promissory notes agreements was redeemed in 2019 (2018: $7.70 million), as disclosed in note 11, Other assets.

19. As also disclosed in note 11, Other assets, UNICEF holds funds of $626.48 million (2018: $553.48 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 $135.80 million (2018: $95.65 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 $9.02 million (2018: $13.09 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 contributions in support of global and country-specific programmes, amount to $30.87 million (2018: $18.08 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 contributions in support of global and country-specific programmes, amount to $4.95 million (2018: $5.70 million).

Revenue realized from other related parties as at 31 December

(Thousands of United States dollars)

	2019	*2018*
Global Partnership for Education	52 302	119 143
Global Fund to Fight AIDS, Tuberculosis and Malaria	1 778	46 946
Gavi, the Vaccine Alliance	135 799	95 645
Nutrition International	9 021	13 094
Education Cannot Wait	30 871	18 079
Global Partnership to End Violence against Children	4 951	5 701
Total	**234 722**	**298 608**

Note 35
Post-balance sheet events

COVID-19 pandemic

1. The reporting date for UNICEF is 31 December of each year. As at 31 March 2020 (date of signing these financial statements), the impact of the COVID-19 pandemic is characterized as a material event which has occurred since 31 December 2019. While the impact cannot be reliably measured or assessed, it may affect the organization in 2020 with respect to programme implementation, revenue-generating activities, collection of contributions and investment portfolios.

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 and 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, the 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 revenue within the trust fund 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*	*2019*
Segment assets							
Current segment assets							
Cash and cash equivalents[a]	796 303	–	–	–	–	–	796 303
Inter–segment activity[b]	(3 938 542)	15 675	–	2 428 680	680 476	813 711	–
Contributions receivable	–	1 443	437 484	1 248 378	658 485	–	2 345 790
Other receivables	84 896	731	32 842	25 261	11 798	2 929	158 457
Advances of cash assistance	–	–	117 632	394 127	327 492	11 658	850 909
Inventories	36 837	–	10 699	171 749	161 104	–	380 389
Investments	3 397 912	–	–	–	–	–	3 397 912
Other assets	9 536	94	13 254	15 302	4 192	626 883	669 261
Total current segment assets	**386 942**	**17 943**	**611 911**	**4 283 497**	**1 843 547**	**1 455 181**	**8 599 021**
Non-current segment assets							
Contributions receivable	–	–	140 050	731 852	111 562	–	983 464
Other receivables	1 342	–	342	21	15	–	1 720
Investments	1 327 463	–	–	–	–	–	1 327 463
Property and equipment	188 397	1 961	40 150	8 513	17 160	395	256 576
Intangible assets	3 040	–	1 279	67	15	–	4 401
Other assets	1 717	–	–	–	–	–	1 717
Total non-current segment assets	**1 521 959**	**1 961**	**181 821**	**740 453**	**128 752**	**395**	**2 575 341**
Total segment assets, 2019	**1 908 901**	**19 904**	**793 732**	**5 023 950**	**1 972 299**	**1 455 576**	**11 174 362**
Total segment assets, 2018	**1 926 590**	**17 544**	**854 868**	**4 684 541**	**1 988 105**	**1 033 520**	**10 505 168**

[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.

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*	*2019*
Segment liabilities							
Current segment liabilities							
Accounts payable and accrued liabilities	62 292	1 430	14 735	40 789	28 498	241 214	388 958
Contributions received in advance	–	151	–	10 786	308	–	11 245
Funds held on behalf of third parties	–	–	–	–	–	1 154 427	1 154 427
Other liabilities	119 723	–	801	–	–	70 754	191 278
Employee benefits	133 302	–	–	–	–	–	133 302
Provisions	2 791	2	122	16 010	6 608	–	25 533
Total current segment liabilities	**318 108**	**1 583**	**15 658**	**67 585**	**35 414**	**1 466 395**	**1 904 743**
Non-current segment liabilities							
Contributions received in advance	–	1 407	–	–	–	–	1 407
Employee benefits	1 497 854	–	–	–	–	–	1 497 854
Other liabilities	31 262	–	–	–	–	7 149	38 411
Total non-current segment liabilities	**1 529 116**	**1 407**	**–**	**–**	**–**	**7 149**	**1 537 672**
Total segment liabilities, 2019	**1 847 224**	**2 990**	**15 658**	**67 585**	**35 414**	**1 473 544**	**3 442 415**
Total segment liabilities, 2018	**1 765 026**	**1 654**	**18 938**	**133 892**	**53 153**	**1 067 057**	**3 039 720**

A. Segment information on assets and liabilities by fund type (continued)

(Thousands of United States dollars)

	Total regular resources	*Other resources*		*Trust funds*	*2019*
		Regular programme	*Emergency programme*		
Net assets, 1 January 2019	**1 013 384**	**4 550 649**	**1 934 952**	**(33 537)**	**7 465 448**
Surplus/(deficit) for the year	(235 005)	405 716	1 933	15 569	188 213
Actuarial gains recognized directly in the reserves	1 580	–	–	–	1 580
Changes in fair value of available-for-sale financial assets	76 706	–	–	–	76 706
Net assets, 31 December 2019	**856 665**	**4 956 365**	**1 936 885**	**(17 968)**	**7 731 947**
Net assets, 31 December 2018	**1 013 384**	**4 550 649**	**1 934 952**	**(33 537)**	**7 465 448**

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*	*2019*
Segment revenue								
Voluntary contributions	–	63 579	1 106 310	2 980 924	2 050 081	–	–	6 200 894
Other revenue	10 145	–	–	518	353	74 207	–	85 223
Investment revenue	126 154	–	–	–	–	–	–	126 154
Internal cost recovery	311 201	–	–	–	–	–	(311 201)	–
Internal direct attribution	116 370	–	–	–	–	–	(116 370)	–
Total segment revenue, 2019	**563 870**	**63 579**	**1 106 310**	**2 981 442**	**2 050 434**	**74 207**	**(427 571)**	**6 412 271**
Total segment revenue, 2018	**521 062**	**66 641**	**1 561 315**	**2 942 271**	**1 926 913**	**65 246**	**(407 690)**	**6 675 758**
Segment expenses								
Cash assistance	–	–	283 138	1 083 588	985 221	–	–	2 351 947
Transfer of programme supplies	–	–	85 130	439 089	457 415	–	–	981 634
Employee benefits	594 002	13 521	330 841	353 762	195 194	32 186	–	1 519 506
Depreciation and amortization	11 140	164	7 379	1 562	3 546	99	–	23 890
Other expenses	313 068	48 889	222 136	406 596	319 842	26 442	(427 571)	909 402
Other programme-related expert services	–	–	88 897	296 006	87 956	–	–	472 859
Finance costs	2 385	–	–	–	–	–	–	2 385
Total segment expenses, 2019	**920 595**	**62 574**	**1 017 521**	**2 580 603**	**2 049 174**	**58 727**	**(427 571)**	**6 261 623**
Total segment expenses, 2018	**881 226**	**55 286**	**944 367**	**2 465 922**	**1 979 475**	**51 171**	**(407 690)**	**5 969 757**
Gains, net 2019	30 740	35	1 151	4 877	673	89	–	37 565
Gains and (losses), net 2018	17 546	27	764	(1 375)	(330)	43	–	16 675
Net surplus/(deficit), 2019	**(325 984)**	**1 040**	**89 940**	**405 716**	**1 933**	**15 569**	**–**	**188 213**
Net surplus/(deficit), 2018	**(342 618)**	**11 382**	**617 712**	**474 974**	**(52 892)**	**14 118**	**–**	**722 676**

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*	*2019*
Cash assistance								
East Asia and the Pacific	–	–	13 564	64 286	13 908	–	–	91 758
Europe and Central Asia	–	–	4 999	27 874	148 608	–	–	181 481
Eastern and Southern Africa	–	–	71 696	246 090	133 194	–	–	450 980
Headquarters	–	–	9 742	8 485	3 812	–	–	22 039
Latin America and the Caribbean	–	–	15 828	43 480	24 636	–	–	83 944
Middle East and North Africa	–	–	11 135	344 364	496 612	–	–	852 111
South Asia	–	–	57 944	106 870	52 122	–	–	216 936
Western and Central Africa	–	–	98 230	242 139	112 329	–	–	452 698
Total cash assistance	**–**	**–**	**283 138**	**1 083 588**	**985 221**	**–**	**–**	**2 351 947**
Transfer of programme supplies								
East Asia and the Pacific	–	–	2 924	20 438	11 013	–	–	34 375
Europe and Central Asia	–	–	810	12 142	3 900	–	–	16 852
Eastern and Southern Africa	–	–	19 600	122 503	95 174	–	–	237 277
Headquarters	–	–	261	12 030	6 270	–	–	18 561
Latin America and the Caribbean	–	–	6 637	10 203	7 246	–	–	24 086
Middle East and North Africa	–	–	9 116	78 903	197 883	–	–	285 902
South Asia	–	–	10 778	70 480	34 120	–	–	115 378
Western and Central Africa	–	–	35 004	112 390	101 809	–	–	249 203
Total transfer of programme supplies	**–**	**–**	**85 130**	**439 089**	**457 415**	**–**	**–**	**981 634**

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*	*2019*
Employee benefits								
East Asia and the Pacific	28 965	3 996	28 186	38 374	3 108	–	–	102 629
Europe and Central Asia	26 015	612	11 344	11 053	7 262	–	–	56 286
Eastern and Southern Africa	46 010	41	81 069	83 184	42 179	45	–	252 528
Headquarters	367 974	595	27 950	44 966	10 897	32 114	–	484 496
Latin America and the Caribbean	31 160	7 450	16 617	20 035	5 297	–	–	80 559
Middle East and North Africa	31 577	–	20 620	40 636	73 322	–	–	166 155
South Asia	18 398	827	54 389	45 836	10 782	27	–	130 259
Western and Central Africa	43 903	–	90 666	69 678	42 347	–	–	246 594
Total employee benefits	**594 002**	**13 521**	**330 841**	**353 762**	**195 194**	**32 186**	**–**	**1 519 506**
Depreciation and amortization								
East Asia and the Pacific	642	5	522	194	40	–	–	1 403
Europe and Central Asia	244	–	71	11	168	–	–	494
Eastern and Southern Africa	1 420	–	2 007	446	899	–	–	4 772
Headquarters	5 185	138	471	47	9	95	–	5 945
Latin America and the Caribbean	602	21	177	60	100	–	–	960
Middle East and North Africa	881	–	513	221	1 595	–	–	3 210
South Asia	1 165	–	1 081	246	203	2	–	2 697
Western and Central Africa	1 001	–	2 537	337	532	2	–	4 409
Total depreciation and amortization	**11 140**	**164**	**7 379**	**1 562**	**3 546**	**99**	**–**	**23 890**

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*	*2019*
Other expenses								
East Asia and the Pacific	5 593	11 750	12 541	29 669	5 795	310	–	65 658
Europe and Central Asia	8 035	2 610	7 046	17 410	21 841	27	–	56 969
Eastern and Southern Africa	11 954	2 276	42 978	83 891	56 900	2 803	–	200 802
Headquarters	252 153	8 709	47 146	73 964	29 495	19 632	(427 571)	3 528
Latin America and the Caribbean	9 569	14 934	10 183	22 971	9 706	96	–	67 459
Middle East and North Africa	5 848	1 348	13 469	62 226	129 425	877	–	213 193
South Asia	8 080	1 727	26 598	51 301	14 034	1 988	–	103 728
Western and Central Africa	11 836	5 535	62 175	65 164	52 646	709	–	198 065
Total other expenses	**313 068**	**48 889**	**222 136**	**406 596**	**319 842**	**26 442**	**(427 571)**	**909 402**
Other programme-related expert services								
East Asia and the Pacific	–	–	6 424	17 816	3 033	–	–	27 273
Europe and Central Asia	–	–	3 709	6 017	2 871	–	–	12 597
Eastern and Southern Africa	–	–	16 595	54 585	18 188	–	–	89 368
Headquarters	–	–	12 494	25 949	3 962	–	–	42 405
Latin America and the Caribbean	–	–	6 036	15 746	3 978	–	–	25 760
Middle East and North Africa	–	–	3 562	22 354	38 774	–	–	64 690
South Asia	–	–	22 134	105 860	6 492	–	–	134 486
Western and Central Africa	–	–	17 943	47 679	10 658	–	–	76 280
Total other programme-related expert services	**–**	**–**	**88 897**	**296 006**	**87 956**	**–**	**–**	**472 859**
Finance costs								
Headquarters	2 385	–	–	–	–	–	–	2 385
Total finance costs	**2 385**	**–**	**–**	**–**	**–**	**–**	**–**	**2 385**

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*	*2019*
Total expense by region								
East Asia and the Pacific	35 200	15 751	64 161	170 777	36 897	310	–	323 096
Europe and Central Asia	34 294	3 222	27 979	74 507	184 650	27	–	324 679
Eastern and Southern Africa	59 384	2 317	233 945	590 699	346 534	2 848	–	1 235 727
Headquarters	627 697	9 442	98 064	165 441	54 445	51 841	(427 571)	579 359
Latin America and the Caribbean	41 331	22 405	55 478	112 495	50 963	96	–	282 768
Middle East and North Africa	38 306	1 348	58 415	548 704	937 611	877	–	1 585 261
South Asia	27 643	2 554	172 924	380 593	117 753	2 017	–	703 484
Western and Central Africa	56 740	5 535	306 555	537 387	320 321	711	–	1 227 249
Total segment expenses	**920 595**	**62 574**	**1 017 521**	**2 580 603**	**2 049 174**	**58 727**	**(427 571)**	**6 261 623**