United Nations

United Nations Human Settlements Programme

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

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

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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 31 March 2019 from the Executive Director of the United Nations Human Settlements Programme addressed to the Chair of the United Nations Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, I am transmitting the financial report and accounts of the United Nations Human Settlements Programme, and other related accounts, for the year ended 31 December 2018, which I approve on the basis of the attestations of the Chief Finance Officer, United Nations Office at Nairobi, and the Director of the Management and Operations Division of the United Nations Human Settlements Programme.

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

(*Signed*) Maimunah Mohd **Sharif**
Executive Director
United Nations Human Settlements Programme

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2018.

(*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 Human Settlements Programme (UN-Habitat), which comprise the statement of financial position (statement I) as at 31 December 2018 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2018, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's 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:

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

(*Signed*) 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

24 July 2019

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Human Settlements Programme (UN-Habitat) is mandated by the General Assembly to promote socially and environmentally sustainable towns and cities. It is the focal point for all urbanization and human settlement matters within the United Nations system.

The headquarters of UN-Habitat is in Nairobi, with four main regional offices covering Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean. The Regional Office for Latin America and the Caribbean is organized into multi-country offices named “hubs” instead of country offices like the other regional offices of the agency. UN-Habitat also has liaison and information offices in New York, Brussels, Beijing, Moscow and Geneva and project offices in 76 countries across the world. It employs 293 core staff, together with fluctuating numbers of staff on specific contracts, in particular in field offices.

The total revenue of UN-Habitat for 2018 was $178.7 million, while total expenses were $185.7 million, resulting in a deficit of $7.0 million.

The Board of Auditors audited the financial statements and reviewed the operations of UN-Habitat for the year ended 31 December 2018. The audit was carried out through the examination of the financial transactions and operations at UN-Habitat headquarters in Nairobi, the Regional Office for Latin America and the Caribbean, in Brazil, and the UN-Habitat hubs in Rio de Janeiro and Mexico City.

Scope of the report

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

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UN-Habitat operations under United Nations financial regulation 7.5, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined seven main areas of UN-Habitat activities (management of grants, project management, travel management, procurement, risk management, office administration and human resources) and conducted a detailed follow-up of actions taken in response to recommendations made in previous years.

Audit opinion

In the Board’s opinion, the financial statements present fairly, in all material respects, the financial position of UN-Habitat as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion

The Board did not identify material deficiencies in accounts and records that might affect the fair presentation of the financial statements of UN-Habitat. However, the Board noted scope for improvement in a number of areas, specifically with regard to grants, financial management, project management, travel management, procurement, risk management, office administration and human resources. Those areas need strong internal control and monitoring of activities both in the country offices and hubs and at the headquarters to ensure the efficient and effective delivery of the mandate of UN-Habitat. The Board will continue to monitor the outcome of the management initiative in addressing the noted deficiencies in subsequent audits.

Key findings

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

Grants in force without transactions since 2015 or 2016

On the basis of its review of grants under which no transactions have been made since 2015 or 2016, the Board noted the existence of pass-through grants, which are used to provide funding to implementing partners executing project work that is funded by a specific grant, that maintain amounts as advances and should have been closed at the time of the review.

Cost recovery framework in the Regional Office for Latin America and the Caribbean and its hubs

In its resolution 67/226, the General Assembly requested the executive boards of the United Nations funds and programmes, and encouraged the governing bodies of specialized agencies, to adopt cost recovery frameworks, based on the guiding principle of full cost recovery, proportionally, from the core and non-core funding resources. The Board observed that expenses of the Regional Office for Latin America and the Caribbean defined as cost recovery had been charged to projects led by the Mexico City hub; however, management has not developed a framework that clearly explains how cost recovery should be handled in practice. The Board considers that this cost recovery practice is not harmonized with General Assembly resolution 67/226.

Information related to the outputs of projects

The UN-Habitat project-based management policy defines the outcomes of a project as outputs, results and impacts. With regard to the projects managed by UN-Habitat reviewed by the Board, it was observed that no information had been entered into the project accrual and accountability system to allow the accurate verification of the achievement of the outputs established for each project. The Board considers that having precise information is important as it allows the progress and results of projects to be assessed.

Recommendations

With regard to the above findings, the Board recommends that UN-Habitat:

Grants in force without transactions since 2015 or 2016

(a) **(i) Conduct a complete analysis of the registers associated with the grants, specifically for the cases observed by the Board. As part of the analysis,**

UN-Habitat should identify the current status of the amounts delivered to implementing partners and received from conditional agreements, conduct a compliance review of the signed agreements and, if applicable, request reimbursement of the resources provided under them and correct the accounting transactions records; (ii) evaluate the application of impairment provisions to advances accounts; and (iii) enhance project supervision and internal control in the UN-Habitat policy for implementing partners to prevent grants under which no accounting transactions have been made for an extended period from remaining in force;

Cost recovery framework in the Regional Office for Latin America and the Caribbean and its hubs

(b) **Establish a framework and methodology for full cost recovery in accordance with General Assembly resolution 67/226 applicable in all units of the entity and inform its hubs and offices of its application;**

Information related to the outputs of projects

(c) **(i) Include detailed documentation of each project in the project accrual and accountability system in order to support their execution and corresponding progress; and (ii) considering that UN-Habitat manages projects worldwide, improve the controls related to updated information, established in paragraph 36 of the project-based management policy.**

Key facts	
$25.1 million	Original annual resources (regular budget and foundation non-earmarked)
$227.15 million	Original annual resources (technical cooperation and foundation special purpose)
$178.7 million	Total revenue
$185.7 million	Total expenses
293	UN-Habitat staff

A. Mandate, scope and methodology

1. The United Nations Human Settlements Programme (UN-Habitat) is mandated by the General Assembly to promote socially and environmentally sustainable towns and cities. It is the focal point for all urbanization and human settlement matters within the United Nations system.

2. The Board of Auditors has audited the financial statements of the United Nations Human Settlements Programme (UN-Habitat) and has reviewed its operations for the financial period ended 31 December 2018 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The Standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UN-Habitat as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). That effort included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

5. During the course of the audit, the Board visited UN-Habitat headquarters in Nairobi, the Regional Office for Latin America and the Caribbean, in Brazil, and the UN-Habitat hubs in Rio de Janeiro and Mexico City.

B. Findings and recommendations

1. Follow-up of previous years' recommendations

6. Of the 20 recommendations outstanding as at 31 December 2017, the Board noted that 4 recommendations (20 per cent) had been fully implemented, 14 recommendations (70 per cent) were under implementation and 2 recommendations (10 per cent) had not been implemented. Details of the status of implementation of the recommendations are shown in the annex.

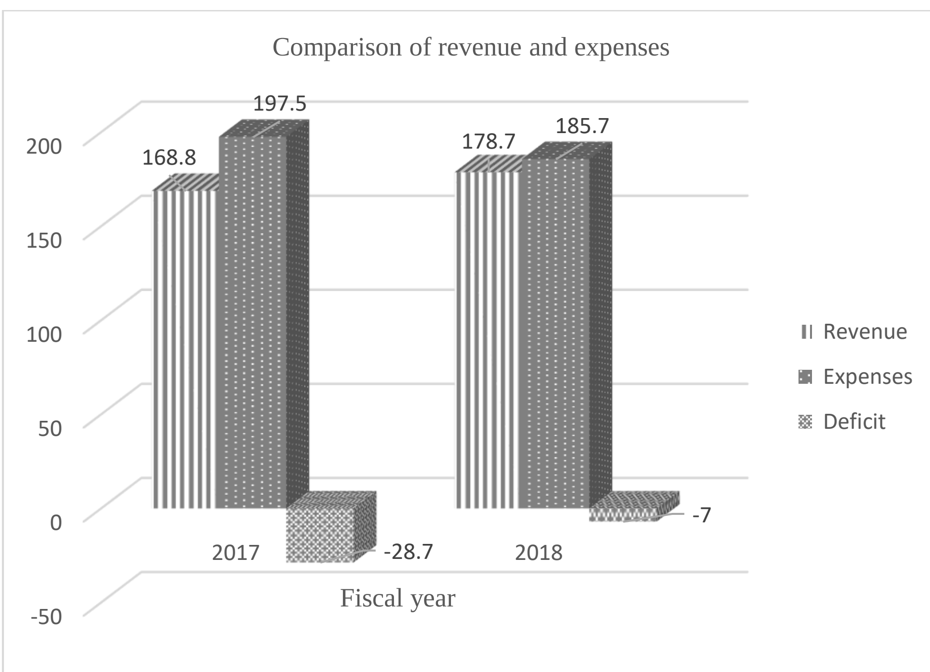
2. Financial overview

Revenue and expenses

7. UN-Habitat revenue includes assessed contributions (regular budget), voluntary contributions, investment revenue and other revenue. During the period under review, total revenue increased by $9.9 million (5.9 per cent), from $168.8 million in 2017 to $178.7 million in 2018. The increase was due mainly to an increase in voluntary contributions of $19.7 million.

8. With regard to the expenses, total expenses decreased by $11.8 million (6.0 per cent), from $197.5 million in 2017 to $185.7 million in 2018. The decrease in expenses was attributed mainly to a decrease in grants and other transfers of $25.8 million ($17.9 million in grants to end beneficiaries and $7.9 million in transfers to implementing partners). Despite the increase in revenues and the decrease in expenses, UN-Habitat recorded a total deficit of $7.0 million in 2018. The deficit decreased by $21.67 million (75.6 per cent) compared with the deficit recorded in 2017. A comparison of revenue and expenses for 2018 and 2017 is represented in figure II.I.

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



Source: UN-Habitat financial statements for 2017 and 2018.

Ratio analysis

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

Table II.1
Ratio analysis

Ratio	*31 December 2018*	*31 December 2017*	*31 December 2016*
Current ratio[a]			
Current assets: current liabilities	3.88	3.60	6.49
Total assets: total liabilities[b]	3.17	3.20	4.71
Cash ratio[c]			
Cash + short-term investments: current liabilities	2.01	1.71	2.76
Quick ratio[d]			
Cash + short-term investments + accounts receivable: current liabilities	3.52	3.28	5.76

Source: UN-Habitat 2018 financial statements.

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

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

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

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

10. UN-Habitat key financial indicators remain sound, as shown by the high ratios of current assets to current liabilities and total assets to total liabilities. The ratios show a slight improvement compared with the year 2017, with the exception of the one corresponding to "Total assets: total liabilities", which remains almost unchanged. The improvement was attributed to an increase in current assets such as investments and advance transfers.

3. Management of grants

Grants in force without transactions since 2015 or 2016

11. Standard operating procedure 113, Grants approval, of the Budget and Financial Management Service of the United Nations Office at Nairobi, reviewed in June 2016 and applicable to UN-Habitat, establishes, in section A, that there are four types of grants: simple grant, resource mobilization grant, main implementation grant and pass-through (P1) grant.

12. The procedure defines each grant, indicating that a P1 grant is used to provide funding to implementing partners executing project work that is funded by a specific grant.

13. The UN-Habitat policy for implementing partners establishes, in paragraph 26, that "payments to implementing partners should be disbursed in multiple instalments to mitigate any possible risk of non-performance and ensure outputs are delivered as agreed".

14. In paragraph 32, the policy indicates:

> Scheduled payments shall accurately reflect the progress in the implementation of the project and shall be conditional to the submission of the substantive and

financial reports. All instalments should be linked against specific and clear outputs and/or progress milestones to be delivered and/or achieved by the implementing partner. This will ensure the effective monitoring of the performance of the implementing partner and value for money for the organization.

15. The policy states that "the project is considered operationally closed once all the outputs and reporting requirements in relation to the project have been concluded". This must be achieved within the time frame outlined for delivery in the agreement of cooperation. In paragraph 68, the policy establishes that "within 90 days from the date of the operational closure, the project should be financially closed and any money which has not been used should be refunded to UN-Habitat".

16. During the audit, all P1 grants in force in 2018 were reviewed. The Board noted 39 grants under which no transactions have been made since 2015 and 31 grants under which no transactions have been made since 2016. Advances totalling $1,836,470 in 2015 and $689,070 in 2016 were delivered to implementing partners under the grants; no other accounting transactions have been made since.

17. The Board holds that the existence of grants without accounting transactions since 2015 or 2016 is not consistent with the guidelines of the UN-Habitat policy for implementing partners. The Board is of the view that UN-Habitat should carry out a review of the agreements with implementing partners and, if applicable, request reimbursement of the resources provided under them and correct the accounting transactions records.

18. With regard to the revenue associated with the grants reviewed by the Board, the framework of reference for the accounting treatment of agreements with donors is described in IPSAS 23: Revenue from non-exchange transactions. In accordance with paragraph 17 of IPSAS 23, "conditions on transferred assets … require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached".

19. The Board reviewed grants in force in 2018 considered as conditional agreements under which no transactions have been made since 2015 or 2016. The Board observed one conditional liability grant in the amount of $127,718. The Board holds that, since this agreement is classified as conditional, there might be a risk that the donors would claim refunds in the event that the conditions of the agreement are breached.

20. The Board assumes that these issues may have originated in the absence of adequate monitoring of project closure or owing to a delay in the submission of requests for reimbursement to implementing partners.

21. **The Board recommends that UN-Habitat conduct a complete analysis of the registers associated with the grants, specifically for the cases observed by the Board. As part of the analysis, UN-Habitat should identify the current status of the amounts delivered to implementing partners and received from conditional agreements, conduct a compliance review of the signed agreements and, if applicable, request reimbursement of the resources provided under them and correct the accounting transactions records.**

22. **In addition, the Board recommends that UN-Habitat evaluate the application of impairment provisions to advances accounts.**

23. **Furthermore, the Board recommends that UN-Habitat enhance project supervision and internal control in the UN-Habitat policy for implementing partners to prevent grants under which no accounting transactions have been made for an extended period from remaining in force.**

24. UN-Habitat accepted the recommendations and informed the Board that it had begun to review the old balances related to implementing partners and conditional liabilities. UN-Habitat stated that it planned to complete the review by December 2019.

25. Furthermore, UN-Habitat indicated that it would, in coordination with the United Nations Office at Nairobi, consider the need for a provision against these balances and establish monitoring mechanisms to address this matter.

Deficiencies in the identification of roles to fulfil the grant approval process

26. UN-Habitat indicated that, in accordance with step 5, section VIII, of the "Project design and Umoja start-up" user guide, it is the responsibility of the project manager officer or the project manager assistant to create a grant in Umoja and, in accordance with step 6, section VIII, the project manager assistant is responsible for requesting the modification and approval of the grant, through the Lotus Notes portal.

27. Under the previously mentioned standard operating procedure 113, the creator of a grant must create a request through the Lotus Notes Umoja grants approval portal. The request is subsequently sent to the certifying officer, who ensures that all details included in the request are valid. Once the information is validated, the certifying officer submits a request to the United Nations Office at Nairobi for approval by the approving officer, who then changes the status of the grant to awarded, making the grant operative.

28. The Board reviewed the Lotus Notes portal, in particular the grants in the UN-Habitat business area. The Board identified 16 certifying officers with the role of project manager officer. UN-Habitat stated that all of those cases were related to the modification or elimination of grants, the processes for which follow a different workflow than grant approval.

29. In the same review, the Board identified nine approving officers who were UN-Habitat staff. In these cases, UN-Habitat explained that there is a different process for the approval of P1 grants and it is appropriate for the approving officer to be part of the organization. Moreover, management provided information on the delegation of authority for the personnel identified by the Board.

30. Furthermore, the Board noted that in eight cases the user who fulfilled the role of certifying officer also fulfilled the role of approving officer. The Board holds that, with regard to the segregation of duties, this is considered a risk in the process of grant approval. The certifying officer is meant to review the information entered into the system before it is sent for approval.

31. With regard to the cases related to the segregation of duties, management stated that there were no risks from the fact that personnel were fulfilling the roles of both certifying officer and approving officer. UN-Habitat explained that in the workflow the functions and approval of the certifying officer are performed outside of the Umoja system. Management insisted that the approval made by the certifying officer does not have a direct impact on the approval made in the system.

32. The Board holds that, in accordance with standard operating procedure 113, certifying officers are responsible for ensuring the effective monitoring of grants. Systems should be in place to avoid the duplication of grant creation.

33. With regard to the statement made by management, the Board identified 16 cases in which the elimination of a grant was due to the duplication of the grant creation requirement. This duplication was identified in the approval step.

34. In this regard, the Board holds that, even though the approval of the certifying officer does not have a direct impact on the creation of the grant in Umoja, it is

relevant in the approval process. The Board is of the view that the certifying officer's task in the grant approval process is not executed optimally by UN-Habitat.

35. **The Board recommends that UN-Habitat develop guidance that allows the identification, in a coherent form, of the roles of personnel, from both UN-Habitat and the United Nations Office at Nairobi, who are involved in the workflow of the creation and approval of grants for funding projects.**

36. UN-Habitat explained that, since 31 December 2018, it had launched a new module as part of the Umoja extension named "Grantor management programme". In the extension, the creation, review and approval of a grant will be performed by the project assistant, the project officer and the certifying officer, respectively, thus ensuring appropriate segregation before a grant is activated in the system.

Cost recovery framework in the Regional Office for Latin America and the Caribbean and its hubs

37. In section II.D, paragraph 53, of its resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, the General Assembly requested the executive boards of the United Nations funds and programmes, and encouraged the governing bodies of specialized agencies, to adopt cost recovery frameworks, based on the guiding principle of full cost recovery, proportionally, from the core and non-core funding resources, and a simple, transparent and harmonized methodology.

38. In paragraph 54 of the same resolution, the General Assembly requested the United Nations funds and programmes, and urged the specialized agencies, to include estimated amounts to be recovered in their budgets and to report on actual cost recovery amounts as part of their regular financial reporting.

39. On the basis of the review performed in the Mexico City hub, verified expenses located in Brazil had been charged to local projects belonging to the Mexico City hub. Expenses related to the shipment of documents from Haiti to Brazil and charges classified as utility expenses of the Regional Office for Latin America and the Caribbean that corresponded to payments to acquire Google cloud accounts for personnel located in Brazil were observed.

40. UN-Habitat stated that the expenses were related to the services provided by the regional operations support structure of the Regional Office for Latin America and the Caribbean, which is incorporated into the projects led by the hub. The Board noted that UN-Habitat was not able to provide information on the procedure for the calculation of the cost recoveries.

41. The Board holds that this cost recovery practice is not harmonized with General Assembly resolution 67/226. UN-Habitat has not developed a proper methodology or framework that clearly explains how cost recovery should be handled in practice. The Board is of the view that the percentage to be recovered from each project and the guidelines that must be followed should be defined. The Board holds that the practice should be communicated and known by the different administrative levels in the Regional Office for Latin America and the Caribbean and the hubs in which it is applied.

42. **The Board recommends that UN-Habitat establish a framework and methodology for full cost recovery in accordance with General Assembly resolution 67/226 applicable in all units of the entity and inform its hubs and offices of its application.**

43. UN-Habitat accepted the recommendation and stated that UN-Habitat headquarters would review and update its corporate cost allocation and cost recovery

policy to ensure that direct and indirect costs are appropriately attributed to projects across the organization in the future.

4. Project management

Information related to the outputs of projects

44. In paragraph 12 of its resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, the General Assembly underscored the importance of results-based management, within and across entities and at all levels of the United Nations development system, as an essential element of accountability that can, inter alia, contribute to the achievement of the Sustainable Development Goals, and requested the United Nations development system and its individual entities to continue to strengthen results-based management, focusing on long-term development outcomes, developing common methodologies for planning and reporting on results, improving integrated results and resources frameworks, where appropriate, and enhancing a results culture in the entities of the United Nations development system.

45. The main purpose of the UN-Habitat project-based management policy of November 2012 is to provide direction on project-based management, covering the whole project cycle, from project identification, formulation, planning, approval and implementation to monitoring, reporting and evaluation. In addition, the policy defines a project as any activity that has a life cycle, purpose, a specified duration, resources, outcomes (outputs, results and impacts), an implementation strategy and partners.

46. The policy defines the project accrual and accountability system as the system that supports project management and helps to improve accountability, transparency, productivity and efficiency in the management of the portfolio of projects of the agency.

47. The Board noted that the project accrual and accountability system did not contain detailed information on the projects, storing information of a general nature only.

48. The Board selected a sample of 11 ongoing projects in 2018, led by the Urban Basic Services Branch of the Programme Division of UN-Habitat, the Regional Office for Asia and the Pacific and the Regional Office for Arab States. The Board observed that each project has a logical framework that outlines the expected achievements and products.

49. Regarding the progress of the 11 projects, 4 made progress on some of their outputs. There is no such information in the project accrual and accountability system for the remaining projects.

50. The Board noted that, for the projects in the sample, no information had been entered into the system to allow the accurate verification of the achievement of the established outputs, for example, attachments related to the policies and plans.

51. The Board holds that it is important for UN-Habitat to have accurate and timely information related to the progress of the outputs and activities developed or executed in each project to enable it to assess the progress of projects and the results of the expected accomplishments.

52. With respect to the management of projects through the project accrual and accountability system, the Board noted progress in the project planning stage in terms of the information entered into the system. However, the Board is of the view that UN-Habitat should continue to make progress in the project execution stage to achieve effective monitoring of its projects.

53. **The Board recommends that UN-Habitat include detailed documentation of each project in the project accrual and accountability system in order to support their execution and corresponding progress.**

54. **Furthermore, considering that UN-Habitat manages projects worldwide, the Board recommends that UN-Habitat improve the controls related to updated information, established in paragraph 36 of the project-based management policy.**

55. UN-Habitat accepted the recommendations. UN-Habitat stated that the agency monitors and documents the progress of projects and the outputs and outcomes of programmes under the responsibility of project managers and programme managers, but that this information is not contained in the project accrual and accountability system.

56. UN-Habitat explained that it is currently upgrading the project accrual and accountability system by integrating the full project cycle, including functionalities that support the implementation, monitoring, closing and reporting stages of projects. The agency informed the Board that the monitoring and reporting functionalities are planned to go live before the end of the third quarter of 2019.

Evaluation of projects

57. The UN-Habitat project-based management policy states, in paragraph 19, that all projects with a budget of more than $5.0 million require an end-of-project evaluation and that a midterm evaluation is recommended for projects with a budget of more than $5.0 million and a duration of four years or more.

58. The Board reviewed a sample of 11 projects. The Board noted that progress reports that could be considered midterm evaluations had been created for only four of those projects. For the remaining seven projects, UN-Habitat had not created evaluation reports, even though in some cases the project report referred to evaluation reports.

59. Given the conditions established in the policy and also the characteristics of the projects in the sample, the Board is of the view that, considering the budgets (more than $5.0 million), end-of-project evaluations should be created for all 11 projects and, with regard to duration (four years or more), midterm evaluations should be created for 10 of them.

60. Furthermore, the Board is of the view that, at the time of the audit, midterm evaluations should already have been registered in the project accrual and accountability system for the projects in the sample. In addition, the Board notes that, although the project accrual and accountability system indicates whether or not a project requires a certain type of evaluation, it does not demand the delivery of the required evaluation.

61. The Board considers that enhancing the project evaluation process would contribute to improving the control of the expected results and the accounting of the funded activities.

62. **The Board recommends that UN-Habitat incorporate in the project accrual and accountability system the midterm and/or end-of-project evaluations for all its projects.**

63. **Moreover, considering that UN-Habitat manages projects worldwide, the Board recommends that UN-Habitat improve the controls related to the evaluation reports, established in paragraph 19 of the project-based management policy.**

64. UN-Habitat stated that it is in the process of upgrading and enhancing the project accrual and accountability system. This process includes incorporating an evaluation module into the system. UN-Habitat explained that plans are at an advanced stage to begin the project, and it expects to implement the evaluation module by December 2019.

Outdated policy and manual

65. The Board conducted an analysis of the manuals and documents for UN-Habitat central processes, such as the project-based management policy of November 2012 and the project accrual and accountability system guidelines and manual of August 2013. The Board observed that the procedure descriptions included in these documents pointed to the Integrated Management Information System as the system that supports the duties performed by the entity. The Board noted that in recent years the system had been replaced by Umoja, which is used by UN-Habitat for its processes.

66. The Board is of the view that the lack of update of the documents supporting UN-Habitat internal processes with regard to the computer systems that are currently used could increase the risk associated with the inadequate application of the project-management procedures.

67. **The Board recommends that UN-Habitat update its internal manuals, such as the project based-management policy and the project accrual and accountability system guidelines and manual, to clearly establish Umoja and its extensions as the system that gives support to the different duties performed by the entity.**

68. UN-Habitat accepted the recommendation and stated that it was currently preparing for the implementation of the portfolio and project management module of Umoja Extension 2. As part of the project, UN-Habitat explained that it would review and update the policy accordingly.

69. Furthermore, UN-Habitat stated that it was in the process of upgrading and enhancing the project accrual and accountability system, after which a revised policy would be issued taking into account this recommendation.

5. Travel management

Classification of consultant travel expenses

70. In accordance with section 2.2 of the project cycle procedures manual of 2017 of the Regional Office for Latin America and the Caribbean, the project budget is broken down by the outputs defined in the logical framework and takes into consideration all the costs necessary in the implementation of the project pursuant to the cost recovery policy.

71. In section 2.3.2.2 of the manual, it is indicated that “sponsored classes” are used in the creation of budgets and are the expense and income categories to be reported to donors. Each sponsored class represents a group of general ledger accounts, in which transactions are grouped according to their nature, such as “staff/personnel” and “travel”.

72. Moreover, in paragraph 109 of IPSAS 1: Presentation of financial statements, it states that an entity must present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

73. The Board reviewed a sample of expenses and the UN-Habitat business area of Umoja. The Board observed that, for projects executed in the Regional Office for

Latin America and the Caribbean and its hubs in Rio de Janeiro and Mexico City, travel expenses for consultants amounting to $28,319 for 2017 and $107,653 for 2018 had been posted in “staff/personnel” instead of “travel”.

74. UN-Habitat stated that the classification error was due to a system configuration in Umoja, whereby travel made by consultants was automatically charged to the “staff/personnel” budget line. UN-Habitat raised the issue with the Budget and Financial Management Service of the United Nations Office at Nairobi. The Service consulted United Nations Headquarters in New York; however, no solution has been reached yet.

75. Finally, UN-Habitat stated that a mechanism was in place to ensure that transactions are charged to the correct line of the budget. This is a manual procedure designated to officers of the Regional Office for Latin America and the Caribbean who periodically identify transactions that are wrongly charged in the general ledger account and subsequently correct them. The accounting adjustment is then approved and executed by the United Nations Office at Nairobi.

76. The Board holds that this procedure was not conducted with the necessary periodicity. The Board identified misclassified expenses in 2017 and 2018.

77. **The Board recommends that UN-Habitat conduct a review of the expenses relating to projects that are led or supported by consultants.**

78. **In addition, the Board recommends that, as part of the review, UN-Habitat should request reclassification of the travel expenses and correct the accounting transactions records.**

79. **Lastly, the Board recommends that the entity strengthen measures to identify and reclassify expenses and clearly set out the scope and frequency of controls.**

80. UN-Habitat accepted these recommendations and indicated that it would implement them by December 2019.

Absence of information in the quarterly travel plans of the Mexico City hub

81. In paragraph 3.5.1.1, section 3.5, Travel, of the project cycle procedures manual, it states that all national missions must be programmed and included in the quarterly travel plan. This document must be prepared by project managers, with support from financial assistants, and must have the written approval of the hub coordinator and the regional director prior to any travel.

82. The Board reviewed the quarterly travel plans of the Mexico City hub issued during 2018. The Board observed that the documents had been prepared by financial assistants, not project managers.

83. In addition, the date of issue of the plans was not indicated as the specific day on which they had been made; only the first month of the quarter was mentioned.

84. Moreover, the quarterly travel plans were signed by the hub coordinator. The Board observed that the plans included neither the date of signature by the hub coordinator nor a record of clearance from the regional director.

85. The Board is of the view that the absence of information in the quarterly travel plans identified above does not allow it to form an opinion as to whether the travel plans had been approved before the travel was made in the Mexico City hub.

86. The Board holds that the absence of timely authorization for the national missions is an indicator of a control weakness in the established procedure and is not compliant with the provisions set out in the manual.

87. **The Board recommends that the Regional Office for Latin America and the Caribbean align the preparation of the quarterly travel plans for the Mexico City hub with the provisions established in the project cycle procedures manual of 2017 to ensure appropriate authorization of travel.**

88. UN-Habitat accepted this recommendation and indicated that it intends to update the manual by December 2019.

6. Procurement

Annual acquisition plan for UN-Habitat headquarters, regional offices, country offices and hubs

89. According to chapter 8.1 (1) of the United Nations Procurement Manual of the Procurement Division of the Office of Central Support Services, acquisition planning is essential for the effective and timely solicitation of bids and proposals, award of contracts and delivery of the goods, services and works required by the United Nations. Requisitioners are responsible for developing acquisition plans in cooperation with the Procurement Division at Headquarters or other procurement offices at field missions and offices away from Headquarters in a timely manner, in general not later than six months before the need for receipt of the goods, services or works. Owing to the long lead time in the procurement process, planning is a crucial factor to optimize the acquisition of goods and services.

90. Chapter 8.1 (4) establishes that requisitioners and the Procurement Division or other procurement offices shall communicate and, to the extent feasible, meet on an annual basis to set up spending plans, including acquisition plans, for the future budgetary period or periods. Requisitioners shall provide any proposed revisions to the plans at no more than three (at an office away from Headquarters or field mission) or six (at Headquarters) month intervals, and the Procurement Division or procurement office shall advise as to what portion of these plans can be achieved within the current acquisition plan period. Such planning shall be used, to the extent possible, to obtain economies of scale and other benefits for the Organization.

91. In order to assess compliance with the Procurement Division provisions, the Board requested UN-Habitat headquarters to provide the annual acquisition plan for the year 2018. UN-Habitat provided a plan for some UN-Habitat offices, namely the offices in Afghanistan, China, Japan, Nepal, the Philippines, Sri Lanka and Viet Nam, but not headquarters or the remaining offices around the world.

92. The Board also requested the Regional Office for Latin America and the Caribbean to provide the plan for the Office and its hubs. The Office provided a plan for the Mexico City hub but not the Office or the Rio de Janeiro and Panama City hubs. For the Bogotá hub, the plan did not include a description of the required goods, services or works or even the total estimated value.

93. The Board is of the view that the absence of an annual acquisition plan for the year 2018 is not in compliance with chapter 8.1 (4) of the United Nations Procurement Manual. The absence of the plan also does not comply with the general principles established to guide the procurement processes developed by United Nations. The Board holds that adequate and timely annual planning is critical to ensuring efficient and effective acquisition.

94. In the Board's view, it is crucial that the plan include, among other things, a distinction between operative and strategic purchases, the available funds and the acquisition schedule. The Board also holds that adequate planning of the procurement process will contribute to ensuring that UN-Habitat meets its objectives in the development and execution of projects.

95. **The Board recommends that UN-Habitat prepare a comprehensive annual acquisition plan for the forthcoming periods, in as timely a manner and as accurately as possible, in accordance with both the Financial Regulations and Rules of the United Nations and the United Nations Procurement Manual, taking into consideration its regional offices, country offices and hubs.**

96. UN-Habitat accepted the recommendation and indicated that it would revise its 2019 procurement plan.

7. Risk management

Enterprise risk management implementation guidelines

97. In section IV, Consideration of risks and objectives, of the enterprise risk management and internal control methodology, issued in 2011 by the Secretary-General, it states that "each department, office, commission, mission and tribunal shall develop its risk catalogue as a subset of the United Nations Secretariat risk universe" in order to identify the risks at each organizational or functional unit level, allowing the Secretariat to understand the impact of response strategies on a system-wide basis and to assess the effectiveness of existing internal control and risk mitigation measures.

98. In April 2015, UN-Habitat published the document "UN-Habitat enterprise risk management: implementation guidelines" to comply with the methodology mentioned above. In section V, Risk management levels, the methodology establishes that "risk management will be decentralized and managed by the organizational area closest to where the risk is occurring". The risk owner at the country office level was therefore defined as the head of the office.

99. During the audit conducted in the Regional Office for Latin America and the Caribbean and its hubs, UN-Habitat provided a document to the Board that included a definition of local risks related to the Office, a response plan and the staff responsible for the treatment of the risks.

100. The Board noted that the definition of contributing factors for the identified risks covered general situations that could influence different offices in the region, including the main office of the Regional Office for Latin America and the Caribbean. The Board observed, however, that no information related to the specific risks that influence the management of the regional hubs was provided.

101. Contributing factors for the risks related to facilities and real estate were identified. One such factor was the absence of core resources to secure and maintain a United Nations facility. In this regard, the Regional Office for Latin America and the Caribbean underlined the "need of the agency to review the location of teams and to provide sufficient core funds and support other location solutions for the regional offices to ensure minimum security and quality standards in Latin America and the Caribbean".

102. Nevertheless, this risk treatment measure included neither the hubs nor the country offices. For instance, after the earthquake in 2017, the Mexico City hub had difficulties in establishing an office, which is currently provided by the Secretariat of Agrarian, Territorial and Urban Development, a national ministry of Mexico. Moreover, the Mexico City hub does not receive core funding from headquarters, as offices are responsible for raising funds to cover most of their expenses.

103. With regard to the risks related to business continuity, one of the contributing factors was the "lack of core funds to establish an appropriate and solid business continuity plan". None of the proposed treatments would help to address this factor.

The response plan is to develop a business continuity plan for each office, which does not take into account the financial reality of the hubs.

104. Lastly, staff of the Mexico City hub were consulted regarding the risks definition for the hub and as to whether the Regional Office for Latin America and the Caribbean had considered the risks associated with the hub in its assessment. The staff indicated that they had neither conducted an evaluation with regard to the risks definition nor been consulted by the Regional Office in the development of its assessment.

105. The Board considers that the Regional Office for Latin America and the Caribbean is not properly implementing the enterprise risk management implementation guidelines published in 2015 by UN-Habitat. In particular, the absence of a comprehensive risk assessment that includes all levels in charge of the regional entity would result in an inadequate response to a possible risk materializing, for example, political transitions and natural disasters.

106. The absence of a risk evaluation for the regional hubs implies that the Secretariat is not aware of situations and events that could affect the different areas of these administrative levels in a timely manner. Given that this information is not communicated, the Secretariat has no opportunity to understand and assess whether the different strategies and controls put in place are also adequate for the hub.

107. **The Board recommends that each administrative level of UN-Habitat develop a comprehensive risk catalogue in accordance with the enterprise risk management implementation guidelines put in place by the organization.**

108. **The Board recommends that UN-Habitat facilitate and validate the risk documentation made by each of its regional offices, thus offering a more comprehensive view of the difficulties and risk factors that affect the regions and ways to reduce local risks.**

109. UN-Habitat accepted these recommendations. UN-Habitat stated that it had begun to develop a risk register. Moreover, it would assess the modality of co-location with other United Nations agencies promoted as part of the United Nations reform to mitigate risks and share costs.

8. Office administration

Official lease agreement for the office of the Rio de Janeiro hub

110. The office of the Rio de Janeiro hub operates at the Instituto Pereira Passos of the municipality of Rio de Janeiro. In that regard, UN-Habitat provided the lease agreement between UN-Habitat and the municipality to the Board.

111. The fourth clause of the agreement stipulates that UN-Habitat shall pay rent of $1,000 every month and that the rent shall be payable through the payment of invoices directed to the Instituto Pereira Passos. In addition, UN-Habitat would be charged for maintenance materials, services and acquisitions. In the period from May to November 2018, the Board observed disbursements related to lease payments to the Instituto Pereira Passos in the amount of approximately $2,200.

112. The Board noted that the lease agreement had not been signed, as the municipality signs official documents in Portuguese only; the agreement must therefore be translated. The Board observed that the use of the Instituto Pereira Passos office by the Rio de Janeiro hub was not authorized by an agreement signed by both parties.

113. The Board holds that the absence of a lease agreement for the operation of the Rio de Janeiro hub creates legal uncertainty about the use of the office by UN-Habitat.

114. The Board is of the view that the absence of an agreement entails inadequate protection in the event of a legal dispute (e.g. default in rent payments). The absence of an agreement also leads to a situation in which the disbursements related to lease payments to the Instituto Pereira Passos are not made on a formal legal basis.

115. **The Board recommends that, for the office of the Rio de Janeiro hub, UN-Habitat make the efforts necessary to conclude a lease agreement signed by both parties, in accordance with the required conditions.**

116. **The Board recommends that UN-Habitat review the disbursements related to lease payments previously made to the Instituto Pereira Passos of the municipality of Rio de Janeiro and clarify the legal basis for the payments.**

117. UN-Habitat accepted these recommendations and stated that the lease agreement had been cleared by the UN-Habitat Legal Office in Nairobi before the inclusion of a Portuguese version, adding that the Rio de Janeiro hub would follow up on the final version.

118. UN-Habitat explained that it would ensure that all lease payments are made in accordance with the provisions of the final signed lease agreement.

9. Human resources

Annual leave

119. Staff regulation 5.1 of the Staff Regulations and Rules of the United Nations established that staff members shall be allowed appropriate annual leave.

120. Moreover, staff rule 5.1 states:

> "(i) Annual leave may be taken in units of days and half-days;
>
> "(ii) Leave may be taken only when authorized. If a staff member is absent from work without authorization, payment of salary and allowances shall cease for the period of unauthorized absence. However, if, in the opinion of the Secretary-General, the absence was caused by reasons beyond the staff member's control and the staff member has accrued annual leave, the absence will be charged to that leave;
>
> "(iii) All arrangements as to leave shall be subject to the exigencies of service, which may require that leave be taken by a staff member during a period designated by the Secretary-General. The personal circumstances and preferences of the individual staff member shall, as far as possible, be considered."

121. The Board of Auditors reviewed the 91 cases of annual leave as at 31 December 2018 from a sample of 25 staff members and noted that in 11 cases (12 per cent) the staff had used their annual leave without previously requesting it and without the prior approval of their supervisors. In one case, the leave request had been submitted 58 working days after the leave had been taken.

122. In 31 cases (34 per cent), staff annual leave had been approved by the supervisors up to 31 working days after the date on which the staff had begun their leave.

123. The Board verified one case in which the request had been sent by the staff member nine working days before the start date of the leave; however, at the time of writing (May 2019), it had not been approved by the supervisor.

124. The Board considers that leave approvals were being used not as a management control mechanism but rather as a mere formality.

125. The Board is of the view that the situations it exposed indicate that communication between supervisors and personnel is weak. Requests for annual leave must be made through the system as well as discussed directly between both parties.

126. Lastly, the Board considers that maintaining adequate control of staff annual leave may contribute to improvements in human resources management.

127. **The Board recommends that UN-Habitat improve the monitoring of staff annual leave to ensure that all leave is requested and approved by supervisors before being taken.**

128. **The Board recommends that UN-Habitat perform periodic and timely reviews of the leave system to identify absences and, if relevant, apply charges on the monthly salary of the staff.**

129. UN-Habitat accepted the recommendation and stated that through periodic monitoring it would ensure that staff members apply for leave and that leave is approved by managers before being taken.

10. Fraud cases management

130. In 2019, UN-Habitat notified the Board of five cases of entitlement fraud open as at 31 December 2018. The Board also received the 2018 report on cases of fraud and presumptive fraud of the Office of Internal Oversight Services (OIOS). A comparison of the cases reported by UN-Habitat and those reported by OIOS revealed a discrepancy: four cases reported by UN-Habitat were not included in the OIOS report. Details of the discrepancy in the information reported by the entities are shown in the table below.

Table II.2
Comparison of the cases reported by UN-Habitat and the Office of Internal Oversight Services

Case number	*Description of the case*	*Reported by UN-Habitat*	*Reported by OIOS*
0395/14	Misappropriation of funds by a staff member	X	
0016/16	Fraud by a staff member	X	
0191/16	Allegations of possible corruption and fraud by a former staff member	X	
231/16	Misappropriation of funds by a staff member		X
0407/16	Misconduct by a staff member	X	X
0612/16	Misuse of office resources and forgery	X	
159/18	Financial irregularity		X

Source: UN-Habitat and OIOS fraud and presumptive fraud cases reports as at 31 December 2018.

131. Taking into consideration the above-mentioned finding, the Board considers that there is a lack of coordination between both entities. There is therefore a reasonable basis to believe that the cases of fraud and presumptive fraud handled by UN-Habitat differ from the ones handled by OIOS. Such an inconsistency is undesirable because the lack of accurate information related to fraud may imply a potential risk for the entity with financial implications.

132. **The Board recommends that UN-Habitat management devise a suitable mechanism to ensure better coordination between the entity and OIOS for the complete and comprehensive reporting of cases of fraud and presumptive fraud.**

C. Disclosures by management

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

1. Write-off of cash, receivables and property

134. UN-Habitat reported to the Board that, in accordance with financial rule 106.7, losses of accounts receivable amounting to $0.03 million and asset losses of $0.01 million were written off in 2018.

2. Ex gratia payments

135. Management confirmed that UN-Habitat did not make any ex gratia payments in 2018.

3. Cases of fraud and presumptive fraud

136. 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 irregularities, 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.

137. 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 has been brought to its attention. We also inquire whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries of OIOS. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

138. In 2019, UN-Habitat notified the Board of five cases of entitlement fraud open as at 31 December 2018.

D. Acknowledgement

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

(*Signed*) 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

24 July 2019

Annex

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

No.	*Audit report year/biennium*	*Report reference*	*Recommendation of the Board*	*UN-Habitat response*	*Board's assessment*	*Status after verification: Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1.	2010–2011	A/67/5/Add.8, chap. II, para. 36	Set up specific arrangements to fund its liabilities for end-of-service and post-retirement benefits, for consideration and approval by its Governing Council and the General Assembly.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established the target date of the implementation of this recommendation as "ongoing". In November 2018, UN-Habitat responded that the authority to set up funding for the liabilities for end-of-service and post-retirement benefits belongs to the General Assembly and United Nations Headquarters and that the Department of Management accepted to take on the responsibility for implementation of this recommendation. In May 2019, UN-Habitat provided instructions sent in April and July 2018 by the Office of Programme, Planning, Budget and Accounts of the Department of Management stating that the General Assembly had not approved a funding plan for the after-service health insurance related to assessed contributions. However, following the Controller´s instructions on this issue, sent in November 2016 to the entire Secretariat, the entities were to charge 3 per cent over staff costs funded by extrabudgetary resources. The 3 per cent was applied for the 2017 and 2018 fiscal years by UN-Habitat and UNON. Starting in 2019, the charge would be raised to 6 per cent.	UN-Habitat provided information that shows that it made arrangements with the Department of Management to fund its liabilities for end-of-service and post-retirement benefits; thus, this recommendation is considered as implemented.	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
2.	2012–2013	A/69/5/Add.9, chap. II, para. 39	(a) Set a timeline to implement the resolution of its Governing Council in identifying a suitable partner to run the Experimental Reimbursable Seeding Operations Trust Fund and draw up comprehensive terms of reference for adequate operations and risk management; (b) set up and document a clear monitoring and assurance framework for the use and accountability of the Experimental Reimbursable Seeding Operations funds; and (c) closely follow up the repayment from each borrower and adhere to the repayment schedule.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General indicated that UN-Habitat considered this recommendation to be implemented and requested its closure by the Board. In November 2018, UN-Habitat mentioned that it updated the Committee of Permanent Representatives to UN-Habitat, in November 2012, on the status of the implementation of resolution 23/10 of its Governing Council, indicating that it had been unable to find a suitable partner. As a result, and considering the small size of the portfolio, UN-Habitat will administer the operation of the portfolio in-house. Furthermore, the entity provided the report on the twenty-fourth session, of April 2013, at which the Executive Director reported the above-mentioned to the Governing Council. The entity also provided an email sent to the secretary of the Governing Council, asking for clarification on the status of implementation of the resolution. In May 2019, UN-Habitat provided reports on the field visits to the projects performed by entity personnel and a repayment schedule.	In its report of 2017 (A/73/5/Add.9), the Board stated that Management had started implementation of the recommendation by updating countries' permanent representatives. In the analysis of the information provided by UN-Habitat, it observes that the entity has implemented monitoring actions and the relevant repayment schedule. In that sense, the recommendation is considered implemented.	X			
3.	2015	A/71/5/Add.9, chap. II, para. 25	(a) Follow up with the housing foundation to recover the outstanding loan amount; and (b) enhance the screening and monitoring mechanisms for the loan portfolio.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General pointed out that UN-Habitat considers this recommendation to be implemented and requested its closure by the Board. In November 2018, UN-Habitat responded, regarding (a), that the housing foundation was officially liquidated and UN-Habitat was	With respect to (a), it should be noted that the actions detailed by UN-Habitat are not sufficient to determine the funds' irrecoverability. In that regard, it is necessary to provide the information associated with the housing foundation liquidation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				about to receive a final payment of $249,000, following the liquidation. Concerning the final outstanding balance of $500,000, the entity indicated that it might not be recovered. In May 2019, UN-Habitat provided a document detailing the actions carried out by the entity to recover the above-mentioned funds. With respect to (b), the entity attached a template to the documents used to screen and monitor mechanisms for the loan portfolio.	With respect to (b), the entity presented information showing it had enhanced the screening and monitoring mechanisms for the loan portfolio. This recommendation therefore remains under implementation.				
4.	2015	A/71/5/Add.9, chap. II, para. 54	(a) Identify the risks that might affect project implementation in advance of the execution phase to minimize the negative effects of delaying the intended benefits for the societies involved; and (b) plan and manage the recruitment process with respect to experts in the field office to ensure that there is timely and adequate staffing for improved project performance.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General stated that UN-Habitat had a new project risk management guide that provided guidelines on how to manage risks, including those related to the recruitment of project personnel and the performance of implementing partners. He also indicated that UN-Habitat considered this recommendation to be implemented and requested its closure by the Board. In May 2019, the entity reported that it had developed a project risk management manual and was in the process of developing environmental and social safeguards to be included in the manual. It indicated that Arcadis, an international engineering firm, was assisting with the development of the safeguards.	The Board of Auditors notes that the entity is developing measures to implement a project risk management model. The Board of Auditors understands that this is an ongoing process, and this recommendation is thus under implementation.		X		
5.	2016	A/72/5/Add.9, chap. II, para. 13	(a) Conduct enterprise resource management awareness training to enable the country offices staff to acquire the skills and	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter	The Board of Auditors notes that the entity is developing measures to implement a project risk management model.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			knowledge necessary for effective implementation of enterprise risk management; and (b) prepare the risk register in accordance with the UN-Habitat enterprise risk management guidelines and summarize all important risks and response strategies in order to mitigate risks in project implementation.	of 2018) for the implementation of this recommendation. In May 2019, the entity reported that it had developed a guide entitled "Project risk management manual" and was in the process of developing environmental and social safeguards to be included in the guide. It indicated that Arcadis, an international engineering firm, was assisting with the development of the safeguards. Additionally, it indicated the staff who had completed training on the prevention of fraud.	Likewise, the entity shows a relevant advance in staff training on the prevention of fraud. The Board understands that this is an ongoing process, and this recommendation is thus under implementation.				
6.	2016	A/72/5/Add.9, chap. II, para. 23	(a) Formulate strategies to minimize consultancy costs in accordance with its strategic objectives for the period 2014–2019; and (b) include minimization of consultancy costs in the results framework for tracking and reporting periodically.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation, indicating that UN-Habitat was in the process of formulating a strategy for minimizing consultancy costs in accordance with its strategic objectives for the period 2014–2019. In November 2018, UN-Habitat provided information regarding the accounts that are related to contractual services. Additionally, in May 2019, the entity submitted an analysis of consultant costs against revenue for the period 2015–2018. Lastly, it indicated that it had adopted a new strategic plan on this subject for the period 2020–2025.	The Board reviewed the accounts provided by the entity; however, it considers that there is insufficient evidence to confirm that there are active strategies formulated to minimize consultancy costs, or include the minimization of consultancy costs in the results framework for tracking and reporting periodically. Therefore, this recommendation remains under implementation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
7.	2016	A/72/5/Add.9, chap. II, para. 73	Comply with all agreed terms and conditions in contract agreements to avoid misunderstandings with donors.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General mentioned that UN-Habitat considered this recommendation to be implemented and requested its closure by the Board. Thereupon, in a document dated October 2018, UN-Habitat provided evidence of receipt of $64,473 from the United Nations Environment Programme (UNEP) in March 2017. In May 2019, UN-Habitat provided a financial report on the project for socioeconomic and urban renewal in Ondo, indicating that it had not received the balance because of the change of government in Nigeria and non-compliance with donors' conditions.	In paragraphs 71 and 72 of the Board's report of 2016 (A/72/5/Add.9), cases in which UN-Habitat had not been fulfilling the terms and conditions of the contribution agreements were noted, as was the repayment of any amounts paid in excess of the final amount. Only one of those was associated with the agreement with UNEP, in the amount of $64,473. The information provided by the entity to justify the non-compliance of the project for socioeconomic and urban renewal in Ondo is not sufficient. Therefore, these recommendations are under implementation.		X		
8.	2016	A/72/5/Add.9, chap. II, para. 74	Strengthen monitoring of the implementation projects funded by conditional agreements in order to ensure that revenue is realized after fulfilling the conditions and to reduce the amount of liability in the financial statements.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General mentioned that the Management and Operations Division of UN-Habitat conducted periodic monitoring and adjustment of the conditional liabilities in line with the progress in the implementation of projects funded under conditional agreements. Furthermore, he indicated that UN-Habitat considered this recommendation to be implemented and requested its closure by the Board.	The Board of Auditors observes that the entity has taken the measures to monitor the implementation of the projects funded under conditional agreements; however, the entity has not applied the corresponding adjustments to the grants without financial movements. Therefore, this recommendation remains under implementation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				In November 2018, UN-Habitat provided as evidence a file entitled "conditional liability transfer to revenue", which represented the revenue recognition of the conditional agreements undertaken by UN-Habitat as of June 2018. In May 2019, the entity reported that three grants had been recognized. Another three were operationally closed but remained financially open. Finally, UN-Habitat indicates it would be able to make any necessary adjustments.					
9.	2017	A/73/5/Add.9, chap. II, para. 15	(a) Ensure capacity-building programmes are conducted for all staff who have resource mobilization responsibilities at the country and regional levels; and (b) develop policy guidelines and circulate them to the regional and country offices as required under the results framework for the donor relations and income strategy.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the first quarter of 2019) for the implementation of this recommendation, indicating that UN-Habitat was making arrangements for the training of staff that had resource mobilization responsibilities at the country and regional levels. In December 2018, UN-Habitat reported that it had signed an agreement that allowed for the financing of capacity-building. The entity mentioned that its staff had been trained regarding the Donor Information System, adding that training materials for capacity-building were also made available. Furthermore, the agency approved donor visibility guidelines, which are applicable to all projects receiving earmarked funding from donors. These guidelines were communicated to the staff members through a memorandum issued by the Executive Director in March 2019.	The entity has developed a policy related to donor visibility, which is applicable to all projects receiving earmarked funding from donors. Likewise, it is observed that the agency is making progress on staff training in this area. The Board of Auditors understands that this is an ongoing process and considers this recommendation under implementation.		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
10.	2017	A/73/5/Add.9, chap. II, para. 19	Ensure that substantive and financial aspects of project documents are reviewed and approved by the Project Advisory Group prior to the signing of funding agreements, as required by the UN-Habitat project-based management policy.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In December 2018, the Regional Office for Latin America and the Caribbean responded that the project design and Umoja start-up workflow, introduced in 2018, ensures compliance with the above, and that the projects observed were exceptions to the normal procedure. Afterwards, in January 2019, the Regional Office explained that this recommendation is being implemented, as UN-Habitat has redesigned its project workflow so that agreements cannot be signed before Project Advisory Group approval. Finally, the Regional Office mentioned that this recommendation is scheduled to be implemented by February 2019.	The Board of Auditors reviewed in Umoja five projects for which the start date was 2019. Four of them were verified as having been approved by the Project Advisory Group after the funding agreements were signed; and for one, there was no information about its project document or Project Advisory Group approval. In 2019, the projects did not incorporate the provisions related to the project-based management policy, and therefore the recommendation has not been implemented.			X	
11.	2017	A/73/5/Add.9, chap. II, para. 22	Ensure documentation is in place whenever there is movement of assets in order to reduce the risk of losing assets.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. He also indicated that the Agency is conducting refresher training sessions for all asset focal points, in order to clarify the procedures governing asset management and the importance of up-to-date handover documents. In December 2018, the entity provided a memorandum dated 29 November 2018 by the Director of the Management and Operations Division, who requested that the 2018 end-year physical verification of assets	According to the analysis of the Board of Auditors, the contents of the memorandum illustrate the progress made in ensuring that there is documentation in place related to the movement of assets. Likewise, the entity is performing the training indicated in the report of the Secretary-General. In conclusion, the Board of Auditors understands that this is an ongoing process, and that		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				and equipment in out-poster offices be executed. The document detailed the objective of the exercise and contained guidance on how to execute this procedure. The document contained a reminder addressed to all asset focal points indicating that all movements of assets and equipment should be recorded in an asset handover form. The recipient of the items and the staff member handing them over should complete that form. The completed form should then be filed for the record. In May 2019, the entity attached the assets handover form prepared by the various asset focal points and indicated the staff trained in this issue.	this recommendation is under implementation.				
12.	2017	A/73/5/Add.9, chap. II, para. 28	Enhance its impairment review exercise by developing a guideline that clearly narrates how impairment reviews should be conducted and reported.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General mentioned that UN-Habitat considered this recommendation to be implemented and requested its closure by the Board. In November 2018, UN-Habitat provided a memorandum dated 3 July 2018 by the Director of the Management and Operations Division, who requested all UN-Habitat asset focal points and Project Management Officers to execute the 2018 midyear physical verification of assets and equipment in out-posted offices. Moreover, annexes to the memorandum include the following: a document with common errors from prior years' experiences; the impairment test and review guidelines; and the impairment form for the list of assets above $25,000 in value.	According to the analysis by the Board of Auditors, the information contained in the memorandum and the guidelines developed clearly narrate how impairment reviews should be conducted and reported for the entity, thus allowing the entity to improve the procedure. In addition, the entity provided the evaluations of the assets for which the midyear impairment test should be performed. In conclusion, the Board of Auditors considers that this recommendation is implemented.	X			

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				Finally, the Agency provided the standard operating procedures for the tracking and reporting of non-serialized items in UN-Habitat offices away from headquarters.					
13.	2017	A/73/5/Add.9, chap. II, para. 32	(a) Ensure that funds are released to implementing partners on time so that the planned activities can be completed within the scheduled period; and (b) establish a risk-based fast-track payment process for emergency and high-priority countries, as proposed by the country office in the Syrian Arab Republic.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In May 2019, the entity reported that the Umoja management solution for implementing partners had been launched on 31 December 2018 and included a grantor management programme.	The Board of Auditors considers that the Umoja solution is a relevant advance towards ensuring timely monitoring of implementing partner's compliance; however, the Board of Auditors understands that this is an ongoing process and will consider updating the status of this recommendation in the future.		X		
14.	2017	A/73/5/Add.9, chap. II, para. 35	Ensure that: (a) field offices comply with the delegation of authority as required by the memorandum of the Executive Director; and (b) the country office in China obtains appropriate office accommodations for its staff.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In May 2019, the entity provided a brochure whereby it reminded all staff of the delegation of authority. Furthermore, it noted that from 1 June 2019, the country office in China would be using a new facility.	Regarding compliance with the delegation of authority, the measure indicated by the entity could be considered a first step towards highlighting this issue for staff. The new facilities for the country office in China starting 1 June 2019 will allow for an improvement of working conditions for staff. The Board of Auditors considers that this recommendation is under implementation.		X		
15.	2017	A/73/5/Add.9, chap. II, para. 39	Ensure that the country offices in Colombia and Brazil: (a) find safer outside locations to store their backups, which can be accessed by staff during disasters; and (b) develop	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In December 2018, the Regional Office for Latin America and the Caribbean responded	Although the offices in Brazil and Colombia have considered storing their information locations outside their duty stations, the locations in question are not United Nations			X	

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			disaster recovery and business continuity plans.	regarding the search for safer outside locations to store backups that Offices in Colombia and Brazil backup once or twice a week and keep their information through members of the team. Moreover, the Regional Office mentioned that in 2019 it would discuss the possibility of having Unite Docs as a central repository of information. The Regional Office mentioned that the disaster recovery and business continuity plans will be drafted in line with global guidelines. In January 2019, the Regional Office further reported that UN-Habitat has rolled out Microsoft One Drive for storing official work files and for shared folders for remote offices. The configuration of this solution should be finalized in February 2019, and thus the recommendation is expected to be implemented. In May 2019, UN-Habitat reported that it would work with the Regional Office to develop a disaster recovery plan addressing the concerns raised by the Board of Auditors.	facilities, as mentioned in paragraph 38 of the report. Moreover, the option of storing official work on Unite Docs and Microsoft One Drive is still not operative. There is no evidence of progress on drafting disaster recovery and business continuity plans for the offices, and therefore the Board of Auditors considers that the recommendation has not been implemented.				
16.	2017	A/73/5/Add.9, chap. II, para. 44	Establish management structures and administrative policies and procedures for the new hub arrangement that provide guidance on the day-to-day management of hub operations in the Regional Office for Latin America and the Caribbean.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In November 2018, UN-Habitat provided information regarding the structure of the Regional Office for Latin America and the Caribbean and the organization of its four	Although UN-Habitat has provided information related to the organization of the Regional Office and its four hubs, there has been no formalization of the management structures and administrative policies and procedures. The Board of Auditors therefore considers that this is an ongoing		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				hubs: Bogotá, Mexico City, Panama City and Rio de Janeiro, Brazil. In December 2018, the Regional Office explained that the formalization of the structure of the hubs is a work in progress, with a deadline of March 2019. The entity added that the formalization would be carried out in line with the reform of UN-Habitat.	process and that the recommendation is under implementation.				
17.	2017	A/73/5/Add.9, chap. II, para. 48	(a) Set a deadline for staff members to complete the mandatory training course on anti-fraud and anti-corruption; and (b) include information on fraud and corruption in the project risk management guide.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In November 2018, UN-Habitat reported on the implementation of (a). The entity provided a memorandum dated 16 October 2018, from the Human Resources Office of the Management and Operation Division. The memorandum informed all staff members of the mandatory trainings to be completed before 31 December 2018, including on preventing fraud and corruption at the United Nations. In May 2019 it indicated the staff members who had completed the prevention of fraud training.	The Board of Auditors considers that measures taken by the entity allowed for the implementation of both recommendations. Therefore, they have been implemented.	X			
18.	2017	A/73/5/Add.9, chap. II, para. 51	Develop an action plan to ensure that core activities are performed by staff members.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the first quarter of 2019) for the implementation of this recommendation. The Regional Office for Latin America and the Caribbean responded in December 2018 that, owing to the financial constraints	There is no evidence that core activities are performed by staff members in accordance with an action plan developed by the Regional Office; however, UN-Habitat is in the process of restructuring, and the Regional Office is endeavouring to organize its structure.		X		

						Status after verification			
No.	*Audit report year/biennium*	*Report reference*	*Recommendation of the Board*	*UN-Habitat response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				within the entity, project staff might be subsidizing core activities. Additionally, the Director of the Regional Office reported to his direct supervisor that the plan is for headquarters to secure the core activities, as the financial situation allows for core staff to be allocated to core activities in the region. In February 2019, the Regional Office explained that UN-Habitat is currently undergoing a restructuring process, which will be reviewed in line with the business models for the regions. The Regional Office also provided a table with the Regional Office's personnel and their contract modality. Lastly, UN-Habitat indicated that it would work with the Regional Office to develop an action plan addressing the concerns raised by the Board of Auditors.	The Board of Auditors understands that this is an ongoing process and considers this recommendation as under implementation.				
19.	2017	A/73/5/Add.9, chap. II, para. 55	Comply with the administrative instruction on consultants and individual contractors (ST/AI/2013/4) by utilizing the roster in the selection of consultants and individual contractors to ensure that competent and experienced consultants and individual contractors are selected.	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation. In May 2019, UN-Habitat provided the list of consultants employed from January 2018 to April 2019.	The register of consultants provided by the entity is an appropriate measure for making progress on this issue. However, the effective use of the list is considered an ongoing process, and the Board of Auditors will consider updating the status of implementation of this recommendation in the future.		X		
20.	2017	A/73/5/Add.9, chap. II, para. 59	Ensure that field offices: (a) adhere to the results-based management policy on reporting by incorporating analyses of the logical frameworks into their	In his report of 10 September 2018 (A/73/353/Add.1), the Secretary-General established a target date (the fourth quarter of 2018) for the implementation of this recommendation.	Regarding (b), in paragraph 56 of the Board's report of 2017 (A/73/5/Add.9), it was mentioned that certain areas (such as the Brazil country		X		

No.	Audit report year/biennium	Report reference	Recommendation of the Board	UN-Habitat response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			progress reports; and (b) prepare annual workplans for their activities in line with the approved programme of work for the biennium.	With respect to (a), there was no response from headquarters. In December 2018, the Regional Office for Latin America and the Caribbean responded and provided information with respect to (b). It was indicated that UN-Habitat had only one biennial workplan for the entire entity, but that it would be changed to an annual work programme, starting in 2020. The biennial workplan is established by the Programme Division at headquarters. Moreover, the entity provided a document entitled "Regional Office for Latin America and the Caribbean work programme outputs 2018–2019". In February 2019, the Regional Office indicated that the United Nations had recently adopted annual work planning and budgeting processes. Depending on the portfolio size, annual plans were in place. This was not mandatory but considered internally as a good practice. Lastly, in May 2019, UN-Habitat worked with the Regional Office to develop an action plan addressing the concerns raised by the Board of Auditors.	office) required management intervention for improvement. Moreover, it was indicated that paragraph 2.2.1 of the UN-Habitat handbook on results-based management states that each biennial work programme and budget contains two annual workplans, one for each year. According to the Board of Auditors analysis, the biennial work programme of the Regional Office was provided; however its workplans for 2018 and 2019 were not provided. In conclusion, there is no evidence of the annual workplans for the Regional Office and its hubs (country offices), in line with the approved programme of work and budget of the biennium, therefore the Board of Auditors considers that the recommendation is under implementation.				
Total					**20**	**4**	**14**	**2**	**0**
Percentage					**100**	**20**	**70**	**10**	**0**

Chapter III
Certification of the financial statements

Letter dated 31 March 2019 from the Chief Finance Officer of the United Nations Office at Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2018 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations and rule 306.10 of the supplement to the Financial Regulations and Rules of the United Nations (ST/SGB/2015/4).

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

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

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of UN-Habitat for the year ended 31 December 2018 are correct.

(*Signed*) Felista **Ondari**
Chief Finance Officer
United Nations Office at Nairobi

Chapter IV
Financial overview for the year ended 31 December 2018

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report and the financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2018. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.1, these financial statements were transmitted to the Board of Auditors on 31 March 2019.

2. UN-Habitat is the specialized programme for sustainable urbanization and human settlements in the United Nations system. The mandate of the Programme is derived from General Assembly resolution 3327 (XXIX), by which the Assembly established the United Nations Habitat and Human Settlements Foundation; resolution 32/162, by which the Assembly established the United Nations Centre for Human Settlements (Habitat); and resolution 56/206, by which the Assembly elevated the United Nations Centre for Human Settlements to the United Nations Human Settlements Programme.

3. Regular budget funding, insofar as it relates to UN-Habitat, as a related party entity, is included in Volume I (A/74/5 (Vol. I)), but for completeness has also been included in these financial statements.

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

B. Financial statements prepared in accordance with the International Public Sector Accounting Standards

5. In accordance with the International Public Sector Accounting Standards (IPSAS), a complete set of financial statements has been prepared, as follows:

(a) *Statement I: statement of financial position*. This statement shows the financial status of UN-Habitat as at 31 December 2018 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UN-Habitat to continue delivering partner services in the future;

(b) *Statement II: statement of financial performance*. This statement measures the net surplus or deficit as the difference between revenues and the corresponding expenses incurred. The net surplus or deficit is a useful measure of the overall financial performance of UN-Habitat and indicates whether the organization achieved its self-financing objective for the period;

(c) *Statement III: statement of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial performance, for example, actuarial adjustments to employee liabilities and fair value adjustment on available-for-sale financial instruments;

(d) *Statement IV: statement of cash flows*. This statement reflects the changes in the cash position of UN-Habitat by reporting the net movement of cash, classified by operating and investing activities. The ability of UN-Habitat to generate cash liquidity is an important aspect in assessing its financial resilience. For a more complete picture of the organization's ability to draw upon its cash balances, investments also need to be taken into account;

(e) *Statement V: statement of comparison of budget and actual amounts*. This statement compares the actual operational result with the main budget previously approved by the Governing Council of the United Nations Human Settlements Programme and the General Assembly;

(f) *Notes to the financial statements*. The financial statements are supported by notes that assist users in understanding UN-Habitat and comparing it with other entities. The notes include UN-Habitat accounting policies and other additional information and explanations.

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

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

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

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

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

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

C. Overview of the financial statements for the year ended 31 December 2018

7. Statements I to IV show consolidated figures for all activities of UN-Habitat, comprising the non-earmarked funds, the earmarked funds and end-of-service and retirement benefits for the year ended 31 December 2018.

8. The non-earmarked funds of UN-Habitat comprise Foundation non-earmarked funds (previously referred to as Foundation General Purpose), regular budget funds and programme support funds. Foundation non-earmarked resources are voluntary contributions by Member States to the UN-Habitat Foundation, while regular budget resources represent subventions appropriated from Member States' assessed contributions. Earmarked funds are voluntary contributions towards the Foundation earmarked funds (previously referred to as Foundation Special Purpose) and technical cooperation funds.

9. Statement V reports on the Foundation non-earmarked and regular budget segments. This statement is prepared on a budget basis.

10. Comparison between the year ended 31 December 2017 and the current reporting date is provided.

Financial performance

General overview

11. Table IV.1 shows a snapshot of the performance of UN-Habitat in all segments in 2018. A total deficit of $7.0 million was realized in 2018 as a result of total net revenue of $178.7 million (gross: $191.5 million) received, against which total net expenditure of $185.7 million (gross: $198.5 million) was reported. Gross revenue of $191.5 million includes a core component of $29.7 million (15.5 per cent), earmarked revenue of $160.3 million (83.7 per cent) and end-of-service and post-retirement benefits income of $1.5 million (0.8 per cent). Gross expenditure of $198.5 million comprises $31.4 million (15.8 per cent) of core expenses, $164.3 million (82.8 per cent) of earmarked expenses and $2.7 million (1.4 per cent) of end-of-service and post-retirement benefits expenses.

Table IV.1
Summary financial performance for the period ended 31 December 2018 by segment
(Millions of United States dollars)

	Revenue	*Expenses*	*Surplus/(deficit)*
Foundation non-earmarked	3.7	4.5	(0.8)
Regular budget	14.4	14.4	0.0
Programme support	11.5	12.5	(1.0)
Subtotal, core funds	**29.6**	**31.4**	**(1.8)**
Foundation earmarked	47.5	42.4	5.1
Technical cooperation	112.8	121.9	(9.1)
Subtotal, earmarked funds	**160.3**	**164.3**	**(4.0)**
End-of-service and post-retirement benefits	1.5	2.7	(1.2)
Subtotal, other	**1.5**	**2.7**	**(1.2)**
Total, all funds before elimination	**191.5**	**198.5**	**(7.0)**
Intersegment elimination	(12.7)	(12.7)	0.0
Total, all funds after elimination	**178.7**	**185.7**	**(7.0)**

Revenue

Table IV.2
Summary of revenue in 2018 by segment compared with 2017
(Millions of United States dollars)

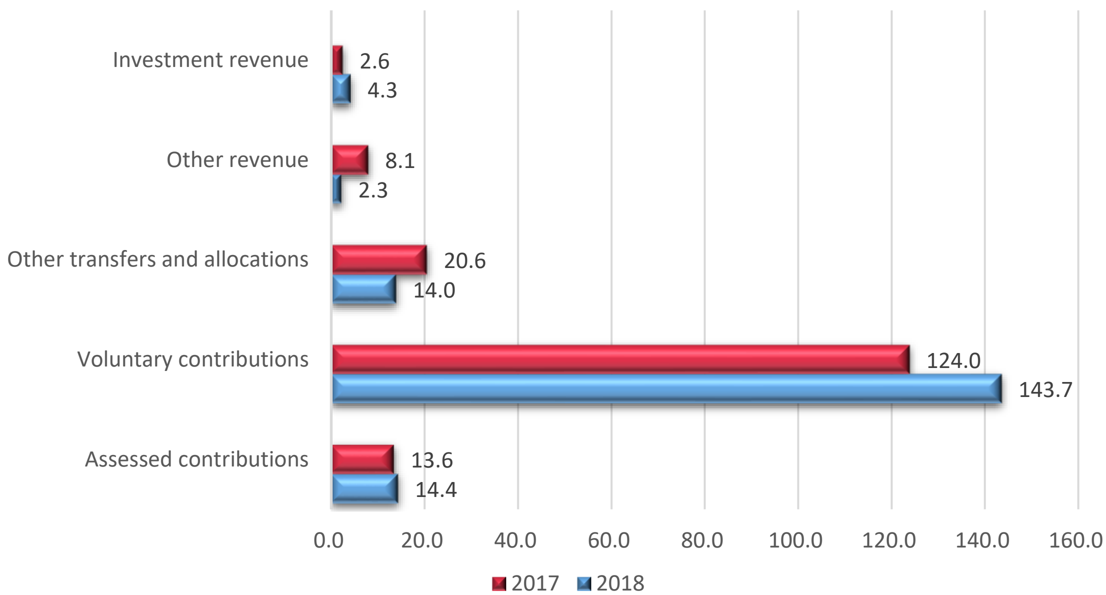
Year	*Foundation non-earmarked*	*Regular budget*	*Foundation earmarked*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment elimination*	*Total revenue after elimination*
2018	3.7	14.4	47.5	112.8	11.5	1.5	(12.7)	178.7
2017[a]	2.7	13.6	35.1	116.7	10.2	1.7	(11.2)	168.8

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

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

13. UN-Habitat saw an increase in revenue in 2018 when consolidated across all funds. Total revenue for 2018 amounted to $178.7 million (2017: $168.8 million), which is an increase of $9.9 million (5.9 per cent) compared with the revenue in 2017. The main source of revenue continues to be voluntary contributions from Member States, other government entities and other entities, which amounted to $143.7 million (2017: $124.0 million) and accounted for 80.4 per cent (2017: 73.4 per cent) of total revenue. The remaining 19.6 per cent (2017: 26.6 per cent) of the revenue was generated by assessed contributions in the amount of $14.4 million (2017: $13.6 million), other transfers and allocations in the amount of $14.0 million (2017: $20.6 million), investment revenue in the amount of $4.3 million (2017: $2.6 million) and other revenue in the amount of $2.3 million (2017: $8.1 million).

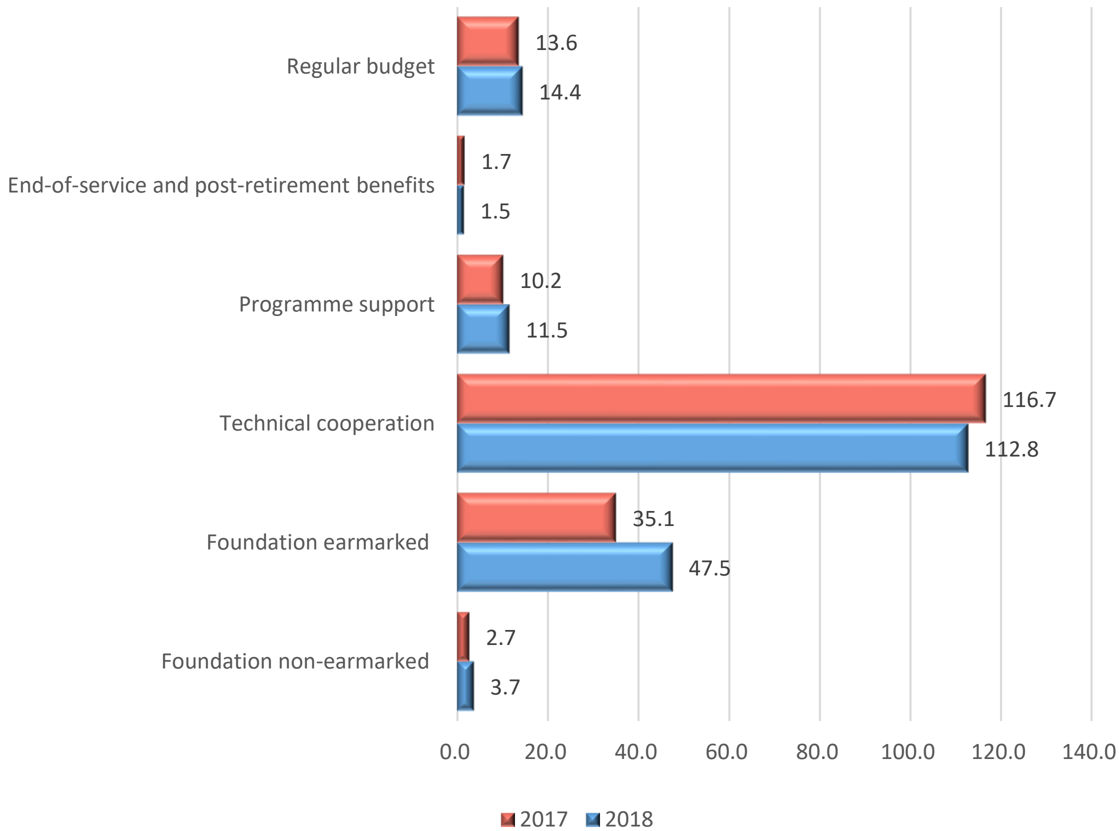
Figure IV.I
Comparative revenue distribution by revenue category



14. Revenue for Foundation non-earmarked funds amounted to $3.7 million (2017: $2.7 million), which was an increase of $1.0 million (37 per cent) in 2018 compared with 2017. This figure comprises voluntary contributions in the amount of $3.6 million (2017: $2.7 million) and other revenue in the amount of $0.1 million (2017: $0.3 million). Overhead income of $11.5 million was received in 2018 from the implementation of the portfolio, compared with $10.2 million in 2017. Regular budget revenue amounted to $14.4 million (2017: $13.6 million). This was an increase of $0.8 million (5.9 per cent) compared with 2017 owing to the quadrennial report. Total revenue from Foundation earmarked funds amounted to $47.5 million (2017: $35.1 million), which was an increase of $12.4 million (35.3 per cent) compared with 2017. Revenue from technical cooperation earmarked funds amounted to $112.8 million (2017: $116.7 million), which was a decrease of $3.9 million (3.3 per cent) compared with 2017. Other revenue sources contributed a total of $2.3 million (2017: $8.1 million).

15. The technical cooperation segment continues to be the main funding source of UN-Habitat, followed by Foundation earmarked.

Figure IV.II
Revenue distribution by source of funding (before elimination)



Expenditure

Table IV.3
Summary of expenditure by segment
(Millions of United States dollars)

Year	*Foundation non-earmarked*	*Regular budget*	*Foundation earmarked*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Intersegment elimination*	*Total revenue after elimination*
2018	4.5	14.4	42.4	121.9	12.5	2.7	(12.7)	185.7
2017[a]	6.7	13.6	47.6	128.1	10.3	2.4	(11.2)	197.5

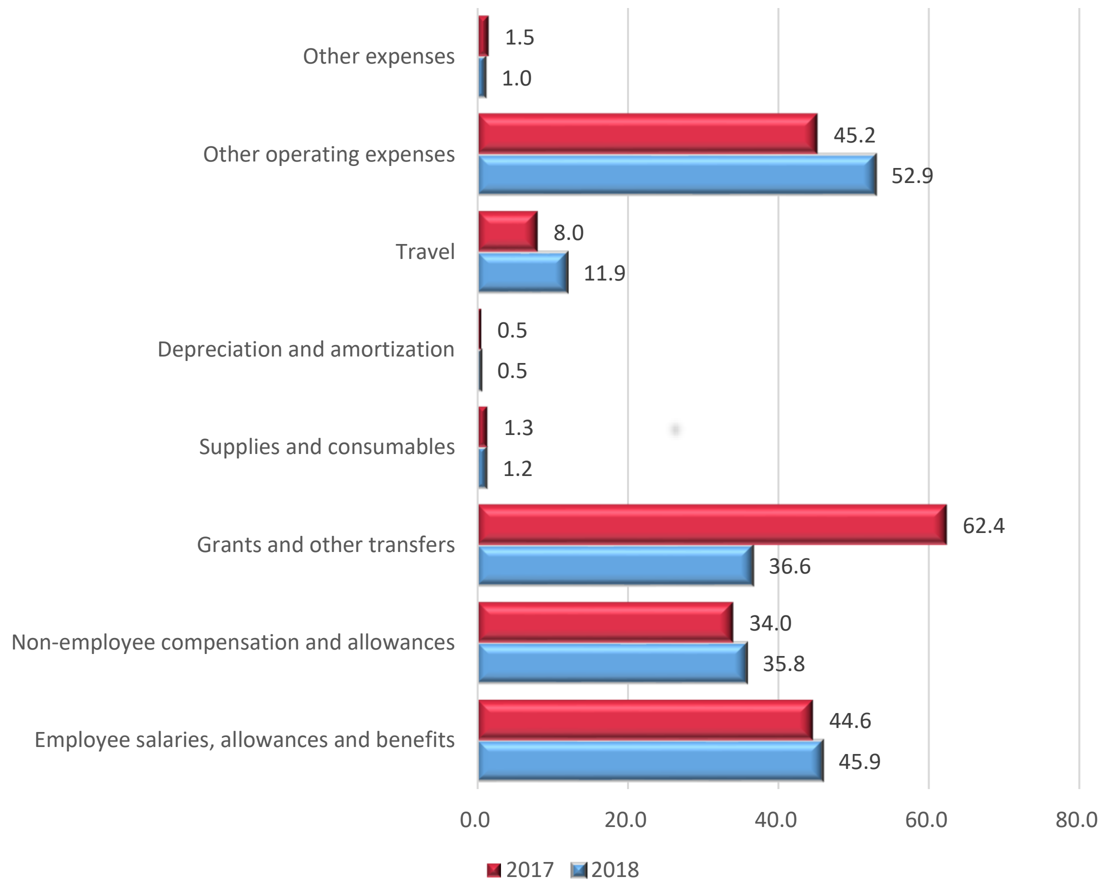
[a] Comparatives have been restated to conform to the current presentation.

16. Total expenses decreased by $11.8 million to a total of $185.7 million (2017: $197.5 million) in 2018. The major categories of expenses included employee salaries, allowances and benefits of $45.9 million (2017: $44.6 million), non-employee compensation costs of $35.8 million (2017: $34.0 million), grants and transfers amounting to $36.6 million (2017: $62.4 million) and other operating expenses of $52.9 million (2017: $45.2 million). These expenses are largely related to project delivery.

17. Remaining expenses totalling $14.6 million (2017: $11.2 million) related to supplies and consumables in the amount of $1.2 million (2017: $1.3 million), depreciation and amortization in the amount of $0.5 million (2017: $0.5 million),

travel expenses in the amount of $11.9 million (2017: $8.0 million) and other expenses in the amount of $1.0 million (2017: $1.5 million).

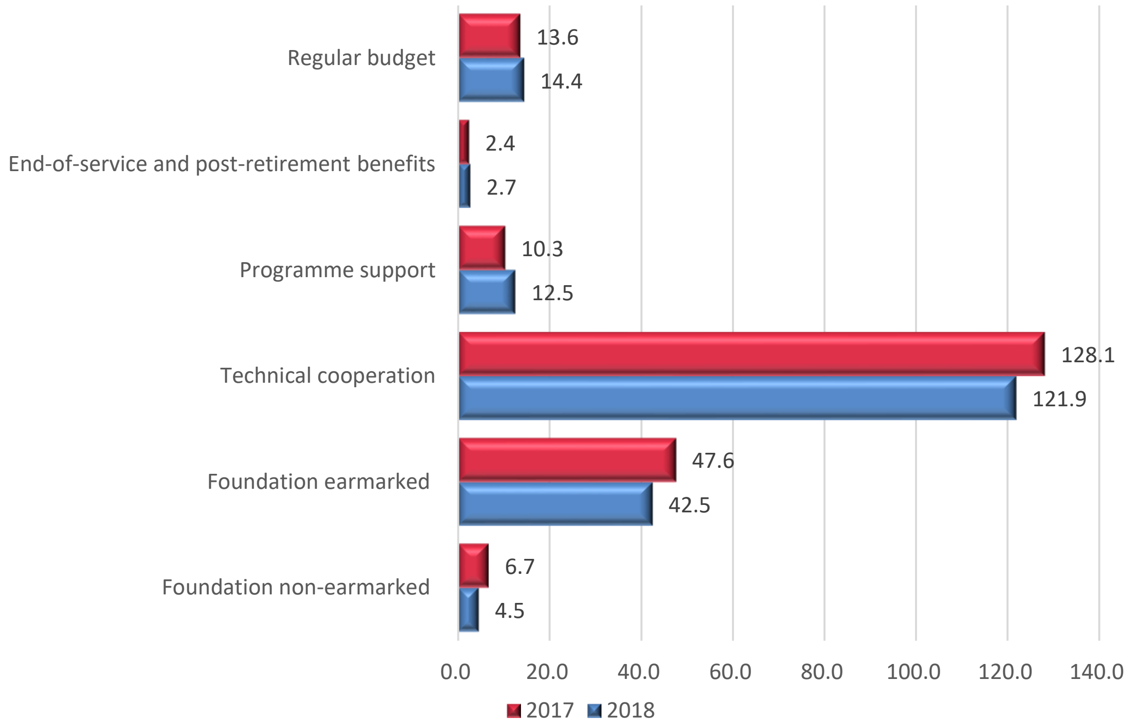
Figure IV.III
Expenditure distribution by category



18. Further analysis of the non-earmarked expenditures shows that a total of $4.5 million (2017: $6.7 million) related to Foundation non-earmarked funds, while $14.4 million (2017: $13.6 million) related to the regular budget and $12.5 million (2017: $10.3 million) related to programme support. For the earmarked funds, $42.4 million (2017: $47.6 million) related to Foundation earmarked funds, while technical cooperation expenditure amounted to $121.9 million (2017: $128.1 million). Other expenses relating to end-of-service and post-retirement benefits amounted to $2.7 million (2017: $2.4 million).

19. Figure IV.IV shows expenditure distribution among the six reporting segments.

Figure IV.IV
Expenditure distribution between segments before elimination



Financial position

Table IV.4
Summary of assets, liabilities and net assets by segment
(Millions of United States dollars and percentage)

	Foundation non-earmarked	*Foundation earmarked*	*Technical cooperation*	*Programme support*	*End-of-service and post-retirement benefits*	*Total*
Total assets	4.4	125.3	307.6	18.7	9.6	465.6
Percentage of total assets	0.95	26.91	66.06	4.02	2.06	100
Total liabilities	3.2	23.7	75.7	3.8	44.0	150.4
Percentage of total liabilities	2.13	15.75	50.33	2.53	29.26	100
Total net assets	1.2	101.6	231.9	14.9	(34.4)	315.2
Percentage of total net assets	0.38	32.23	73.57	4.73	(10.91)	100

Assets

20. At the end of 2018, UN-Habitat total assets after intersegment elimination of $5.1 million amounted to $460.5 million (2017: $459.7 million). Current assets represented $398.8 million (2017: $350.3 million), while non-current assets amounted to $61.7 million (2017: $109.4 million).

21. Voluntary contributions receivable amounted to $184.4 million (2017: $197.0 million), while cash and investments amounted to $220.5 million (2017: $213.5 million). The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects.

22. Property of the organization at year-end had a net book value of $18.3 million (2017: $16.9 million).

23. Cash advances to implementing partners that had not been expensed at year-end totalled $28.4 million (2017: $19.5 million).

Liabilities and net assets

24. Total current and non-current liabilities stood at $145.3 million (2017: $143.7 million) at year-end, resulting in net assets of $315.2 million (2017: $315.9 million).

25. Table IV.5 summarizes other key indicators for UN-Habitat for the year ended 31 December 2018 compared with the year ended 31 December 2017.

Table IV.5
Other key indicators
(Millions of United States dollars)

	2018	*2017*	*Increase/(decrease)*	*Percentage change*
Cash and cash equivalents	21.6	16.9	4.7	27.8
Short-term investments	184.6	149.6	35.0	23.4
Long-term investments	14.3	47.0	(32.7)	(69.6)
Total cash and investments	**220.5**	**213.5**	**7.0**	**3.28**
Voluntary contributions receivable	184.4	197.0	(12.6)	(6.4)
Other receivables	0.1	0.3	(0.2)	–
Total receivables	**184.5**	**197.3**	**(12.8)**	**(6.4)**
Advance transfers	28.4	19.5	8.9	45.6
Other assets	8.7	12.3	(3.6)	(29.27)
Accounts payable and accrued liabilities	13.2	14.3	(1.1)	(7.7)
Employee benefits liabilities	45.2	48.6	(3.4)	(7.0)
Other liabilities	86.8	80.8	6.0	7.4

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

26. The UN-Habitat statements reflect the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UN-Habitat makes monthly provisions for repatriation benefits at 8 per cent of net salary and 3 per cent of after-service health insurance liabilities.

27. Accrued balances as at 31 December 2018 have been adjusted to reflect the estimated liabilities as at 31 December 2018, as reflected in the 2018 actuarial study carried out by a consulting firm engaged by the United Nations Secretariat on behalf of UN-Habitat. As a result of fully charging these liabilities as at 31 December 2018, an amount of $34.4 million of cumulative unfunded expenditure is included in the cumulative surplus/(deficit) amount (see note 4, end-of-service and post-retirement benefits segment).

Chapter V

Financial statements and related explanatory notes for the year ended 31 December 2018

United Nations Human Settlements Programme

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*
Assets			
Current assets			
Cash and cash equivalents	6	21 613	16 904
Investments	7	184 553	149 645
Voluntary contributions receivable	8	155 377	151 851
Other receivables	9	120	122
Advance transfers	10	28 379	19 475
Other assets	11	8 718	12 285
Total current assets		**398 760**	**350 282**
Non-current assets			
Investments	7	14 295	46 970
Voluntary contributions receivable	8	29 037	45 176
Other receivables	9	148	223
Property, plant and equipment	13	18 250	16 982
Intangible assets	14	12	18
Total non-current assets		**61 742**	**109 369**
Total assets		**460 502**	**459 651**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	13 213	14 291
Employee benefits liabilities	16	2 639	2 139
Other liabilities	18	86 792	80 819
Total current liabilities		**102 644**	**97 249**
Non-current liabilities			
Employee benefits liabilities	16	42 608	46 462
Total non-current liabilities		**42 608**	**46 462**
Total liabilities		**145 252**	**143 711**
Net of total assets and total liabilities		**315 250**	**315 940**
Net assets			
Accumulated surplus (deficit)	19	295 632	295 019
Reserves	19	19 618	20 921
Total net assets		**315 250**	**315 940**

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

United Nations Human Settlements Programme

II. Statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*[a]
Revenue			
Assessed contributions	20	14 430	13 563
Voluntary contributions	20	143 684	123 962
Other transfers and allocations	20	14 030	20 610
Investment revenue	23	4 304	2 590
Other revenue	21	2 296	8 083
Total revenue		**178 744**	**168 808**
Expenses			
Employee salaries, allowances and benefits	22	45 868	44 616
Non-employee compensation and allowances	22	35 773	33 979
Grants and other transfers	22	36 566	62 365
Supplies and consumables	22	1 196	1 321
Depreciation	13	490	498
Amortization	14	6	5
Travel	22	11 930	7 972
Other operating expenses	22	52 879	45 264
Other expenses	22	1 040	1 462
Total expenses		**185 748**	**197 482**
Surplus/(deficit) for the period		**(7 004)**	**(28 674)**

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

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

United Nations Human Settlements Programme

III. Statement of changes in net assets for the year ended 31 December 2018[a]

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) – unrestricted	*Reserves*	*Total*
Net assets, 1 January 2018	**295 019**	**20 921**	**315 940**
Change in net assets			
Transfers to/from unrestricted/restricted/reserves	1 303	(1 303)	–
Actuarial gains/(losses)	6 314	–	6 314
Surplus/(deficit) for the year	(7 004)	–	(7 004)
Net assets, 31 December 2018	**295 632**	**19 618**	**315 250**

[a] See also note 19.

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

United Nations Human Settlements Programme

IV. Statement of cash flows for the year ended 31 December 2018

(Thousands of United States dollars)

	Note	*31 December 2018*	*31 December 2017*
Cash flow from operating activities			
Surplus/(deficit) for the year		**(7 004)**	**(28 674)**
Non-cash movements			
Depreciation and amortization	13, 14	496	503
Transfers and donated property, plant and equipment and intangibles	13	–	(39)
Loss on disposal of property, plant and equipment		–	–
Actuarial (gain)/loss on employee benefits liabilities	16	6 313	(5 287)
Changes in assets			
(Increase)/decrease in voluntary contributions receivable	8	12 613	(10 376)
(Increase)/decrease in other receivables	9	77	230
(Increase)/decrease in advance transfers	10	(8 904)	(3 934)
(Increase)/decrease in other assets	11	3 567	12 714
Changes in liabilities			
Increase/(decrease) in accounts payable and accrued liabilities	15	(1 078)	(3 603)
Increase/(decrease) in employee benefits liabilities	16	(3 353)	7 050
Increase/(decrease) in other liabilities	18	5 973	45 852
Investment revenue presented as investing activities	23	(4 304)	(2 590)
Net cash flows from/(used in) operating activities		**4 396**	**11 846**
Cash flow from investing activities			
Pro rata share of net increases in the cash pool	7	(2 233)	(51 192)
Investment revenue presented as investing activities	23	4 304	2 590
Acquisition of property, plant and equipment	13, 14	(1 758)	(1 880)
Net cash flows from/(used in) investing activities		**313**	**(50 482)**
Cash flow from financing activities			
Adjustments to net assets		–	–
Net cash flows from/(used in) financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		4 709	(38 636)
Cash and cash equivalents – beginning of year		16 904	55 540
Cash and cash equivalents – end of year	**6**	**21 613**	**16 904**

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

United Nations Human Settlements Programme

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2018

(Thousands of United States dollars)

	Publicly available budget[a]				
Budget part	*Original biennial*	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)*[b]
Foundation non-earmarked					
Urban legislation, land and governance	1 513	757	1	–	(90.0)
Urban planning and design	3 134	1 567	804	1 531	90.3
Urban economy	1 507	754	41	36	(11.6)
Urban basic services	2 041	1 021	284	311	9.4
Housing and slum upgrading	1 531	765	48	44	(7.4)
Risk reduction and rehabilitation	1 729	864	1 020	304	(70.2)
Research and capacity development	1 462	731	794	394	(50.4)
Subtotal	**12 917**	**6 459**	**2 992**	**2 620**	**(12.4)**
Executive direction	8 496	4 248	2 666	2 560	(4.0)
Programme support	4 647	2 324	1 398	723	(48.3)
Subtotal	**13 143**	**6 572**	**4 064**	**3 283**	**(19.2)**
Total Foundation non-earmarked	**26 060**	**13 031**	**7 056**	**5 904**	**(16.3)**
Regular budget					
Section 15, Human settlements	19 421	9 867	12 314	11 522	(6.4)
Section 23, Regular programme of technical cooperation	955	478	955	817	(14.5)
Development account	3 481	1 740	1 318	1 279	(2.96)
Total regular budget	**23 857**	**12 085**	**14 587**	**13 618**	**(6.6)**
Grand total	**49 917**	**25 116**	**21 643**	**19 522**	**(9.8)**

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

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 5.

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

United Nations Human Settlements Programme
Notes to the 2018 financial statements

Note 1
Reporting entity

The United Nations Human Settlements Programme and its activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The objectives of UN-Habitat are as follows:

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

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

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

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

Note 2
Basis of preparation and authorization for issue

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

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

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

(d) Statement IV: statement of cash flows;

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

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

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

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

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

Going concern

11. The going-concern assertion is based on the approval by the General Assembly of the regular budget appropriations for the biennium 2018–2019, the positive historical trend of collection of assessed and voluntary contributions over the past years and the fact that the Assembly has taken no decision to cease the operations of UN-Habitat.

Authorization for issue

12. These financial statements are certified by the Chief Financial Officer of the United Nations Office at Nairobi and approved by the Executive Director of the United Nations Human Settlements Programme. In accordance with the Financial Regulations and Rules of the United Nations, these financial statements as at 31 December 2018 are to be transmitted to the Board of Auditors by 31 March 2019. In accordance with financial regulation 7.12, the reports of the Board of Auditors are to be transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions, together with the audited financial statements authorized for issue on 30 July 2019.

Measurement basis

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

Functional and presentation currency

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

15. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange as at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

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

Materiality and use of judgment and estimates

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

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

19. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected.

20. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments; valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets/ liabilities.

Future accounting pronouncements

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

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

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

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

(d) Leases: the objective of the project is to develop revised requirements for lease accounting, covering both lessees and lessors, in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13: Leases. Approval of a new IPSAS on leases is projected for June 2019;

(e) Public sector measurement: the objectives of this project include to: (i) issue amended IPSAS with revised requirements for measurements at initial recognition, subsequent measurement and measurement-related disclosure; (ii) provide more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and (iii) address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs;

(f) Infrastructure assets: the objective of the project is to research and identify issues that preparers face when applying IPSAS 17 to infrastructure assets, and to use this research to provide additional guidance on accounting for infrastructure assets.

Recent and future requirements of the International Public Sector Accounting Standards

22. The IPSAS Board has recently issued the following standards: IPSAS 39: Employee benefits, in 2016, effective 1 January 2018; IPSAS 40: Public sector combinations, in 2017, effective 1 January 2019; and IPSAS 41: Financial instruments, in August 2018, effective 1 January 2022. The impact of these standards on the Organization's financial statements and the comparative period therein has been evaluated to be as follows:

Standard	*Anticipated impact in the year of adoption*
IPSAS 39	There has been no impact on the organization, given that the "corridor method" on actuarial gains or losses, which is being eliminated, has never been applied since the adoption of IPSAS in 2014. The Organization does not have any plan assets; therefore, there has been no impact from application of the net interest approach prescribed by the standard. IPSAS 39 came into effect on 1 January 2018. Further analysis will be carried out in the future should the Organization procure plan assets.
IPSAS 40	There is currently no impact on the organization from the application of IPSAS 40, as to date there have been no public sector combinations that fall under UN-Habitat. Any such impact of IPSAS 40 on the organization's financial statements will be evaluated for application by the organization by 1 January 2019, the effective date of the standard, should such combinations occur.
IPSAS 41	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 it improves that standard's requirements by introducing the following: (a) Simplified classification and measurement requirements for financial assets; (b) A forward-looking impairment model; (c) A flexible hedge accounting model. IPSAS 41 will take effect on 1 January 2022. Its impact on the financial statements will be assessed prior to that date, and the organization will be ready to implement the standard by the time it becomes effective.

Note 3
Significant accounting policies

Financial assets: classification

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

Categories of financial assets

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

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

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

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

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

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

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

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

Financial assets: investment in cash pools

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

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

Financial assets: cash and cash equivalents

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

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

34. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the organization by Member States, non-Member States and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, except for voluntary contributions receivable that will mature after more than 12 months, less impairment for estimated irrecoverable amounts, that is, the allowance for doubtful receivables. If deemed material, these long-term voluntary contributions receivable are reported at a discounted value calculated using the effective interest method.

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

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

Financial assets: receivables from exchange transactions – other accounts receivable

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

Financial assets: loans receivable

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

Investments accounted for using the equity method

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

Other assets

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

Advance transfers

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

Inventories

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

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

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

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

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

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

Heritage assets

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

Property, plant and equipment

48. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; communications and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (land, buildings, leasehold improvements, infrastructure and assets under construction). Recognition of property, plant and equipment is as follows:

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

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

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

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

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

Estimated useful lives of property, plant and equipment classes

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

50. In exceptional cases, the recorded useful lives of some assets may be different from the useful lives prescribed at the asset subclass level as set out above (although they would remain within the range at asset class level), because when preparing the 2014 IPSAS opening balance, a thorough review of the remaining economic useful lives of those assets was made and the result was entered in the master record of the asset.

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

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

53. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying amount. Those gains or losses are recognized in the statement of financial performance in other revenue or other expenses.

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

Intangible assets

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

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

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

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

Estimates of useful lives of major classes of intangible assets

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

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

Financial liabilities: classification

60. Financial liabilities are classified as "other financial liabilities". They include accounts payable, transfers payable, unspent funds held for future refunds, and other liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The organization re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

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

Financial liabilities: transfers payable

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

Advance receipts and other liabilities

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

Leases: the organization as lessee

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

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

Leases: the organization as lessor

66. The organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported within property, plant and equipment.

Lease revenue from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

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

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

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

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

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

Employee benefits

72. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship with the organization are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified into short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

73. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries, allowances), compensated absences (paid sick leave, maternity/ paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes, home leave) provided to current employees on the basis of

services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

74. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined-benefit plans, in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined-benefit plans

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

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

77. After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the organization's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the valuation is to consider contributions by all plan participants in determining the organization's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the organization's residual liability, in accordance with cost-sharing ratios authorized by the General Assembly.

78. Repatriation benefits: upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the organization and is measured as the present value of the estimated liability for settling these entitlements.

79. Annual leave: the liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of

the statement of financial position. The methodology applies a last-in-first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at the end of service as the true liability of the organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the organization at the end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25, other long-term benefits must be valued similarly to post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

80. UN-Habitat is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The 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.

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

Termination benefits

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

Other long-term employee benefits

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

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

Provisions

85. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the organization has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation as at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

Contingent liabilities

86. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organization are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

87. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

88. An indicative threshold of $10,000 applies in recognizing provisions and/or disclosing contingent liabilities in the notes to the financial statements.

Contingent assets

89. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the effective control of the organization. Contingent assets are disclosed in the notes to the financial statements when it is more likely than not that economic benefits will flow to the organization.

Commitments

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

Non-exchange revenue: assessed contributions

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

Non-exchange revenue: voluntary contributions

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

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

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

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

96. In-kind contributions of goods above the recognition threshold of $5,000 are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the organization and the fair value of those assets can be measured reliably.

97. Contributions in kind are initially measured at their fair value as at the date of receipt determined by reference to observable market values or by independent appraisals. The organization has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of services above a threshold of $5,000 in the notes to the financial statements.

Exchange revenue

98. Exchange transactions are those in which the organization sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met, as follows:

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

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

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

(d) An indirect cost recovery called a "programme support cost" is charged to trust funds as a percentage of direct costs, including commitments and other "extrabudgetary" activities, to ensure that the additional costs of supporting activities financed from extrabudgetary contributions are not borne by assessed funds and/or other core resources of the Secretariat. The programme support cost is eliminated for the purposes of the preparation of financial statements, as disclosed in note 4, Segment reporting. The funding for the programme support cost charge agreed upon with the donor is included as part of voluntary contributions.

Investment revenue

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

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

Expenses

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

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

103. Supplies and consumables relate to the cost of inventory used and expenses for supplies and consumables.

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

105. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are

implemented by executing entities/implementing partners to service a target population that typically includes Governments, non-governmental organizations and agencies of the United Nations system. Transfers to implementing partners are initially recorded as advances, and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point at which the organization has a binding obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

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

Multi-partner trust funds

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

Note 4
Segment reporting

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

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

(a) Foundation non-earmarked;

(b) Regular budget;

(c) Foundation earmarked;

(d) Technical cooperation;

(e) Programme support;

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

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

All funds – statement of financial position as at 31 December 2018, by segment

(Thousands of United States dollars)

	Foundation non-earmarked[a]	*Foundation earmarked*	*Technical cooperation*	*Programme support*[a]	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*31 December 2018*	*31 December 2017*
Assets								
Current assets								
Cash and cash equivalents	301	5 561	13 285	1 525	941	–	21 613	16 904
Investments	3 405	47 404	113 473	12 203	8 068	–	184 553	149 645
Voluntary contributions receivable	77	51 019	104 281	–	–	–	155 377	151 851
Other receivables	–	438	1 716	3 132	–	(5 166)	120	122
Advance transfers	97	8 179	20 076	27	–	–	28 379	19 475
Other assets	233	2 295	5 322	868	–	–	8 718	12 285
Total current assets	**4 113**	**114 896**	**258 153**	**17 755**	**9 009**	**(5 166)**	**398 760**	**350 282**
Non-current assets								
Investments	264	3 672	8 789	945	625	–	14 295	46 970
Voluntary contributions receivable	–	6 438	22 599	–	–	–	29 037	45 176
Other receivables	–	148	–	–	–	–	148	223
Property, plant and equipment	58	108	18 048	36	–	–	18 250	16 982
Intangible assets	–	–	12	–	–	–	12	18
Total non-current assets	**322**	**10 366**	**49 448**	**981**	**625**	**–**	**61 742**	**109 369**
Total assets	**4 435**	**125 262**	**307 601**	**18 736**	**9 634**	**(5 166)**	**460 502**	**459 651**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	40	2 331	7 144	3 698	–	–	13 213	14 291
Employee benefits liabilities	115	219	722	150	1 433	–	2 639	2 139
Other liabilities	3 000	21 110	67 847	1	–	(5 166)	86 792	80 819
Total current liabilities	**3 155**	**23 660**	**75 713**	**3 849**	**1 433**	**(5 166)**	**102 644**	**97 249**

	Foundation non-earmarked[a]	*Foundation earmarked*	*Technical cooperation*	*Programme support*[a]	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*31 December 2018*	*31 December 2017*
Non-current liabilities								
Employee benefits liabilities	–	–	–	–	42 608	–	42 608	46 462
Total non-current liabilities	**–**	**–**	**–**	**–**	**42 608**	**–**	**42 608**	**46 462**
Total liabilities	**3 155**	**23 660**	**75 713**	**3 849**	**44 041**	**(5 166)**	**145 252**	**143 711**
Net of total assets and liabilities	**1 280**	**101 602**	**231 888**	**14 887**	**(34 407)**	**–**	**315 250**	**315 940**
Net assets								
Accumulated surplus/(deficit)	(23)	97 579	220 528	11 955	(34 407)	–	295 632	295 019
Reserves	1 303	4 023	11 360	2 932	–	–	19 618	20 921
Total net assets	**1 280**	**101 602**	**231 888**	**14 887**	**(34 407)**	**–**	**315 250**	**315 940**

[a] The UN-Habitat cost recovery fund has been moved from the Foundation non-earmarked segment to the programme support segment in order to align the activity of the fund to the appropriate segment.

All funds – statement of financial performance for the period ended 31 December 2018, by segment

(Thousands of United States dollars)

	Foundation non-earmarked[a]	*Regular budget*	*Foundation earmarked*	*Technical cooperation*	*Programme support*[a]	*End-of-service and post-retirement benefits*	*Intersegment eliminations*	*Total as at 31 December 2018*	*Total as at 31 December 2017*[b]
Revenue									
Assessed contributions	–	14 430	–	–	–	–	–	14 430	13 563
Voluntary contributions	3 594	–	39 441	100 791	(142)	–	–	143 684	123 962
Other transfers and allocations	–	–	6 117	7 994	–	–	(81)	14 030	20 610
Investment revenue	13	–	1 091	2 665	367	168	–	4 304	2 590
Other revenue	92	–	856	1 318	11 318	1 356	(12 644)	2 296	8 083
Total revenue	**3 699**	**14 430**	**47 505**	**112 768**	**11 543**	**1 524**	**(12 725)**	**178 744**	**168 808**
Expenses									
Employee salaries, allowances and benefits	4 419	12 765	10 011	11 239	6 740	2 673	(1 979)	45 868	44 616
Non-employee compensation and allowances	27	907	9 542	24 833	464	–	–	35 773	33 979
Grants and other transfers	–	(443)	3 953	31 872	1 184	–	–	36 566	62 365
Supplies and consumables	–	27	103	1 034	32	–	–	1 196	1 321
Depreciation	12	2	22	450	5	–	–	491	498
Amortization	–	–	–	5	–	–	–	5	5
Travel	43	410	8 315	2 851	311	–	–	11 930	7 972
Other operating expenses	18	762	10 212	48 853	3 778	2	(10 746)	52 879	45 264
Other expenses	–	–	301	739	–	–	–	1 040	1 462
Total expenses	**4 519**	**14 430**	**42 459**	**121 876**	**12 514**	**2 675**	**(12 725)**	**185 748**	**197 482**
Surplus/(deficit) for the period	**(820)**	**–**	**5 046**	**(9 108)**	**(971)**	**(1 151)**	–	**(7 004)**	**(28 674)**

[a] The UN-Habitat cost recovery fund has been moved from the Foundation non-earmarked segment to the programme support segment in order to align the activity of the fund to the appropriate segment.

[b] Comparatives have been restated to conform to the current presentation.

Note 5
Comparison to budget

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

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

113. The original budget amounts are the 2018 proportions of the appropriations approved by the Governing Council for the biennium 2018–2019.

114. The final budget reflects the original budget appropriation with any amendments by the Executive Director.

115. Differences between original and final budget amounts are considered in statement V.

116. Explanations for material differences between the final budget appropriation and actual expenditure on a modified accrual basis, which are deemed to be those greater than 10 per cent, are considered below.

Differences between actual and final annual budget amounts

Budget area	*Material differences greater than 10 per cent*
Urban legislation, land and governance	Expenditure 90 per cent less than final appropriation
Urban planning and design	Expenditure 90.3 per cent more than final appropriation
Urban economy	Expenditure 11.6 per cent less than final appropriation
Risk reduction and rehabilitation	Expenditure 70.2 per cent less than final appropriation
Research and capacity development	Expenditure 50.4 per cent less than final appropriation
Programme support	Expenditure 48.3 per cent less than final appropriation
Section 23, Regular programme of technical cooperation	Expenditure 14.5 per cent less than final appropriation

117. UN-Habitat achieved a budget execution level of 90.2 per cent in the reporting period, which represents an aggregate difference of 9.8 per cent between the total actual expenditures and the total final annual budget. The major differences are explained in the paragraphs below.

Foundation non-earmarked

118. Actual expenditure for urban planning and design is higher owing to the budget being provided under risk reduction and rehabilitation.

119. Actual expenditure for the subprogrammes under the Foundation non-earmarked fund is lower owing to cashflow-related austerity measures taken during the year.

120. Actual expenditure for section 23 is lower owing to some programmes being rescheduled for 2019.

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

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

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

(Thousands of United States dollars)

Reconciliation	*Operating*	*Investing*	*Financing*	*Total 2018*
Actual amounts on comparable basis (statement V)	(19 522)	–	–	(19 522)
Basis differences[a]	11 973	(1 758)	–	10 215
Entity differences[b]	(166 799)	–	–	(166 799)
Presentation differences[c]	178 744	2 071	–	180 815
Actual amount in statement of cash flows (statement IV)	**4 396**	**313**	**–**	**4 709**

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

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

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

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Main pool	21 521	16 804
Other cash and cash equivalents	92	100
Total cash and cash equivalents	**21 613**	**16 904**

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

Note 7
Investments

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Current		
Main pool	184 553	149 645
Subtotal	**184 553**	**149 645**

	Total as at 31 December 2018	Total as at 31 December 2017
Non-current		
Main pool	14 295	46 970
Subtotal	**14 295**	**46 970**
Total	**198 848**	**196 615**

123. Investments include amounts in relation to trust funds.

Note 8
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	Current	*Non-current*	*31 December 2018*	*31 December 2017*
Member States	33 584	6 485	40 069	36 970
Other governmental organizations	82 199	11 998	94 197	90 311
United Nations organizations	10 842	81	10 923	19 769
Private donors	70 992	10 473	81 465	81 851
Total voluntary contributions receivable before allowance	**197 617**	**29 037**	**226 654**	**228 901**
Allowance for doubtful receivables (current)	(42 240)	–	(42 240)	(31 874)
Total voluntary contributions receivable	**155 377**	**29 037**	**184 414**	**197 027**

Note 9
Other receivables

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Other receivables (current)		
Other accounts receivable	92	76
Loans receivable	573	831
Subtotal	**665**	**907**
Allowance for doubtful loans	(500)	(750)
Allowance for doubtful receivables	(45)	(35)
Total other receivables (current)	**120**	**122**
Other receivables (non-current)		
Loans receivable	148	223
Total other receivables (non-current)	**148**	**223**
Net other receivables	**268**	**345**

Note 10
Advance transfers

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Advance transfers	28 379	19 475
Total advance transfers	**28 379**	**19 475**

Note 11
Other assets

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Advances to UNDP and other agencies of the United Nations system[a]	6 845	10 088
Advances to vendors	372	582
Advances to staff	924	757
Advances to other personnel	391	761
Deferred charges	184	88
Other assets – other	2	9
Other assets (current)	**8 718**	**12 285**

[a] Includes UNDP Service Clearing Account and advances to other entities to provide administrative services.

Note 12
Heritage assets

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

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

Note 13
Property, plant and equipment

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

127. During the year, the organization did not write down property, plant and equipment owing to accidents, malfunctions and other losses. As at the reporting date, the organization did not identify any additional impairment. Assets under construction represent projects of a capital nature begun by the organization on behalf of end user communities that had not yet been finalized and handed over as at 31 December 2018.

Property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Assets under construction*[a]	*Machinery and equipment*	*Vehicles*	*Communications and information technology equipment*	*Furniture and fixtures*	*Total*
Cost as at 1 January 2018	**82**	**14 620**	**505**	**6 844**	**820**	**148**	**23 019**
Additions	–	1 364	9	345	46	–	1 764
Disposals	–	–	(76)	(262)	–	(10)	(348)
Transfers of plant and equipment	–	–	6	–	(6)	–	–
Other changes	–	–	–	–	6	–	6
Cost as at 31 December 2018	**82**	**15 984**	**444**	**6 927**	**866**	**138**	**24 441**
Accumulated depreciation as at 1 January 2018	**73**	**–**	**342**	**4 950**	**548**	**124**	**6 037**
Depreciation[b]	–	–	53	344	81	12	490
Disposals	–	–	(70)	(255)	–	(11)	(336)
Transfers of plant and equipment	–	–	6	–	(6)	–	–
Other changes	–	–	–	–	–	–	–
Accumulated depreciation as at 31 December 2018	**73**	**–**	**331**	**5 039**	**623**	**125**	**6 191**
Net carrying amount as at 31 December 2018	**9**	**15 984**	**113**	**1 888**	**243**	**13**	**18 250**

[a] Assets under construction are meant for distribution to project beneficiaries upon completion.
[b] Excludes depreciation of $2,000 on assets under communications and information technology equipment contributed by the regular budget segment.

Note 14
Intangible assets

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

Intangible assets

(Thousands of United States dollars)

	Software acquired externally
Cost as at 1 January 2018	**32**
Additions	–
Cost as at 31 December 2018	**32**
Accumulated amortization and impairment as at 1 January 2018	**14**
Amortization	6
Accumulated amortization and impairment as at 31 December 2018	**20**
Net carrying amount as at 31 December 2018	**12**

Note 15
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Vendor payables (accounts payable)	2 565	2 974
Transfers payable	6	15
Payables to other United Nations entities	1 166	1 425
Accruals for goods and services	4 108	4 234
Accounts payable – other	5 368	5 643
Total accounts payable and accrued liabilities	**13 213**	**14 291**

Note 16
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2018*	*Total as at 31 December 2017*
After-service health insurance	468	34 239	34 707	37 780
Annual leave	361	3 275	3 636	3 916
Repatriation benefits	605	5 094	5 699	6 108
Subtotal, defined-benefit liabilities	**1 434**	**42 608**	**44 042**	**47 804**
Accrued salaries and allowances	687	–	687	685
Pension contributions liabilities	518	–	518	112
Total employee benefits liabilities	**2 639**	**42 608**	**45 247**	**48 601**

129. The liabilities arising from end-of-service/post-employment benefits and the workers' compensation programme under appendix D to the Staff Rules of the United Nations are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. An actuarial valuation is usually undertaken every two years. The most recent full actuarial valuation was conducted as at 31 December 2018.

Actuarial valuation: assumptions

130. The organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2018 are as follows.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2018	4.68	4.14	4.19
Discount rates, 31 December 2017	3.96	3.45	3.51
Inflation, 31 December 2018	3.89–5.57	2.20	–
Inflation, 31 December 2017	4.00–5.70	2.20	–

131. The yield curves used in the calculation of the discount rates in respect of the United States dollar, the euro and the Swiss franc are those developed by Aon Hewitt, consistent with the position of the Task Force on United Nations Accounting Standards, to harmonize actuarial assumptions across the United Nations system. Other financial and demographic assumptions used for the 31 December 2017 valuation were maintained for the roll forward. The salary increase assumptions for the Professional staff category were 8.5 per cent for a staff member aged 23, grading down to 4.0 per cent for a staff member aged 70. The salaries of the General Service staff category were assumed to increase by 6.8 per cent for a staff member aged 19, grading down to 4.0 per cent a staff member aged 65.

132. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the after-service health insurance plan cost increases and the economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2018 were updated to include escalation rates for future years. As at 31 December 2018, these escalation rates were 3.91 per cent (2017: 4.0 per cent), 3.89 per cent (2017: 4.0 per cent) and 5.57 per cent (2017: 5.7 per cent) for eurozone, Swiss and all other medical plans, respectively, and 5.38 per cent (2017: 5.5 per cent) for the United States Medicare plan and 4.73 per cent (2017: 4.8 per cent) for the United States dental plan, grading down to 3.65 per cent (2017: 3.65 per cent) and 3.05 per cent (2017: 3.05 per cent) over 4 to 9 years for eurozone and Swiss health-care costs and to 3.85 per cent (2017: 3.85 per cent) over 14 years for United States health-care costs.

133. With regard to the valuation of repatriation benefits as at 31 December 2018, inflation in travel costs was assumed to be 2.20 per cent (2017: 2.20 per cent), on the basis of the projected United States inflation rate over the next 20 years.

134. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1–3 years, 10.9 per cent; 4−8 years, 1 per cent; and more than 8 years, 0.5 per cent, up to the maximum of 60 days. The attribution method is used for annual leave actuarial valuation.

135. For defined-benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

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

Reconciliation of opening to closing total defined-benefit liability

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined-benefit liability as at 1 January 2018	37 780	6 108	3 916	47 804
Current service cost	1 589	354	178	2 121
Interest cost	1 488	201	131	1 820
Actual benefits paid	(397)	(634)	(360)	(1 391)
Total costs recognized in the statement of financial performance in 2018	**2 680**	**(79)**	**(51)**	**2 550**
Subtotal	**40 460**	**6 029**	**3 865**	**50 354**

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Actuarial (gains)/losses	(5 753)	(331)	(229)	(6 313)
Net defined-benefit liability as at 31 December 2018	**34 707**	**5 698**	**3 636**	**44 041**

Discount rate sensitivity analysis

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

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(6 615)	(450)	(313)
As percentage of end-of-year liability	(19)	(8)	(9)
Decrease of discount rate by 1 per cent	8 893	520	362
As percentage of end-of-year liability	26	9	10

Medical cost sensitivity analysis

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

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

(percentage, thousands of United States dollars)

2018	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	25.83	8 966	(19.53)	(6 778)
Effect on the aggregate of the current service cost and interest cost	2.49	865	(1.82)	(633)
Total effect		**9 831**		**(7 411)**

2017	*Increase*		*Decrease*	
Effect on the defined-benefit obligation	25.77	9 735	(19.49)	(7 362)
Effect on the aggregate of the current service cost and interest cost	2.47	934	(1.81)	(683)
Total effect		**10 669**		**(8 045)**

Other defined-benefit plan information

138. Benefits paid for 2018 are estimates of what would have been paid to separating staff and/or retirees during the year on the basis of the pattern of rights acquisition

under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefit payments (net of participants' contributions in these schemes) are shown in the table below.

Estimated defined-benefit payments net of participants' contributions

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2018 defined-benefit payments net of participants' contributions	397	634	360	1 391
Estimated 2017 defined-benefit payments net of participants' contributions	448	710	528	1 686

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

(Thousands of United States dollars)

	2017	*2016*	*2015*	*2014*	*2013*
Present value of the defined-benefit obligations	47 804	40 255	37 123	34 953	24 688

Other employee benefit liabilities

Accrued salaries and allowances

139. Accrued salaries and allowances comprise $0.44 million relating to home leave benefits. The remaining balance of $0.41 million relates to accrued payables for salary and other benefits.

United Nations Joint Staff Pension Fund

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

141. The organization's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 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 a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date. In 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. Therefore, as an exception to the normal biennial cycle, the participation data as at 31 December 2013 to 31 December 2016 were rolled forward by the Fund for its 2016 financial statements.

142. The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll forward). The funded ratio was

102.7 per cent (101.4 per cent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

143. 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 had not invoked the provision of article 26.

144. Should article 26 be invoked as a result of an actuarial deficiency, either during ongoing operation or because of the termination of the pension plan, the deficiency payments required from each member organization would be based on the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. The total contributions paid to the Fund during the preceding three years (2015, 2016 and 2017) amounted to $6,931.39 million.

145. In 2018, the organization's contributions paid to the Pension Fund were fully settled.

146. Membership of the Pension Fund may be terminated by a decision of the General Assembly, upon the affirmative recommendation of the United Nations Joint Staff 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 upon by the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets that are in excess of the liabilities are included in the amount. The Board of Auditors carries out an annual audit of the Fund and reports to the its Pension Board and to the Assembly on the audit every year. The Fund publishes quarterly reports on its investments, which are available at www.unjspf.org.

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

147. The fund for compensation payments relates to the payment of compensation with regard to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under appendix D to the Staff Rules. The fund allows the organization to continue to fulfil its obligation to make compensation payments for death, injury or illness. The fund derives its revenue from a charge of 1.0 per cent of the net base remuneration, including post adjustment for eligible personnel. It covers appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payments for injury or illness as well as medical expenses.

Impact of General Assembly resolutions on staff benefits

148. On 23 December 2015, the General Assembly adopted its resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes affect the calculation of other long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented, which affects the computation of this short-term benefit. The impact of these changes is shown in the table below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65; for those who joined before 1 January 2014, it is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. This change has been implemented as of 1 January 2018 and affects future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017 and was implemented in September 2017. The dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations and Rules of the United Nations. A revised staff assessment scale and pensionable remuneration scale was implemented together with the unified salary structure. The implementation of the unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation, provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change in eligibility criteria was already implemented, effective January 2017, in September 2017 and is expected to affect future calculations of employee benefits liabilities.
Education grant	With effect from the school year in progress on 1 January 2018, the computation of the education grant provided to eligible staff members utilizes a global sliding scale that is set in one single currency (United States dollar) with the same maximum amount of the grant for all countries. In addition, this revised education grant scheme changes boarding assistance and education grant travel provided by the organization. Impacts can be seen at the end of the 2017/18 school year and at the time of settlements.

The impact of these changes, other than the education grant, was fully reflected in the actuarial valuation conducted in 2017.

Note 17
Provisions

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

Note 18
Other liabilities

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Liabilities for conditional arrangements	86 792	80 818
Other/miscellaneous liabilities	–	1
Total other liabilities	**86 792**	**80 819**

Note 19
Net assets

Accumulated surpluses/deficits

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

151. The table below shows the status of the organization’s net assets balances and movements.

Net assets balances and movements[a]

(Thousands of United States dollars)

	Total as at 31 December 2017	*Surplus/(deficit)*	*Transfers to/(from) reserves*	*Other*[b]	*Total as at 31 December 2018*
Unrestricted cumulative surplus					
Foundation non-earmarked[c]	(506)	(820)	1 303		(23)
Foundation earmarked	92 533	5 046	–	–	97 579
Technical cooperation	229 636	(9 108)	–	–	220 528
Programme support[c]	12 926	(971)	–		11 955
End-of-service liabilities	(39 570)	(1 151)	–	6 314	(34 407)
Subtotal unrestricted fund	**295 019**	**(7 004)**	**1 303**	**6 314**	**295 632**
Reserves					
Foundation non-earmarked	2 606	–	(1 303)	–	1 303
Foundation earmarked	4 023	–	–	–	4 023
Technical cooperation	11 360	–	–	–	11 360
Programme support	2 932	–	–	–	2 932
End-of-service liabilities	–	–	–	–	–
Subtotal reserves	**20 921**	**–**	**(1 303)**	**–**	**19 618**

	Total as at 31 December 2017	*Surplus/(deficit)*	*Transfers to/(from) reserves*	*Other[b]*	*Total as at 31 December 2018*
Total net assets					
Foundation non-earmarked	2 100	(820)	–	–	1 280
Foundation earmarked	96 556	5 046	–	–	101 602
Technical cooperation	240 996	(9 108)	–	–	231 888
Programme support	15 858	(971)	–	–	14 887
End-of-service liabilities	(39 570)	(1 151)	–	6 314	(34 407)
Total reserves and fund balances	**315 940**	**(7 004)**	**–**	**6 314**	**315 250**

[a] Net assets movements, including fund balances, are based on IPSAS.
[b] Represents actuarial gains of $6.3 million.
[c] The UN-Habitat cost recovery fund has been moved from the Foundation non-earmarked segment to the programme support segment in order to align the activity of the fund to the appropriate segment.

Note 20
Revenue from non-exchange transactions

Assessed contributions

152. Each biennium, the organization receives an allocation from the regular budget, which is included in assessed contributions. These are reported under Volume I, and are included in these financial statements for completeness. For the reporting period, the organization received $14.0 million.

Voluntary contributions

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Assessed contributions		
Allocations from regular budget	14 430	13 563
Amount reported in statement II – assessed contributions	**14 430**	**13 563**
Voluntary contributions		
Voluntary contributions – in cash	144 249	124 351
Voluntary in-kind contributions – land and premises	920	1256
Voluntary in-kind contributions of plant, equipment, intangible assets and other goods	181	57
Total voluntary contributions received	**145 350**	**125 664**
Refunds to donors	(1 666)	(1 702)
Net voluntary contributions received	**143 684**	**123 962**
Other transfers and allocations		
Inter-organizational arrangements	14 030	20 610
Total other transfers and allocations	**14 030**	**20 610**

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

Services in kind

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

Services in kind

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Technical assistance/expert services	91	339
Administrative support	–	9
Total	**91**	**348**

Note 21
Other revenue

155. Revenue from miscellaneous revenue sources amounts to $2.3 million.

	Total as at 31 December 2018	*Total as at 31 December 2017*
Other/miscellaneous revenue	2 296	8 083
Total other exchange revenue	**2 296**	**8 083**

Note 22
Expenses

Employee salaries, allowances and benefits

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

Employee salaries, allowances and benefits

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Salary and wages	36 550	35 703
Pension and insurance benefits	8 981	8 664
Other benefits	337	249
Total employee salaries, allowances and benefits	**45 868**	**44 616**

Non-employee compensation and allowances

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

Non-employee compensation and allowances

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
United Nations Volunteers	628	247
Consultants and contractors	35 145	33 732
Total non-employee compensation and allowances	**35 773**	**33 979**

Grants and other transfers

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

Grants and other transfers

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Grants to end beneficiaries	15 728	33 624
Transfers to implementing partners	20 838	28 741
Total grants and other transfers	**36 566**	**62 365**

Supplies and consumables

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

Supplies and consumables

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Fuel and lubricants	176	195
Spare parts	211	169
Consumables	809	957
Total supplies and consumables	**1 196**	**1 321**

Travel

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

Travel

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Staff travel	4 534	4 167
Representatives' travel	7 396	3 805
Total travel	**11 930**	**7 972**

Other operating expenses

161. Other operating expenses include maintenance, utilities, contracted services, training, security services, shared services, rent, insurance, bad debt (including allowances) and write-off expenses, as set out in the table below.

Other operating expenses

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Air transport	446	274
Ground transport	1 360	1 114
Communications and information technology	3 620	3 320
Other contracted services	26 663	15 763
Acquisitions of goods	449	179
Acquisitions of intangible assets	171	108
Rent – offices and premises	3 197	2 528
Rental – equipment	151	46
Maintenance and repair	400	600
Bad debt expense	10 570	18 546
Net foreign exchange losses	4 589	912
Other/miscellaneous operating expenses	1 263	1 874
Total other operating expenses	**52 879**	**45 264**

Other expenses

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

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Contributions in kind	920	1 256
Other/miscellaneous expenses	120	206
Total other expenses	**1 040**	**1 462**

Note 23
Financial instruments and financial risk management

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, cash pools	183 681	149 009
Short-term investments, other	872	636
Total short-term investments	**184 553**	**149 645**

	Total as at 31 December 2018	*Total as at 31 December 2017*
Long-term investments, cash pools	14 295	46 970
Total long-term investments	**14 295**	**46 970**
Total fair value through the surplus or deficit	**198 848**	**196 615**
Cash, loans and receivables		
Cash and cash equivalents, cash pools	21 521	16 804
Cash and cash equivalents, other	92	100
Voluntary contributions	183 540	197 027
Other receivables	267	345
Total cash, loans and receivables	**205 420**	**214 276**
Total carrying amount of financial assets	**404 268**	**410 891**
Of which relates to financial assets held in cash pool	220 369	213 420
Financial liabilities		
Accounts payable and accrued liabilities	11 991	14 291
Other liabilities (excluding conditional liabilities)	–	1
Total carrying amount of financial liabilities	**11 991**	**14 292**
Summary of net income from cash pools		
Investment revenue	4 236	2 664
Financial exchange gains/(losses)	33	(86)
Net income from cash pools	**4 269**	**2 578**
Other investment revenue	35	12
Total net income from financial instruments	**4 304**	**2 590**

Financial risk management: overview

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

164. The present note and note 24, Financial instruments: cash pools, present information on the organization's exposure to those risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

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

economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Financial risk management: credit risk

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

Credit risk management

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

Credit risk: contributions receivable and other receivables

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

Credit risk: allowance for doubtful receivables

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

Movement in allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2018	32 659
Additional allowance for doubtful receivables	9 581
Receivables written off during the period as uncollectable	–
Unused amounts reversed	–
As at 31 December 2018	**42 240**

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

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

Ageing of receivables for voluntary contributions

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Less than one year	137 479	–
One to two years	11 482	2 870
Two to three years	23 215	13 930
Over three years	25 441	25 440
Total	**197 617**	**42 240**

Ageing of other receivables

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Less than one year	120	–
Over three years	545	545
Total	**665**	**545**

Credit risk: cash and cash equivalents

172. The organization had cash and cash equivalents of $21.6 million as at 31 December 2018, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at "A-" and above, based on the Fitch viability rating.

Financial risk management: liquidity risk

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

174. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions, which are a largely stable annual cash flow. Exceptions to incurring expenses prior to the receipt of funds are permitted only if specified risk management criteria are adhered to with regard to the amounts receivable.

175. The organization performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs.

176. Investments are made with due consideration to the cash requirements for operating purposes on the basis of cash flow forecasting. The organization maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

177. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure that there are

appropriate resources to meet its financial obligations. As at the reporting date, the organization had not pledged any collateral for any liabilities or contingent liabilities, and during the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the organization can be required to settle each financial liability are set out in the table below.

Maturities for financial liabilities as at 31 December 2018

(Thousands of United States dollars)

	<3 months	*3 to 12 months*	*>1 year*	*Total*
Accounts payable and accrued liabilities	9 476	3 737	–	13 213

Financial risk management: market risk

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

Market risk: interest rate risk

179. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 24, Financial instruments: cash pools.

Market risk: currency risk

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

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

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

Currency exposure of the cash pools as at 31 December 2018

(Thousands of United States dollars)

	United States dollars	*Euros*	*Swiss francs*	*Others*	*Total*
Main cash pool	215 398	3 612	481	878	220 369

Currency risk: sensitivity analysis

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

Effect on net assets, surplus or deficit

(Thousands of United States dollars)

	As at 31 December 2018		*As at 31 December 2017*	
	Effect on net assets, surplus or deficit		*Effect on net assets, surplus or deficit*	
	Strengthening	*Weakening*	*Strengthening*	*Weakening*
Euro (10 per cent movement)	361	(361)	1 297	(1 297)
Swiss franc (10 per cent movement)	48	(48)	8 445	(8 445)

Other market risk

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

Accounting classifications and fair value

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

Fair value hierarchy

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

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

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

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

187. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent

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

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

189. There were no level 3 financial assets or any liabilities carried at fair value, or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy

(Thousands of United States dollars)

	As at 31 December 2018			*As at 31 December 2017*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds – corporate	5 961	–	5 961	9 407	–	9 407
Bonds – non-United States agencies	22 966	–	22 966	31 510	–	31 510
Bonds – non-United States sovereigns	–	–	–	3 307	–	3 307
Bonds – supranational	5 063	–	5 063	4 588	–	4 588
Bonds – United States treasuries	17 712	–	17 712	16 158	–	16 158
Main pool – commercial papers	6 362	–	6 362	17 792	–	17 792
Main pool – term deposits	–	–	–	–	113 854	113 854
Main pool total	**58 064**	**–**	**58 064**	**82 762**	**113 854**	**196 616**

Note 24
Financial instruments: cash pools

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

191. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

192. As at 31 December 2018, the organization participated in the main pool, which held total assets of $7,504.8 million (2017: $8,086.5 million), of which $220.4 million was due to the organization (2017: $213.4 million), and its share of revenue from the main pool was $4.3 million (2017: $2.6 million).

Summary of assets and liabilities of the main pool as at 31 December 2018

(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	6 255 379
Long-term investments	486 813
Total fair value through the surplus or deficit investments	**6 742 192**
Loans and receivables	
Cash and cash equivalents	732 926
Accrued investment revenue	29 696
Total loans and receivables	**762 622**
Total carrying amount of financial assets	**7 504 814**
Cash pool liabilities	
Payable to UN-Habitat	220 369
Payable to other cash pool participants	7 284 445
Total liabilities	**7 504 814**
Net assets	**–**

Summary of revenue and expenses of the main pool for the year ended 31 December 2018

(Thousands of United States dollars)

	Main pool
Investment revenue	152 805
Unrealized gains/(losses)	3 852
Investment revenue from main pool	**156 657**
Foreign exchange gains/(losses)	854
Bank fees	(805)
Operating expenses from main pool	**49**
Revenue and expenses from main pool	**156 706**

Financial risk management

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

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

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

Financial risk management: credit risk

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

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

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

Investments of the cash pool by credit rating as at 31 December 2018

(Percentage)

Main pool	*Ratings as at 31 December 2018*				*Ratings as at 31 December 2017*				
Bonds (long-term ratings)									
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA-**	**A+**	**NR**
S&P	15.4	79.0	5.6	–	S&P	30.5	65.5	4.0	–
Fitch	55.1	39.3	–	5.6	Fitch	61.3	30.6	–	8.1
	Aaa	**Aa1/Aa2/Aa3**	**A1**			**Aaa**	**Aa1/Aa2/Aa3**		
Moody's	49.7	50.0	0.3		Moody's	55.3	44.7		
Commercial papers (short-term ratings)									
	A-1+					**A-1+/A-1**			
S&P	100.0				S&P	100.0			
	F1+					**F1**			
Fitch	100.0				Fitch	100.0			
	P-1					**P-1**			
Moody's	100.0				Moody's	100.0			
Reverse repurchase agreements (short-term ratings)									
	A-1+					**A-1+**			
S&P	100.0				S&P	100.0			
	F1+					**F1+**			
Fitch	100.0				Fitch	100.0			
	P-1					**P-1**			
Moody's	100.0				Moody's	100.0			
Term deposits (Fitch viability ratings)									
	aaa	**aa/aa-**	**a+/a/a-**			**aaa**	**aa/aa-**	**a+/a**	
Fitch	–	53.5	46.5		Fitch	–	44.2	55.8	

Abbreviation: NR, not rated.

199. The United Nations Treasury actively monitors credit ratings and, because the organization has invested only in securities with high credit ratings, management does

not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

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

Financial risk management: interest rate risk

201. The main pool comprises the organization's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than three years (2017: four years). The average duration of the main pool was 0.33 years (2017: 0.61 years), which is considered to be an indicator of low risk.

Main pool interest rate risk sensitivity analysis

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

Main pool interest rate risk sensitivity analysis as at 31 December 2018

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (millions of United States dollars)									
Main pool total	**48.46**	**36.34**	**24.23**	**12.11**	**–**	**(14.89)**	**(24.22)**	**(36.33)**	**(48.44)**

Main pool interest rate risk sensitivity analysis as at 31 December 2017

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (millions of United States dollars)									
Main pool total	**95.47**	**71.60**	**47.73**	**23.86**	**–**	**(23.86)**	**(47.72)**	**(71.57)**	**(95.42)**

Other market price risk

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

Accounting classifications and fair value hierarchy

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

205. The levels are defined as:

(a) Level 1: quoted prices (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 (that is, as prices) or indirectly (that is, derived from prices);

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

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

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

208. The following fair value hierarchy presents the main pool assets that are measured at fair value as at the reporting date. There were no level 3 financial assets, liabilities carried at fair value or significant transfers of financial assets between fair value hierarchy classifications.

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

(Thousands of United States dollars)

	As at 31 December 2018			*As at 31 December 2017*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds – corporate	205 566	–	205 566	355 262	–	355 262
Bonds – non-United States agencies	791 922	–	791 922	1 190 050	–	1 190 050
Bonds – non-United States sovereigns	–	–	–	124 892	–	124 892
Bonds – supranational	174 592	–	174 592	173 275	–	173 275
Bonds – United States treasuries	610 746	–	610 746	610 267	–	610 267
Main pool – commercial papers	219 366	–	219 366	671 945	–	671 945
Main pool – term deposits	–	4 740 000	4 740 000	–	4 300 000	4 300 000
Main pool total	**2 002 192**	**4 740 000**	**6 742 192**	**3 125 691**	**4 300 000**	**7 425 691**

Note 25
Related parties

Key management personnel

209. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the organization. For UN-Habitat, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

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

211. The organization's key management personnel were paid $0.7 million over the financial year; such payments are in accordance with the Staff Regulations and Rules of the United Nations, the published salary scales of the United Nations and other publicly available documents.

Compensation of key management personnel

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total as at 31 December 2018*
Number of positions (full-time equivalents)	2	–	2
Aggregate remuneration:			
Salary and post adjustment	453	–	453
Other compensation/entitlements	297	–	297
Total remuneration for the year	**750**	**–**	**750**

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

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

Related entity transactions

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

Note 26
Leases and commitments

Finance leases

215. The organization has no finance leases.

Operating leases

216. The organization enters into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $3.2 million. Other expenses include $0.9 million towards donated rights-to-use arrangements, for which corresponding revenue is recognized in the statement of financial performance and presented within voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Future minimum operating lease obligations

(Thousands of United States dollars)

Obligations for operating leases	*Minimum lease payments as at 31 December 2018*	*Minimum lease payments as at 31 December 2017*[a]
Due in less than 1 year	1 481	2 350
Due from 1 to 5 years	5 125	4 509
Due later than 5 years	4 063	–
Total minimum operating lease obligations	**10 669**	**6 859**

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

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

Leasing arrangements where the organization is the lessor

218. The organization has no leases as a lessor.

Contractual commitments

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

Contractual commitments by category

(Thousands of United States dollars)

	Total as at 31 December 2018	*Total as at 31 December 2017*
Goods and services	39 737	21 867
Implementing partners	34 221	42 539
Total	**73 958**	**64 406**

Note 27
Contingent liabilities and contingent assets

Contingent liabilities

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

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

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

Contingent assets

222. In accordance with IPSAS 19: Provisions, contingent liabilities and contingent assets, the organization discloses contingent assets when an event gives rise to a probable inflow of economic benefits or service potential to the organization and there is sufficient information to assess the probability of that inflow. As at 31 December 2018, there were no material contingent assets arising from the organization's legal actions or interests in joint ventures that were likely to result in a significant economic inflow.

Note 28
Grants and other transfers

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

Grants and other transfers by region

(Thousands of United States dollars)

	Total 2018	*Total 2017*
Africa	4 966	3 278
Arab States	8 594	14 269
Asia and the Pacific	2 877	3 187
Global	3 229	7 313
Latin America and the Caribbean	913	694
Europe	259	–
Total	**20 838**	**28 741**

224. This amount is part of the $36.6 million shown in the statement of financial performance as expenditure under grants and other transfers. The difference of $15.8 million was for end beneficiaries.

Note 29
Events after the reporting date

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

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