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Item 6 (b) of the provisional agenda

Programme and budget

Financial performance for the Convention trust funds

Audited financial statements for the Convention trust funds for the biennium 2016–2017 as at 31 December 2016

Note by the secretariat

Summary

In accordance with section 21 of the financial rules of the Conference of the Parties, its subsidiary bodies and the Convention secretariat (decision 2/COP.1), the secretariat shall provide the Parties with an interim statement of accounts for the first year of the financial period.

This document contains the audited financial statements of the United Nations Convention to Combat Desertification for the biennium ended 31 December 2016, issued as received without formal editing and with the original pagination.

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BOARD OF AUDITORS

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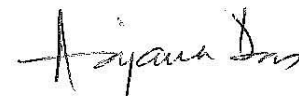
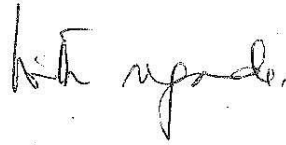
26 July 2017

Dear Ms. Barbut,

Subject: Report of the Board of Auditors

I am pleased to enclose a copy of the report of the Board of Auditors on the United Nations Convention to Combat Desertification (UNCCD), for the year ended 31 December 2016 and the audited financial statements.

Sincerely Yours,



Anjana Das
Executive Secretary

Ms. Monique Barbut
Executive Secretary
Secretariat of the United Nations Convention
to Combat Desertification (UNCCD)
Paris, France



United Nations

**Report of the United Nations Board
of Auditors on the financial
statements of the United Nations
Convention to Combat
Desertification**

for the year ended 31 December 2016

Contents

<i>Chapter</i>	<i>Page</i>	
I	Report of the Board of Auditors on the financial statements: Audit Opinion	3
II	Long Form Report of the Board of Auditors	6
	Summary	6
A.	Mandate, scope and methodology	8
B.	Findings and recommendations	8
	1. Previous recommendations	8
	2. Financial overview	9
	3. Implementation of IPSAS and presentation of the financial statements	10
	4. Consultants and individual contractors	13
	5. Information and Communication Technology Strategy	14
	6. Procurement and low value acquisitions	14
	7. Accessibility for staff members with disabilities	15
	8. Sustainable development goals	16
C.	Disclosures by Management	16
D.	Acknowledgement	17
	Annexes	
I.	Status of implementation of recommendations up to the year ended 31 December 2015	19
II.	Certification of the Financial Statements, Financial report on the 2016 accounts, Financial Statements and Notes	22

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 Convention to Combat Desertification (UNCCD) which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), statement of changes in net assets (statement III), cash flow statement (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, and 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 UNCCD as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of UNCCD in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Statements and Auditor's Report thereon

The UNCCD Executive Secretary is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2016 included in Chapter IV, 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 conclusion 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Secretary-General and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the Secretary-General is responsible for assessing UNCCD's ability to continue as a going concern, disclosing, as applicable, matters related to

going concern and using the going concern basis of accounting unless management either intends to liquidate UNCCD or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UNCCD's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override 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 UNCCD's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UNCCD's ability 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 UNCCD 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 UNCCD 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 UNCCD and legislative authority.

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



Shashi Kant Sharma
Comptroller and Auditor General of India
Chair of the Board of Auditors



Kay Scheller
President of the German Federal Court of Auditors
(Lead Auditor)



Mussa Juma Assad
Controller and Auditor General of the
United Republic of Tanzania

30 June 2017

Chapter II

Long Form Report of the Board of Auditors

Summary

The United Nations Convention to Combat Desertification (UNCCD) was established in 1994 and is the binding international agreement linking environment and development to sustainable land management. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNCCD for the year ended 31 December 2016. The audit was carried out at UNCCD's headquarters in Bonn, Germany.

Audit opinion

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

Overall conclusion

During the period under review, UNCCD prepared its third IPSAS based financial statements. However, the Board identified some deficiencies in the financial statements which were corrected by UNCCD. The Board found certain areas for further improvement including the treatment of the Board's audit report, UNCCD's relationship with United Nations Secretariat and delegation of authority, and the engagement of consultants and individual contractors to fulfill temporary requirements.

Key findings

a) Implementation of IPSAS and issues in the financial statements

While UNCCD had prepared its financial statements annually in accordance with IPSAS since 2014, the financial rules still stated that the financial period should be a biennium. Furthermore, the audited financial statements are only presented to the Conference of the Parties every two years. The Board is not represented at the meeting.

The Board noted that the agreement for administrative support including delegations of authority between the United Nations Secretariat and UNCCD from 1998 was out-dated. The relationship between the entities was not clear.

The Board found several technical and format related weaknesses such as wording, presentation of figures and other explanations which had to be corrected, amended and/or adequately clarified. Furthermore, UNCCD did not group classifications and sub-classifications consistently and had to reclassify expenses related to consultancies in the amount of \$3.6 million.

b) Consultants and individual contractors

The Board noted that UNCCD had a high number of consultants and individual contractors. For cases of longer requirements, the fulfilment of tasks by staff members or temporarily recruited staff members could have been more appropriate.

c) Information and Communication Technology Strategy

The Board observed that UNCCD had not set up an ICT strategy. Hence it might fail to leverage ICT for improving its business processes.

Main recommendations

The Board recommends that UNCCD :

Implementation of IPSAS and issues in the financial statements

- (a) **The Board recommends that UNCCD initiate the update of the financial rules of the Conference of the Parties to reflect the implementation of IPSAS.**
- (b) **Establish a process that allows for the annual presentation of the audited financial statements as well as of the Board's report to those charged with governance and not every other year, as it is UNCCD's current practice.**
- (c) **Liaise with the United Nations Secretariat to review the arrangement for administrative support and update the delegations of authority as appropriate.**
- (d) **Review its mapping of general ledger accounts and choose a structure that is consistent and presents information in a reliable and relevant manner.**

Consultants and individual contractors

- (e) **Establish principles and guidelines for its continuing temporary requirements that support the decision as to whether it is more appropriate for temporary staff or consultants/individual contractors to fulfil the relevant tasks.**

Information and Communication Technology Strategy

- (f) **Develop an information and communication technology strategy and document it accordingly.**

Key facts

\$19.11 million	Revenue
\$16.37 million	Expenses
\$2.75 million	Surplus for the year
\$34.32 million	Assets
\$27.7 million	Liabilities
\$6.62 million	Fund balance and reserves

A. Mandate, scope and methodology

1. The Board of Auditors (Board) has audited the financial statements of the United Nations Convention to Combat Desertification (UNCCD) and reviewed its operations for the year ended 31 December 2016 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing. These standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCCD as at 31 December 2016 and the results of its operations and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations and 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.

3. In addition to audit of accounts and financial transactions, the Board carried out reviews of the UNCCD operations under United Nations financial regulation 7.5. This enables the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNCCD operations. The Board also followed up on its previous recommendations. These matters are addressed in the relevant sections of this report.

4. The audit was carried out from 18 April to 5 May 2017. The examination of UNCCD included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination. The Board has taken up two cross-cutting audit themes in 2016: Inclusion of persons with disabilities and the contribution to the Sustainable Development Goals.

5. The findings and observations should not be regarded as representing a comprehensive statement of all the weaknesses which may exist in the financial and management systems at UNCCD, or as identifying all improvements which could be made to the systems and procedures.

6. The Board's observations and conclusions were discussed with the UNCCD Secretariat whose views are appropriately reflected in the report.

B. Findings and recommendations

1. Previous recommendations

7. The Board noted that out of the 11 open recommendations, 4 (36 per cent) had been implemented, 4 (36 per cent) were under implementation, and 3 (28 per cent)¹ had been overtaken by events. Previous recommendations that are under implementation and require adequate attention

of UNCCD pertain to outstanding assessed contributions and further improvement of the preparation of the financial statements. Details of the status of implementation of pending recommendations are indicated in the **Annex** to this report.

8. Despite the previous recommendation No. 9 in the Annex, UNCCD had not developed a business continuity plan and disaster recovery plan. The Board holds that UNCCD should give this task high priority. Ideally formal approval should be given by executive management that states the entity's overall target for recovery and authorizes the relevant officials in charge of developing, testing and maintaining that plan.

2. Financial overview

9. Total revenue for the period under review was \$19.11 million (2015: \$21.61 million) against total expenses of \$16.37 million (2015: \$20.67 million), resulting in surplus of \$2.75 million (2015: surplus of \$0.94 million). The Board noted that in 2016 voluntary and indicative contributions totaling to \$18.64 million were lower than in the previous year, totaling to \$21.6 million. However, this was almost fully covered by the significant decrease in loss of foreign exchange in the amount of approximately \$3 million to \$38,283.

10. The surplus increased from \$0.94 million in 2015 to \$2.75 million in 2016. Major savings resulted from relieving accruals of about \$1 million, and from lower vendor payables of about \$0.5 million.

11. As of 31 December 2016 assets and liabilities amounted to \$34.32 million (2015: \$24.15 million) and \$27.7 million (2015: \$20.61 million) respectively.

12. Key financial ratios are presented in the table below and indicate that overall UNCCD was in a sound financial position at 31 December 2016:

Table: Ratio Analysis

<i>Ratio</i>	<i>31 December 2016</i>	<i>31 December 2015</i>	<i>31 December 2014</i>
Total assets : total liabilities^a			
Total assets : total liabilities	1.24	1.17	0.96
Current ratio^b			
Current assets : current liabilities	2.19	2.83	3.92
Quick ratio^c			
(Cash + short-term investments + accounts receivable): current liabilities	2.14	2.64	3.88
Cash ratio^d			
(Cash + short-term investments) : current liabilities	1.27	2.00	3.49

Source: UNCCD's financial statements for the years 2016, 2015 and 2014

^aA high ratio is a good indicator of solvency.

^bA high ratio indicates an entity's ability to pay off its current liabilities.

^cThe 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.

^dThe cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

13. Although the ratio for solvency slightly rose each year from 0.96 for the financial period 2014 to 1.24 for the current financial period 2016, the Board noted a constant decrease of the entity's ability to pay off its current liabilities and a less liquid current position. This development needs to be closely monitored in the upcoming years.

14. Under assets, other accounts receivable increased by \$8.8 million from \$1.6 million to \$10.5 million. The increase resulted mainly from Global Mechanism receivables and an equivalent portion of voluntary contributions receivable. Under liabilities, UNCCD recognized advance receipts for conditional voluntary contributions of approximately the same size.

Risk assessment and response plan for significant discontinuing of contributions

15. The Board inquired whether UNCCD had a portfolio of assessed risks and measures in case of delayed or outstanding contributions.

16. UNCCD explained that the Secretariat had taken measures to address such matters at the Conference of the Parties, and was currently developing a plan in-house. It further elaborated that at each session of the Conference of the Parties, the Parties set aside a working capital reserve in the core budget. At the 2015 Conference of the Parties, the Executive Secretary proposed to increase the working capital reserve from 8.3 per cent to 22 per cent, representing the largest single contribution. This would allow UNCCD to function for a longer period of time in case of outstanding payment of contributions. A working capital reserve of 22 per cent would amount to \$2 million. However, the Parties agreed to raise the working capital reserve to 10 per cent. In addition, UNCCD explained that it continuously took stock of information that was provided in the press.

17. The Board appreciates the steps taken by UNCCD.

Accounts payable from Venezuela Fund

18. Among others, UNCCD recorded \$860,681 under the Venezuela Fund as accounts payable. This represents the unutilized balance from the originally \$2 million voluntary contributions received in 2006 for “Demonstration on Rehabilitation on Lands and Drought Mitigation under Venezuela Fund”.

19. In December 2015, UNCCD informed the donor of the implementation and offered to either allocate the funds to other activities or to return them to the donor. Since UNCCD did not receive any response, UNCCD reminded the donor in December 2016. In April 2017, UNCCD representatives met with the Venezuelan Ambassador in Berlin, Germany, who is now involved in the matter and promised to follow-up on it. Besides, the donor is in arrears with contributions to the core budget in the amount of \$216,300.

20. The Board welcomes the recent step and encourages UNCCD to pursue its efforts to seek a solution for the unutilized balance. In similar cases, UNCCD should act accordingly.

3. Implementation of IPSAS and presentation of the financial statements

Treatment of the Board’s report

21. In 1997, the Conference of the Parties adopted its financial rules. In the last twenty years, the Conference of the Parties had not formally amended the financial rules. Although UNCCD had prepared its financial statements in accordance with IPSAS annually since 2014, the financial rules still stated that the financial period should be a biennium and the Conference of the Parties continued to meet every two years.

22. In 2015, the Secretariat presented to the Conference of the Parties without further comments:

- The audited financial statements for the biennium ended 2013 and the Board’s report; and
- The audited financial statements for the year ended 2014 and the Board’s report.

For the biennium ended 2013, the Board had issued a qualified opinion on the financial statements. The report of the Conference of Parties did not show that the Conference formally took note of the audited statements and the qualified audit opinion. The Board was not represented at the meeting. The audited financial statements and the Board's report for the year ended 2015 would not be presented to the Conference of the Parties until the third quarter of 2017. The Board noted that in contrast to other United Nations entities, UNCCD did not have in place a committee for financial and budget issues.

23. The Board holds that the financial rules of the Conference of the Parties are out-dated and do not reflect the implementation of IPSAS. Furthermore, presenting the annual audited financial statements and the annual Board's report only every other year to stakeholders, is not any longer in compliance with IPSAS. Hence, stakeholders are not informed about the current situation of UNCCD to initiate necessary steps in time. Pursuant to international standards, auditors should provide those charged with governance with annual observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.²

24. UNCCD stated that it would highlight the need to revise the financial rules and make proposals for the treatment of the audited financial statements and the report.

25. **The Board recommends that UNCCD initiate the update of the financial rules of the Conference of the Parties to reflect the implementation of IPSAS.**

26. **The Board recommends that UNCCD establish a process that allows for the annual presentation of the audited financial statements as well as of the Board's report to those charged with governance and not every other year, as it is UNCCD's current practice.**

Delegation of authority

27. In accordance with the United Nations Financial Regulations and Rules, all commitments, disbursements and expenses must first be signed by a duly designated certifying officer. Then, duly designated approving officers must sign to "approve" the establishment of commitments, expenses and disbursements.

28. The Board noted that the arrangement for administrative support by the United Nations Secretariat to UNCCD dated 22 April 1998 was addressed to the UNCCD Executive Secretary who held office at that time, but was no longer in charge of the issue. The arrangement stated that certification authority for expenditures from UNCCD trust funds should reside with the UNCCD Executive Secretary. The approving authority was not mentioned. To date, the arrangement had not been updated or addressed to the current UNCCD Executive Secretary.

29. In January 2014, the Executive Secretary issued a memorandum on delegation of certifying and approving authority to UNCCD staff. It listed four certifying officers and three alternates. In April 2017, one certifying officer and two alternates did no longer work at UNCCD.

30. The Board considers it important that the authority is delegated in a clear manner and delegations are up to date. The relationship to the United Nations Secretariat and the requirement for delegations should be clarified.

31. UNCCD explained that since the implementation of Umoja, the roles had been set up on the basis of its workflow. UNCCD agreed that the delegation of authority should be formalized through a memorandum. UNCCD enquired with the United Nations Secretariat about updating its

² International Standard on Auditing 260 "Communication with those charged with governance".

delegation. The outdated delegation raised questions as to how the currently serving Executive Secretary could further delegate her authorities.

32. The Board recommends that UNCCD liaise with the United Nations Secretariat to review the arrangement for administrative support and update the delegations as appropriate.

Presentation of financial statements and general ledger accounts' mapping

33. On 31 March 2017, UNCCD delivered the financial statements as at 31 December 2016 in the draft version to be audited by the Board. Overall, the Board considers that the IPSAS adoption improves both the quality and comparability of financial information.

34. IPSAS 1 – Presentation of financial statements – stipulates that financial statements should ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. Besides the principle of comparability, IPSAS further requires inter alia, understandability, relevance, materiality and reliability. For example, each material class of similar items shall be presented separately in the financial statements. An entity shall 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.

35. The Board noted that UNCCD did not group classifications and sub-classifications consistently. In particular, UNCCD presented accounts related to consultancy services as "personnel expenses" in the amount of \$3.6 million, while it presented accounts related to contractual services as "contractual services". The notes were ambiguous and did not explain the classification. UNCCD agreed to change the presentation and update the notes accordingly.

36. Hence, "contractual services" were corrected from \$1.3 million to \$4.9 million and "personnel expenses" were reduced from \$12.0 million to \$8.4 million.

37. To avoid misinterpretation in the 2017 financial statements, the Board recommends that UNCCD review its mapping of general ledger accounts and choose a structure that is consistent and presents information in a reliable and relevant manner.

38. In addition, the Board noted that the subclasses and their related expenses were not self-explanatory and consistent. For example, expenses were neither classified systematically as "operating and other direct costs" nor as "contractual services". Another example is the presentation of reserves. In the notes, UNCCD scarcely explained the subclasses.

39. The Board found several technical and format related weaknesses. Under the technical categories we identified minor areas such as layout aspects. We hold that these minor areas can be easily improved (e. g. font / paras' styles and sizes, margins, inconsistencies in titles, subtitles, bold type for emphasis, currency symbol or -abbreviation, American English).

40. Apart from those more technical weaknesses the Board noted IPSAS format related aspects such as wording, presentation of figures and other explanations which need to be corrected, amended and/or adequately clarified even if they derive from UNCCD specialties and its deviation from the United Nations family. The Board found expressions that were no more valid under IPSAS, missing explanations of differences from the previous fiscal period to the current fiscal period, especially for zero amounts in one of the compared periods, unbalanced weight of importance / size of amounts in relation to the quantity of text/space, and typing errors.

41. The Board holds in the presentation of the financial statements 2017 that UNCCD should explain, for instance, expenses and revenues in more detail to avoid misinterpretation. Expenses

related to consultants and individual contractors may be analysed, since the parties are interested in them. The United Nations template for financial statements³ might serve as a reference.

42. **The Board recommends that UNCCD explain classifications and sub-classifications in more detail and streamline the format and layout of the financial statements. To the extent possible it should use the United Nations template for financial statements.**

43. UNCCD agreed with the recommendations on the presentation of financial statements and the general ledger accounts⁷ to the extent that information is under the control of the secretariat.

4. Consultants and individual contractors

44. In 2016, UNCCD engaged 153 consultants and 18 individual contractors. Taking into account initial contracts and extensions, UNCCD concluded 248 contracts. The average duration of a contract was eight months. The Board audited the engagement of 12 cases: four individual contractors, seven consultants and one person engaged as individual contractor and consultant.

45. The Board noted that UNCCD selected most of the consultants and individual contractors competitively and recorded the relevant information, however, the Board detected room for improvement in the following areas:

- The contracts did not contain terms of reference. UNCCD explained that the advertisement served as terms of reference. The Board noted that while the advertisements explained some tasks and outputs, they did neither contain tangible and measurable outputs nor specific delivery dates and milestones. In addition, the advertisement did not form integral part of the contract. UNCCD stated that in some cases an individual workplan outlined details.
- UNCCD did not use the template provided by the United Nations Secretariat⁴ to evaluate the performance. UNCCD explained that before each payment the hiring manager and the Executive Secretary confirmed that the expertise was provided as stated in the contract and by the deadline agreed. However, the contracts reviewed did not contain monthly outputs and deadlines.
- UNCCD did not document the attendance of consultants and individual contractors who were paid monthly although this is required⁵.
- The determination of the fee level was not recorded. The fees for consultants differed between \$2,500 and \$10,000 per month and the fees for individual contractors between \$600 and \$2,000. UNCCD granted a pay rise to one consultant and three individual contractors.

46. The Board noted that terms of reference should define tangible and measurable outputs, objectives and targets, and specific delivery dates and details as to how the work must be delivered. In case individual workplans with deliverables and milestones are drafted, they may serve as terms of reference and be included in the contract. When consultants are paid on a monthly basis, attendance at work needs to be recorded, as days of absence are to be deducted from the fee. The determination of the fee should be recorded.

47. The Board noted that the number of consultants and individual contractors was significantly higher than the number of staff members. In December 2016, UNCCD had 2.5 times more consultants and individual contractors than permanent staff members.⁶ While consultants may

³ ST/IC/2013/36, Information circular on United Nations policy framework for International Public Sector Accounting Standard, 31 December 2013.

⁴ Annex VI of ST/AI/2013/4.

⁵ See 5.16 of ST/AI/2013/4.

⁶ As of 31 December 2016, 64 staff members, 161 consultants and individual contractors, Umoja ZOMREPORT1.

be hired for temporary projects requiring specific expertise, the core functions of the organization should be carried out by its own staff, for instance the function of liaison officers in regional offices. In cases of assignments taking longer time to discharge, UNCCD should examine whether employments may be envisaged on a temporary basis. Consultants may only be engaged, if the project can be described in detail, is temporary and specific deliverables with deadlines can be determined. For consultants, UNCCD should clarify when a lump sum payment or a monthly payment for which the attendance has to be recorded is most appropriate.

48. The Board recommends that UNCCD establish principles / guidelines for its continuing temporary requirements that in particular support the decision as to whether temporary staff or consultants / individual contractors are appropriate to fulfill the needs and that UNCCD elaborate the conditions and suitability for monthly payment compared to lump sums for consultants and individual contractors.

5. Information and Communication Technology Strategy

49. Information and Communication Technology (ICT) strategic planning relates to the long-term direction an entity wants to take in leveraging ICT for improving its business processes. Such an overall plan consists of objectives, principles and tactics relating to the use of the ICT within the organization. The plan would primarily focus on the technologies themselves and the decisions made on their adaptation and should be specified in a document. The plan is to explain how ICT should be used as part of the organization's overall strategy and may cover developments up to five years into the future.

50. The Board observed that UNCCD had not set up an ICT strategy.

51. UNCCD should give attention to the technology their ICT services are based on. Due to the changing nature of ICT technology, the strategy should be reviewed annually and be updated accordingly.

52. The Board recommends that UNCCD develop an ICT strategy and document it accordingly.

53. UNCCD accepted the recommendation and promised to implement it in the course of 2017.

6. Procurement and low value acquisitions

54. In November 2016, the United Nations Secretariat raised the threshold for low value acquisitions from \$4,000 to \$10,000. United Nations Procurement Division issued a memo on 9 December 2016 outlining the conditions.⁷

55. UNCCD initiated six low value acquisitions that were categorized as "software / hardware" or services. Pursuant to the memo those items had not been eligible for low value acquisitions after 9 December 2016. As a rule, Umoja has been implemented to support the new threshold, but Umoja does not detect exceptions such as specific product categories.

56. The Board reminds UNCCD of the conditions for low value acquisitions as stated in the memo by the Procurement Division. UNCCD should consider strengthening internal controls in cases Umoja is not suited as internal preventive control.

⁷ Reference PD/PCMS/16-039-CDB.

57. For remaining procurement actions, UNCCD agreed with the United Nations Framework Convention on Climate Change (UNFCCC) that the latter provide procurement services. An agreement describes the procedure for collaboration and defines a fee of 7 per cent of the total value of purchase orders. The agreement was concluded in 2007 and has not been updated ever since.

58. The Board noted that the agreement did not reflect the change from the IMIS legacy system to Umoja. Pursuant to the agreement, UNFCCC prepares the commercial analysis and identifies the lowest cost bidder. Then UNFCCC sends all offers including the commercial analysis to UNCCD for technical evaluation. As a general principle, the financial proposals remain unopened, until the procurement officer has received the completed technical evaluation (see procurement manual, Chapter 10.16). The Board noted that the agreement did not set out any indicators to measure the quality and the timeliness of the services provided.

59. The Board holds that the agreement should be updated to reflect the current procedures in Umoja. The fee of 7 per cent should be reassessed. Indicators would allow the measurement of the efficiency of services. In collaboration with UNFCCC, UNCCD should comply with the stipulation of the procurement manual.

60. The Board recommends that UNCCD update the agreement for procurement services with UNFCCC in particular with regard to Umoja, the processing of the financial proposals, and recalculate the administrative fee.

61. UNCCD agreed with the recommendation and stated that it would consult with UNFCCC to revise the agreement.

7. Accessibility for staff members with disabilities

62. The Secretary-General's bulletin Employment and accessibility for staff members with disabilities in the United Nations Secretariat states that a focal point on disability and accessibility in the workplace will be appointed.⁸ Pursuant to this bulletin, the organization is committed to improving accessibility and full inclusion of staff members with disabilities.⁹ For this purpose, the nomination of a local focal point, who is familiar with the local conditions, would be most helpful.

63. UNCCD stated that it had established a non-discriminatory and inclusive working environment for staff members with disabilities, in accordance with this bulletin and under the guidance of the premises manager for the United Nations Campus Bonn and with respect to German law.

64. UNCCD informed the Board that the Coordinator of Administrative Services acted as focal point on disability and accessibility in the workplace. However, the Board noted that the focal point had not been nominated formally and staff members had not been informed about the nomination. Neither UNCCD nor the premises manager provided general information about facilities or easements in case of staff members with disabilities. There was no central focal point for the organizations located at the United Nations Campus Bonn.

65. The Board suggests that UNCCD encourages appointing a central focal point for the United Nations Campus Bonn. Staff members should be provided with general information. They should be informed about their focal point(s) and provided with a reference to the Secretary General's Bulletin at least.

⁸ ST/SGB/2014/3, No. 5.2.

⁹ ST/SGB/2014/3, No. 3.1.

66. **The Board recommends that UNCCD nominate the focal point on disability and accessibility formally and inform staff members accordingly.**

67. UNCCD agreed with the recommendation and the suggestions and stated that it would implement them in the course of 2017.

8. Sustainable development goals

68. In September 2015, the United Nations defined 17 global sustainable development goals to be implemented in the next 15 years.

69. UNCCD stated that the successful implementation of the convention would have a direct effect on these goals, in particular on target 15.3 to “strive to achieve a land degradation-neutral world” of goal 15 “Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss”. The Conference of the Parties decided that striving to achieve sustainable development goal target 15.3 was a strong vehicle for driving implementation of the UNCCD, within the scope of the Convention. UNCCD intends to reflect the sustainable development goals in its strategy covering the period from 2018 to 2030, which UNCCD will present to the Conference of the Parties in September 2017. The overarching strategy will be broken down into two-year operational workplans.

70. UNCCD stated that the policy, external relations and science functions funded by indicative contributions of parties would be realigned to support the achievement of the new strategy, and thereby also the sustainable development goals. The Global Mechanism would target the mobilization of voluntary resources to support national level implementation based on the ongoing national target setting process.

C. Disclosures by Management

Write-off cash, receivables and property, ex gratia payments

71. UNCCD reported that there were no write-offs of cash, receivables, and assets during 2016. UNCCD also did not make any ex-gratia payment.¹⁰

Cases of fraud and presumptive fraud

72. In accordance with the International Standards on Auditing, 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.

73. During the audit, the Board makes enquiries of management regarding their oversight responsibility of assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. The Board also inquired whether management has any knowledge of any actual, suspected or alleged fraud.

¹⁰ One payment had been declared as ex-gratia payment erroneously and the error was corrected later.

74. UNCCD further reported that there was no case of fraud and presumptive fraud for the financial year ended 31 December 2016.

D. Acknowledgement

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



Shashi Kant Sharma
Comptroller and Auditor-General of India
Chair of the Board of Auditors



Kay Scheller
President of the German Federal Court of Auditors
(Lead Auditor)



Mussa Juma Assad
Controller and Auditor-General of the
United Republic of Tanzania

30 June 2017

Annex I

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

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNCCD response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
1.	2010 / 2011	31	Strengthen the management of tickets.	<p>All exceptions must be recorded in the Umoja system explaining the rationale for the delay, if any. Exceptions are made because of late notification of an event that is deemed important for UNCCD to attend.</p> <p>UNCCD continues to prepare quarterly travel plans for the consideration by the Executive Secretary so that travel can be booked in advance.</p> <p>The Executive Secretary informed her staff that no request for tickets not complying with the 21 days-policy would be authorized any longer. Moreover UNCCD updated its Administrative Guide 2017/1 accordingly.</p>	The recommendation is considered as implemented.	X			
2.	2010 / 2011	37	Coordinate with related countries to expedite implementation of projects.	<p>UNCCD concluded the activities and provided the financial utilization report for the project in question</p> <p>“Demonstration on Rehabilitation on Lands and Drought Mitigation under</p>	The recommendation is considered as implemented since the project activities are completed. Nevertheless, the Board comments on the remaining balance in the Venezuela Fund in the	X			

Audit report No.	year	Paragraph reference	Recommendations of the Board	UNCCD response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				Venezuela Fund".	present report.				
3.	2012 /2013	30	Expedite efforts to collect the outstanding assessed contributions and seek to increase fundraising through improved advocacy work, demonstrating more clearly the "impact chain" of projects and continuous coordination of fundraising activities with the GM.	UNCCD continued to make every effort to remind Parties of their outstanding contributions, including information on the website, at meetings of the Conference of the Parties Bureau, reminder letters, and at sessions of the Conference of the Parties (COP decision on payment plans). The Secretariat stated that it had no legal authority to commit the Parties to timely payments of their contributions.	Since this issue is an on-going process, the recommendation is under implementation.		X		
4.	2014	13	Strengthen its internal mechanism to ensure that all information in respect of accrued expenses that is necessary to make provisions as per IPSAS is available so as to improve the preparation, presentation and accuracy of its financial statements.	UNCCD prepared its financial statements in 2016 based on the Umoja trial balance, and instruction from United Nations Headquarters, as well as in compliance with IPSAS taking into consideration of the recommendations made by the Board in 2015.	UNCCD has improved the transfer of financial systems into IPSAS compliant structures, but there is still need for improvement. The Board considers the recommendation as under implementation.		X		
5.	2014	22	UNCCD put in place a formal structured process for assessing, monitoring and mitigating enterprise risks.	The risk register of UNCCD had not been updated since 31 May 2016. A staff member attended training on	The recommendation is considered as under implementation.		X		

Audit report No.	year	Paragraph reference	Recommendations of the Board	UNCCD response	Board's assessment	Status after verification		
						Implemented	Under implementation	Overtaken by events
				risk management in the summer of 2016 with the aim of conducting the update in 2017.				
6.	2014	27	UNCCD put in place a formal structured process for assessing, monitoring and mitigating enterprise risks.	The risk register of UNCCD had not been updated since 31 May 2016. A staff member attended training on risk management in the summer of 2016 with the aim of conducting the update in 2017.	The recommendation is considered as under implementation.			X
7.	2015	12	UNCCD work towards improving the quality of financial reporting and ensures the correctness of the financial statements.	The secretariat has put in place a system of cross-checking figures and text in order to reduce the occurrence of errors.	The Board has commented on the quality of the financial report in the present report. To avoid duplicates, the recommendation is closed.			X
8.	2015	17	UNCCD maintain Vehicle Daily Log and Vehicle History Record for the vehicles owned by it to ensure their proper use for official purposes and to assess vehicle efficiency with regard to fuel consumption.	The vehicles now contain a log and vehicle history record.	Since the Board could verify that vehicle records are allocated in UNCCD's cars, the recommendation is implemented.	X		
9.	2015	20	UNCCD develop its Business Continuity and Disaster Recovery Plan at the earliest, and test periodically and update it as necessary.	UNCCD stated that it would implement it in 2017. The terms of reference of the senior IT consultant who will be assisting secretariat to	The Board considers this recommendation under implementation. The Board wishes that ideally formal approval should be given by		X	

Audit report No.	year	Paragraph reference	Recommendations of the Board	UNCCD response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				develop a recovery plan will be finalized soon for posting on the website.	executive management that states the entity's overall target for recovery and empowers those people involved in developing, testing and maintaining that plan.				
10.	2015	23	With the proposed change in policy to advance booking of tickets before 21 days, UNCCD should strictly adhere to the new guidelines.	The secretariat is still making efforts to meet the 21 day-deadline. The Executive Secretary has recently decided that any travel request failing this will be denied.	Referring to comments under No. 1, the recommendation is implemented.	X			
11.	2015	28	UNCCD maintain the roster of consultants and individual contractors in accordance with the administrative instructions.	The secretariat stated that it maintained a list of hired consultants (tried and tested) to share with other units if so requested.	The list contained neither the consultants', and individual contractors' expertise nor their work experience and fulfills the requirements of a roster only partially. Since in the files reviewed UNCCD never recruited from roster but advertised most consultancies, the Board closed the recommendation.			X	
Total						4	4	3	0
Percentage						36	36	28	0

Annex II

**Certification of Financial Statements, Financial report on the 2016
accounts, Financial Statements and Notes**

Certification of the financial statements

The financial statements of the United Nations Convention to Combat Desertification (UNCCD) for the financial year ended 31 December 2016 have been prepared in accordance with financial rule 106.1. This is the third time that the financial statements have been prepared under the International Public Sector Accounting Standards (IPSAS).

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

The accounts of UNCCD are maintained in accordance with the Financial Rules of the Conference of Parties.

I certify that the appended financial statements of the United Nations Convention to Combat Desertification (UNCCD), numbered I to V are correct.

(Signed) Monique **Barbut**
Executive Secretary

31 March 2017

Financial report on the 2016 accounts

Introduction

1. The financial statements of the United Nations Convention to Combat Desertification (UNCCD) are prepared and submitted to the Conference of Parties in accordance with the Financial Rules. The financial statements include all of the operations under the direct authority of the Executive Secretary including the core budget, the Global Mechanism and extra-budgetary financed activities.

2. The 2016 financial statements are for the third time prepared based upon the International Public Sector Accounting Standards (IPSAS) in accordance with the decision of the United Nations General Assembly, provide increased information on actual assets and liabilities enabling in improved internal control and enhanced management of UNCCD's total resources. The statements include additional information on revenue and expenses to senior management to support decision-making and enhance strategic planning.

3. The financial statements are prepared under IPSAS using full accrual-based accounting. UNCCD's Budget is prepared on a modified cash basis of accounting in accordance with its Financial Regulations. Under IPSAS:

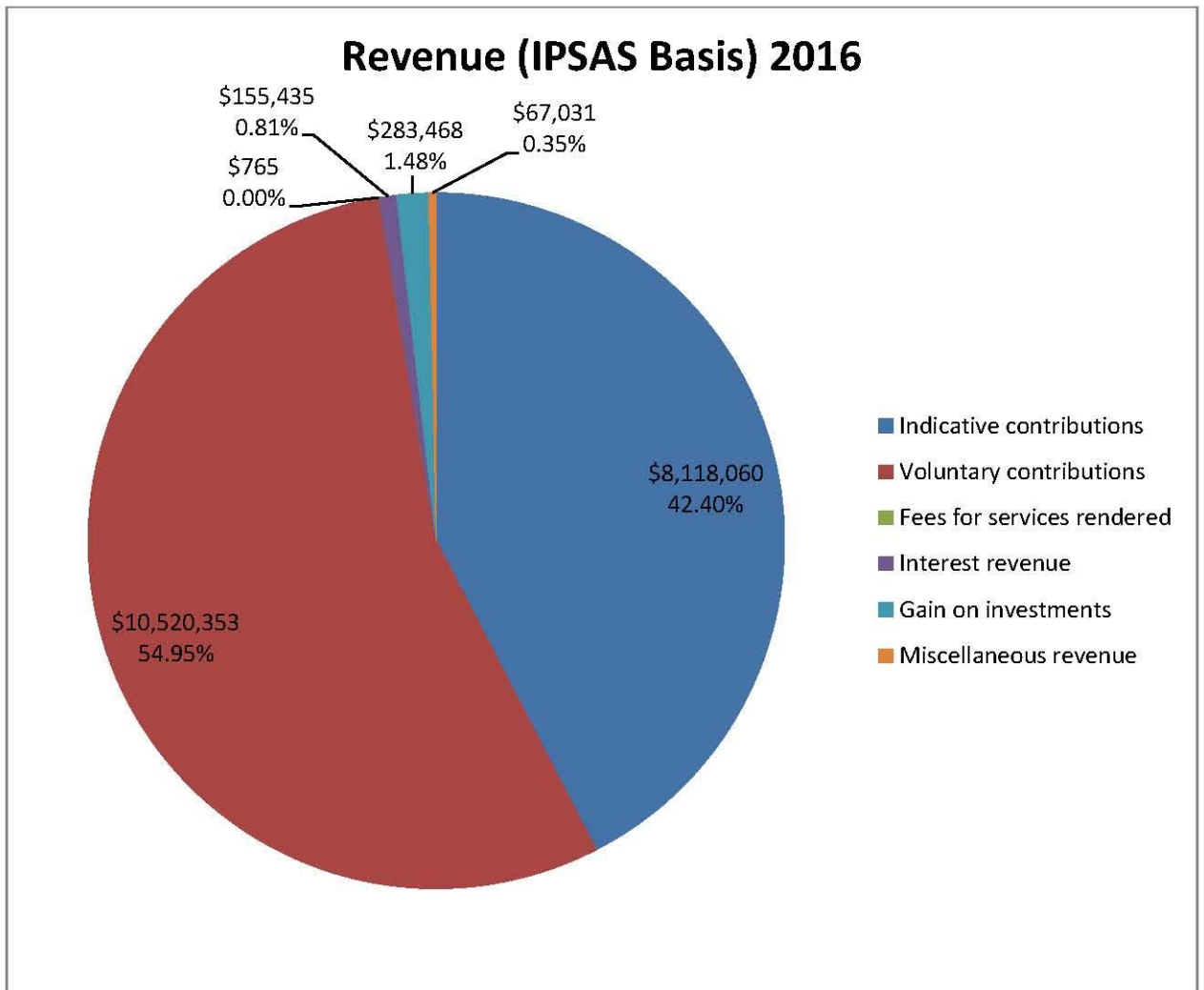
- Revenue from voluntary contributions to technical cooperation is recognized when the contract with the donor becomes binding (i.e. at the time of signature of both parties, rather than when cash is received).
- In the case of contributions that impose conditions requiring return of funds not utilized in accordance with the terms of the agreement, revenue is not recognized until UNCCD delivers the services specified in the agreement with the donor.
- Expenses are recognized when services or goods are received or delivered rather than when a commitment is recognized.
- The annual changes in employee defined benefit obligations (other than those caused by adjustments in actuarial assumptions) are now recognized as expenses rather than in fund balance.
- The value of software and fixed assets such as vehicles acquired has been capitalized rather than expensed. Included in expenses for 2016 is the amortization of software capitalized and depreciation on a new vehicle.

2016 Financial Highlights

2016 Financial Results (in USD)

Total revenue:

4. Revenue in 2016 totalled USD 19.1 million excluding other revenue of USD 0.03 million related to the income from repatriation grants, as follows:

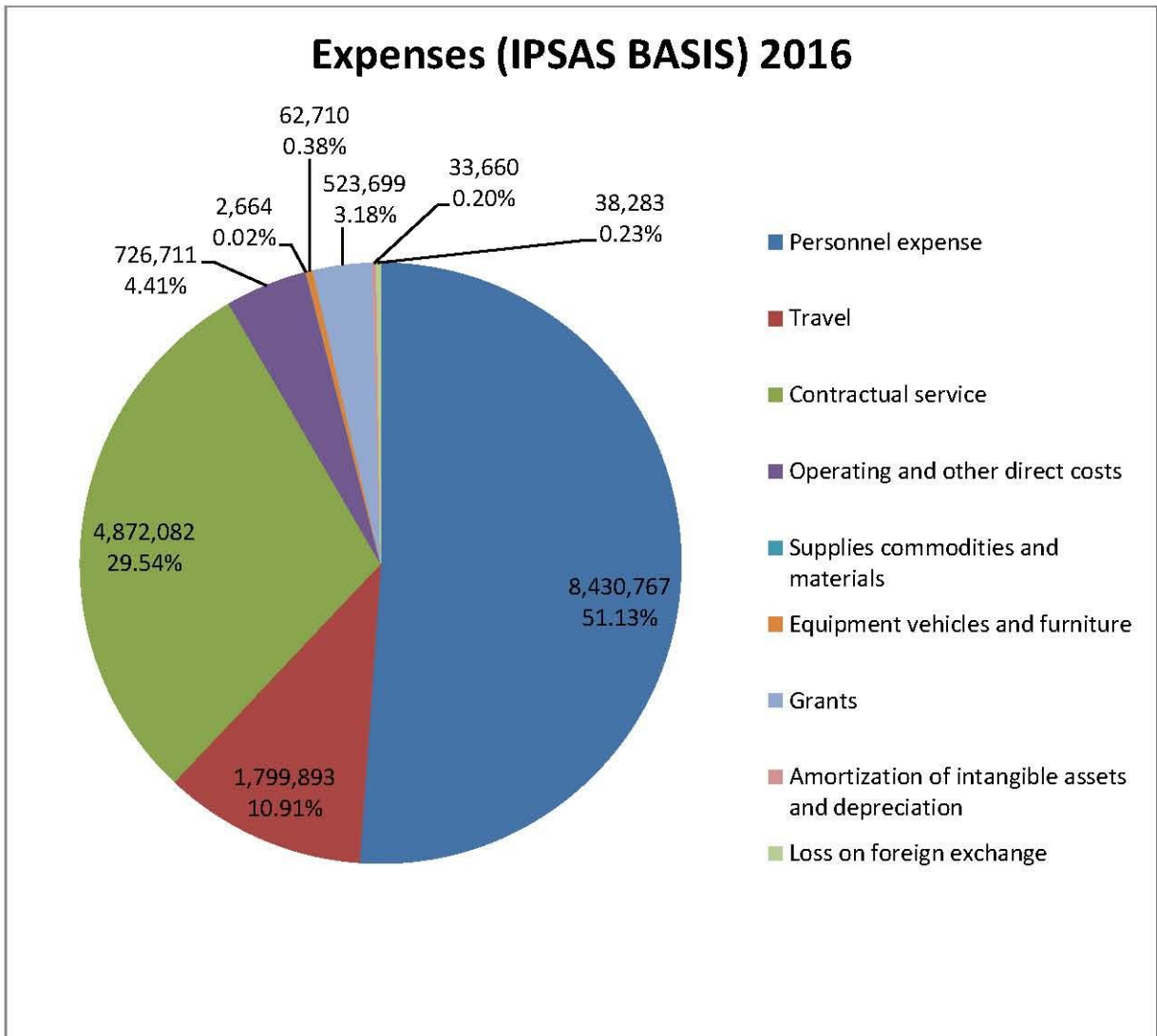


5. The principal sources of revenue were:

- The indicative contributions from signatories of the Convention. The indicative contributions for 2016 totalled USD 8.1 million.
- Voluntary contributions from donors totalled USD 10.5 million.

- The remaining revenue includes interest revenue, gain on investments and Refund for prior year expenditures.

6. **Total expenditure:** Expenses in 2016 totalled USD 16.5 million excluding change in provision for doubtful debts in the amount of USD 0.12 million.



7. The main expenses categories are personnel expenses for USD 8.4 million or 51.13%, which include interest and current service costs related to defined benefit obligations (After-Service Health Insurance [ASHI]), annual leave, death benefit and repatriation grant/travel) in the amount of USD 1.1 million; contractual services (non-employee compensation including consulting services individual fee, consultancy travel fee) for USD 4.9 million or 29.54%; and travel for USD 1.8 million or 10.91%.

8. **Operating result:** The net surplus of expenses revenue over expenses in 2016, as measured under IPSAS, is USD 2.75 million.

9. **Assets:** Assets as of 31 December 2016 totalled USD 34.3 million compared to the balance at 31 December 2015 of USD 24.2 million. The major components of UNCCD's assets are as follows:

Summary of assets at 31 December (in US Dollars)	2016	2015	Difference
Cash and cash equivalents	6,091,696	3,083,939	3,007,757
Investments	<u>15,918,229</u>	<u>15,858,265</u>	<u>59,964</u>
Sub total assets held in UN Euro cash pool	22,009,925	18,942,204	3,067,721
Cash held in field offices	-	-	-
Indicative contributions receivable	2,661,448	4,090,303	(1,428,855)
Less provision for doubtful debts	<u>(1 590 747)</u>	<u>(1 716 202)</u>	<u>125,455</u>
Net indicative contributions receivable	1,070,701	2,374,101	(1,303,400)
Other accounts receivable	10,483,489	1,637,980	8,845,509
Other assets	717,453	1,132,573	(415,120)
Fixed assets	38,990	38,395	595
Intangible assets	-	28,815	(28,815)
Total Assets	34,320,558	24,154,068	10,166,490

10. The major assets at 31 December 2016 are cash, cash equivalents and investments totalling USD 22.0 million representing 64.1 % of the total assets, receipts from voluntary contributions including the Global Mechanism totalling 30.6% of total assets and indicative contributions from signatories to the convention receivable of USD 1.1 million, or 3.1 per cent. The remaining assets consist of other assets (primarily staff advances) and fixed and intangible assets.

11. **Cash, cash equivalents and investments:** Cash, cash equivalents and investments USD 22.0 million held in the UN Treasury Cash Pools. This represents an increase of USD 3.1 million over the balance held at the end of 2015 due primarily to receipt of additional voluntary contributions and the lower USD value of Euro based expenses.

12. **Accounts receivable:** Under IPSAS, accounts receivable from indicative contributions are recognized net of a provision of 50% for all amounts receivable for three years and 100% for all amounts receivable for four or more years. Other receivables include voluntary contributions receivable based on the signed agreement/letter of intent in the amount of USD10.3 million of which USD 5.6 million represents receivable due for the Global Mechanism, investment revenue receivable in the amount of USD 0.06 million reported by UNHQ New York, and the funds held by South Pacific Islands Nations and the Secretariat of the Pacific Community representing the unused balance of grants forming part of a voluntary contribution made by the Bolivarian Republic of Venezuela in the amount of USD 0.01 million. Value Added Tax balances are also included in other receivables.

13. **Liabilities:** Liabilities as of 31 December 2016 totalled USD 27.7million (USD 20.6 million as at 31 December 2015) as follows:

Summary of liabilities at 31 December		
(in US Dollars)	2016	2015
Accounts payable and accruals	2,116,895	3,563,323
Advance receipts	10,579,659	2,165,521
Employee benefit liabilities	14,995,098	14,877,074
Other liabilities	4,323	-
Total Liabilities	27,695,975	20,605,918

14. The most significant liability is the employee benefits earned by staff members and retirees but not paid at the reporting date, primarily the liability for ASHI. These liabilities total USD 15.0 million, represent 54.1% of UNCCD's total liabilities and are explained in detail in note 12 to the financial statements.

15. Another significant liability advance receipts covers indicative contributions received in advance of the start of the year to which they are related totalling USD 0.2 million. Also included are voluntary contributions, provided by donors of which USD 8.8 million relates to the Global Mechanism that contain conditions requiring the performance specified services or the return of unused funds to the donor in accordance with the terms of the agreement. The balance represents the portion of the contribution at 31 December that has not been recognized as revenue since it has not been earned by UNCCD by performing the services covered by the agreement.

16. **Net assets:** The movement in net assets during the year reflects an increase of USD 3.1 million from USD 3.5 million in 2015 to USD 6.6 million in 2016 due to a positive actuarial adjustment related to employee benefits of \$0.3 million and the operating surplus of USD 2.75 million. Net assets include the operating reserves which remained at USD 1.9 million. There is a USD 1 difference in columns of the Accumulated surplus-general fund and total in the Net assets (Statement III) due to the rounding of figures related to the reclassification of the assets and liabilities at the time of implementation of IPSAS in 2014, which is not adjusted in the 2016 Financial Statements.

Core budget

17. The Conference of the Parties approved a Core budget for the 2016–2017 financial period amounting to EUR 16.2 million of which EUR 8.0 million was programmed for 2016. In addition, the Conference of the Parties approved a budget of EUR 300,000 to facilitate the consideration of the post-2018 strategic priorities for the Convention, and EUR 120,000 for supporting the work of the Science-Policy Interface.

18. The core budget continues to be prepared on a modified cash basis in accordance with the UN Financial Regulations. The overall budgetary results for the 2016 financial period in euros are summarized in Statements V. The differences between the net results on the IPSAS (full accrual) basis and those in accordance with the adopted budget are explained in note 17.

19. Valued in US dollars at the average USD 1 = EUR 0.90133 at the rate of exchange set by the United Nations and using the modified cash method of accounting, total Core budgetary revenue for 2016 amounted to EUR 7.3 million (USD 8.1 million). Expenses under the regular budget during 2016 amounted to EUR 6.7 million (USD 7.4 million) resulting in a net surplus of EUR 1.4 million (USD 1.5 million). The surplus is primarily due to savings accrued from vacant posts, which were filled in late 2016 and early 2017, as well as savings achieved under funding for consultancies and contributions to joint administrative costs. The COP, by its decision 10/COP.12, reallocated EUR 620,000 of the savings in the budget for the biennium 2014–2015 on an exceptional basis in support of activities in the biennium 2016–2017, as well as offsetting contributions for the next biennium.

Certification of the financial statements

The financial statements of the United Nations Convention to Combat Desertification for the financial year ended 31 December 2016 have been prepared in accordance with financial rule 106.1. This is the third time that the financial statements have been prepared under the International Public Sector Accounting Standards (IPSAS).

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

The accounts of UNCCD are maintained in accordance with the Financial Rules of the Conference of Parties.

I certify that the appended financial statements of the United Nations Convention to Combat Desertification, numbered I to V are correct.

(Signed) Monique **Barbut**
Executive Secretary

31 March 2017

STATEMENT I**UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION****Statement of Financial Position as at 31 December 2016**

(United States Dollars)

	<i>Note</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Assets			
Current Assets			
Cash and cash equivalents	5	6 091 696	3 083 939
Short-term investments	5	10 724 685	9 478 251
Indicative contributions receivable	6	1 070 701	2 374 101
Other accounts receivable	6	10 483 489	1 637 980
Other current assets	7	717 453	1 132 573
Total current Assets		29 088 024	17 706 844
Non-Current Assets			
Intangible assets	9	-	28 815
Fixed Assets	8	38 990	38 395
Long-term investments		5 193 544	6 380 014
Total Non-Current Assets		5 232 534	6 447 224
Total Assets		34 320 558	24 154 068
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	10	2 116 895	3 563 323
Advance receipts	11	10 579 659	2 165 521
Employee benefit liability	12	567 098	538 074
Other current liabilities	13	4 323	-
Total Current Liabilities		13 267 975	6 266 918
Non-Current Liabilities			
Employee benefit liability	12	14 428 000	14 339 000
Total Non-Current Liabilities		14 428 000	14 339 000
Total Liabilities		27 695 975	20 605 918
Net Assets		6 624 583	3 548 150
Net Assets/Equity			
Accumulated surpluses/(deficits)		4 621 511	1 871 895
Actuarial gain (loss) recognized in net assets		50 817	(276 000)
Operating reserves	16	1 952 255	1 952 255
Total Fund Balances and Reserves		6 624 583	3 548 150

The accompanying notes form an integral part of these financial statements.

STATEMENT II

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION

Statement of Financial Performance for the period 1 January to 31 December 2016

(in United States dollars)

	Note	2016	2015
REVENUE	14		
Indicative contributions		8 118 060	8 936 622
Voluntary contributions		10 520 353	12 669 306
Fees for services rendered		765	10 497
Interest Revenue		155 435	(21 121)
Gain on investments		283 468	-
Miscellaneous revenue		67 031	14 650
Other revenue		(30 482)	-
TOTAL REVENUE		19 114 630	21 609 954
EXPENSES	15		
Personnel expenses		8 430 767	9 868 344
Travel		1 799 893	2 689 811
Contractual services		4 872 082	4 012 798
Operating and other direct costs		726 711	876 305
Supplies commodities and materials		2 664	172 100
Equipment vehicles and furniture		62 710	-
Grants		523 699	123 877
Loss on investments		-	873
Amortization of intangible assets and depreciation		33 660	35 967
Change in provision for doubtful debts		(125 455)	(178 225)
Loss on foreign exchange		38 283	3 066 014
TOTAL EXPENSES		16 365 014	20 667 864
SURPLUS/ (DEFICIT) FOR THE PERIOD		2 749 616	942 090

The accompanying notes form an integral part of these financial statements.

STATEMENT III

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Statement of Changes in Net Assets for the year ended 31 December 2016
(United States Dollars)

	Notes	Accumulated Surplus - General Fund	Reserves	Total
Net Assets 31 December 2013 (UNSAS basis)		3 744 455	1 952 255	5 696 710
Changes in accounting policy and other adjustments to net equity				
Adjustment for the reversal of unliquidated obligations non delivered	4	1 765 217	-	1 765 217
Adjustment to reverse deferred expenditure	4	(14 069)	-	(14 069)
Adjustment for deferral of unearned revenue	4	(248 244)	-	(248 244)
Adjustment for the recognition of intangible assets	4	103 225	-	103 225
Adjustment for the recognition of provision for doubtful debts	4	(2 207 101)	-	(2 207 101)
Adjustment for accrual of education grants payable		(65 999)	-	(65 999)
Adjustment for accrual of unliquidated obligations		(884 625)	-	(884 625)
Adjustment for the recognition of employee benefits	4	(228 466)	-	(228 466)
Adjustment for the recognition of equipment	4	-	-	-
Sub total IPSAS opening balance adjustments		(1 780 060)	-	(1 780 060)
Net Assets at 31 December 2014 including IPSAS adjustments		1 964 395	1 952 255	3 916 650
Change in actuarial method for annual leave and death benefit	12	(16 000)	-	(16 000)
Net Assets at 01 January 2014		1 948 395	1 952 255	3 900 650
Recognition of actuarial adjustments in net assets	12	(3 771 000)	-	(3 771 000)
Net result for 2014		(1 034 589)	-	(1 034 589)
Net Assets at 31 December 2014		-2,857,195	1 952 255	(904 940)
Recognition of actuarial adjustments in net assets		3 511 000	-	3 511 000
Interfund adjustments		-	-	-
Net result for 2015		942 090	-	942 090
Net Assets at 31 December 2015		1 595 895	1 952 255	3 548 150
Recognition of actuarial adjustments in net assets		326 817	-	326 817
Net result for 2016		2 749 616	-	2 749 616
Net Assets at 31 December 2016	Statement I	4,672,328	1,952,255	6,624,583

The accompanying notes form an integral part of these financial statements.

STATEMENT IV

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Statement of Cash Flow for the period 1 January 2016 to 31 December 2016

(in United States dollars)	Notes	2016	2015
Cash flows from operating activities			
Surplus (deficit) for the period	Statement II	2 594 181	963 211
Interest revenue		155 435	(21 121)
		<u>2 749 616</u>	<u>942 090</u>
Depreciation and amortization	8&9	33,660	35 967
Increase (decrease) in provision for doubtful debts	6	(125 455)	(178 225)
(Increase) decrease in receivables	6	(7 416 654)	(1 785 224)
(Increase) decrease in other current assets	7	415 120	(899 215)
Increase (decrease) in advance receipts	11	8 414 138	(216 963)
Increase (decrease) in accounts payable	10	(1 446 428)	3 131 399
Increase (decrease) in other current liabilities	13	4 323	(1 923 217)
Increase (decrease) in employee benefit liabilities recognized in surplus	12	444 841	1 294 790
		<u>3 073 161</u>	<u>401 402</u>
Net cash flows from operating activities			
Cash flows from investing activities			
(Increase) decrease in short-term investments	5	(1 246 434)	2 883 287
Adjust inter/fund balance		-	-
(Increase) decrease in fixed assets	8&9	(5 440)	(39 379)
(Increase) decrease in long-term investments	5	1 186 470	(6 380 014)
		<u>(65 404)</u>	<u>(3 536 106)</u>
Net cash flows from investing activities			
Net increase in cash and cash equivalents			
		3 007 757	(3 134 704)
Cash and cash equivalents at beginning of year			
	5	3 083 939	6 218 643
Cash and cash equivalents at end of year			
	5	<u>6 091 696</u>	<u>3 083 939</u>

The accompanying notes form an integral part of these financial statements.

United Nations Convention to Combat Desertification

V: Statement of Comparison of Budget and Actual amounts for the year ended at 31 December 2016

(in euros)*

Core budget of the Secretariat	<i>Original budget 2016</i>	<i>Final Budget 2016</i>	<i>Actual 2016</i>	<i>Actual 2016</i>
<i>Programmes</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>USD</i>
I. Secretariat programmes				
A. Executive direction and management	1 022 042	1 022 042	868 402	963 464
B. External relations, policy and advocacy	1 077 000	1 077 000	898 627	996 998
C. Knowledge management, science and technology	751 700	751 700	430 840	478 003
D. Facilitation of monitoring and implementation	1 209 000	1 209 000	1 110 140	1 231 664
E. Administrative services	1 281 864	1 281 864	1 274 479	1 413 993
II. Global Mechanism				
F. Global Mechanism	1 765 650	1 765 650	1 325 418	1 470 508
Subtotal (A-F)	<u>7 107 256</u>	<u>7 107 256</u>	<u>5 907 907</u>	<u>6 554 631</u>
Programme support costs	923 943	923 943	768 028	852 102
Working capital reserve	0	0	0	0
TOTAL Core Budget of the Secretariat	8 031 199	8 031 199	6 675 935	7 406 733
Contribution from the host Government	511 292	511 292	511 292	570 002
Unspent balances or contributions from prior financial periods	100 000	100 000	100 000	110 947
Indicative contributions	7 419 907	7 419 907	6 692 718	7 425 380
TOTAL income	8 031 199	8 031 199	7 304 010	8 106 329
Facilitate the consideration of the post-2018 strategic priorities for the Convention**	300 000	300 000	310 321	344 292
Science-Policy Interface	120 000	120 000	0	0
Programme support costs	54 600	54 600	40 520	44 959
Total other budgets approved by the Conference of the Parties	474 600	474 600	350 841	389 251

*At the average monthly exchange rate of the United Nations for the year 2016 with 1 USD = EUR 0.90133

**To be partially offset by the voluntary contribution from the host government of CRIC15 in 2017

The accompanying notes form an integral part of these financial statements.

United Nations Convention to Combat Desertification

Notes to the 2016 financial statements

Note 1

The Reporting Entity

The permanent secretariat of the United Nations Convention to Combat Desertification (UNCCD) was established in December 1996. The Strategy is to forge global partnerships to reverse and prevent desertification and land degradation. These partnerships are also meant to mitigate the effects of drought in affected areas. Coupled with the vision is a Strategy mission: To provide a global framework to support the development and implementation of national and regional policies that are to contribute to the reduction of poverty.

1. UNCCD is governed by the following constituent bodies:

Conference of the Parties (COP) is the supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements

The Bureau of the COP

At the beginning of the first meeting of each ordinary session, a President and nine Vice-Presidents are elected from among the representatives of the Parties present at the session in a manner that every geographical region shall be represented by at least two members. They serve as the Bureau of the session. One of the Vice-Presidents shall act as Rapporteur.

The President declares the opening and closing of the session, presides at the meetings of the session, ensures the observance of the present rules, and has complete control of the proceedings and over the maintenance of order thereat. The President, if temporarily absent from a meeting or any part thereof, shall designate a Vice-President to act as President.

The Bureau of the COP has an important role in the UNCCD process also outside the sessions, as it directs various aspects concerning the follow-up of the COP and the preparations of the next one. The COP Bureau is also often assigned by the COP to supervise specific, particularly demanding or sensitive tasks or processes that are carried out between the COP sessions.

2. UNCCD is financed by indicative contributions paid by Parties to the Convention, and voluntary contributions from Parties to the Convention and other donors.

3. The Organization enjoys privileges and immunities as granted under the 1947 Convention on Privileges and immunities of the United Nations and the 1996 Headquarters agreement with the Federal Government of Germany, notably being exempt from most forms of direct and indirect taxation.

Note 2

Basis of Preparation

4. The financial statements of the UNCCD have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention. The statements are prepared on a going concern basis based upon approval by the Conference of Parties of the 2016–17 Programme and budget and the 10 year (2008–2018) strategic plan and framework to enhance the implementation of the Convention, the historical trend

of collection of indicative and voluntary contributions over the past years and that the Conference of Parties has not made any decision to cease the operations of the Organization.

5. These are the third set of financial statements to be prepared in accordance with IPSAS. The adoption of IPSAS required changes to be made to the accounting policies previously followed by UNCCD, including the preparation of a single set of financial statements covering both Core budget and extra-budgetary activities, which are presented throughout in United States dollars (USD). In accordance with IPSAS, the 2016 financial statements are presented on an annual basis covering the period 1 January 2016 to 31 December 2016.

6. The Cash Flow Statement is prepared using the indirect method.

2.1 Functional and Presentation Currency

7. The financial statements are presented in United States dollars, which is the functional and presentation currency of UNCCD.

2.2 Foreign Currency Translation

8. Transactions in currencies other than USD are translated into USD at the prevailing United Nations Operational Rates of Exchange (UNORE) which represent the prevailing rate at the time of transaction. Assets and liabilities in currencies other than USD are translated into USD at the UNORE year-end closing rate. Resulting gains or losses are accounted for in the Statement of Financial Performance.

2.3 Materiality and use of judgment and estimates

9. Materiality is central to the UNCCD financial statements. The UNCCD's accounting materiality framework provides a systematic method to identify, analyse, evaluate, endorse and periodically review materiality decisions crossing a number of accounting areas. The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Actual results may differ from these estimates. Changes in estimates are reflected in the period in which they become known. Accruals, equipment depreciation and employee benefit liabilities are the most significant items for which estimates are utilized.

Note 3

Significant Accounting Policies

Assets

3.1 Cash and Cash Equivalents

10. Cash and cash equivalents are held at fair value and comprise cash on hand, cash at banks, money market and short-term deposits. Investment revenue is recognized as it accrues taking into account the effective yield.

3.2 Financial Instruments

11. Financial instruments were initially measured at fair value. Subsequent measurement of all financial instruments is at fair value except for accounts receivable and accounts payable, which are measured at amortized cost using the effective interest method. A provision has been made for the difference between the nominal value of the accounts receivable and accounts payable.

12. Financial instruments are recognized when UNCCD becomes a party to the contractual provisions of the instrument until the rights to receive cash flows from

those assets have expired or have been transferred and the UNCCD has transferred substantially all the risks and rewards of ownership.

13. The Main Cash pool comprises participating entity shares of cash and term deposits, short-term and long-term investments and accrual of investment revenue, all of which are managed by the UN Treasury. UNCCD's share of the cash pool is disclosed in the notes to the financial statements and on the Statement of Financial Position. Detailed information on the holdings of the Main Cash Pool may be obtained in the Financial Statements of the United Nations.

14. Gains or losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise. Gains or losses arising from a change in the fair value of the financial assets held in the Euro Cash Pool are presented in the Statement of Financial Performance in the period in which they arise as finance costs if net loss or investment revenue if net gain.

15. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. UNCCD's receivables comprise indicative contributions receivable from member countries and other accounts receivable recognized on the Statement of Financial Position. Receivables are measured at amortized cost taking into account a provision for impairment and an adjustment to reflect the time value of money based on the interest rate generally applicable to securities of similar maturity and currency.

3.3 Inventories

16. UNCCD does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of services.

3.4 Property, Plant and Equipment

17. Equipment with a cost above USD 5,000 is valued at historical cost less accumulated depreciation and any impairment losses. UNCCD is deemed to control equipment if it can use or otherwise benefit from the asset in the pursuit of its objectives and if UNCCD can exclude or regulate the access of third parties to the asset.

Depreciation

18. Depreciation is calculated over their estimated useful life of equipment using the straight-line method. The estimated useful life for equipment classes are as follows:

<i>Class</i>	<i>Estimated useful life (years)</i>
Computer Equipment	5
Communication and audio equipment	5
Furniture and fittings	10
Vehicles	10
Leasehold improvements	10 (or lease term, whichever shorter)

19. Impairment assessments are conducted when events or changes in circumstance indicate that carrying amounts may not be recoverable and any impairment losses are recognized in the Statement of Financial Performance. The useful lives of equipment are reviewed and adjusted, if applicable.

3.5 Intangible Assets

20. Intangible assets are valued at historical cost less accumulated amortization and any impairment losses. Intangible assets acquired externally are capitalised if their costs exceeds the threshold of USD 5,000. Internally developed software is capitalized if its cost exceeded a threshold of USD 100,000 excluding research and maintenance costs and including directly attributable costs such as staff assigned full time to a development projects, subcontractors and consultants.

Amortization

21. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for intangible asset classes are as follows:

<i>Class</i>	<i>Estimated useful life (years)</i>
Software acquired externally	5
Internally developed software	3 – 6

22. Impairment reviews are undertaken for all intangible assets at least every two years and any impairment losses are recognized in the Statement of Financial Performance.

Liabilities

3.6 Employee Benefits

23. UNCCD provides the following employee benefits:

- Short-term employee benefits comprise first-time employee benefits (assignment grants), regular monthly benefits (wages, salaries, allowances), compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (education grant, reimbursement of taxes) which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits including ASHI, repatriation grant, separation related travel and shipping costs, accumulated annual leave on separation and death benefit; and
- Termination benefits include indemnities for voluntary redundancy payable once a plan has been formally approved.

24. The liability recognized for post-employment benefits is the present value of the defined benefit obligations at the reporting date. An independent actuary using the projected unit credit method calculates the defined benefit obligations. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-grade corporate bonds with maturity dates approximating those of the individual plans.

25. Employee benefits including payments to staff members on separation from service such as repatriation grant, accrued annual leave, repatriation travel and removal on repatriation are expensed on an accrual basis.

26. Actuarial gains and losses related to post-employment benefits for after service health insurance are recognised in the period in which they occur on the statement of changes in net assets as a separate item in net assets/equity.

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

28. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNCCD, in line with the other participating organizations in the Fund, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes and hence has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25: Employee benefits. UNCCD's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

3.7 Provisions

29. Provision are made for future liabilities and charges where UNCCD has a present legal or constructive obligation as a result of past events and is probable that UNCCD will be required to settle the obligation, and the value can be reliably measured.

3.8 Contingent liabilities and contingent assets

30. Contingent liabilities, where their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNCCD or where the value cannot be reliably estimated, are disclosed in the Notes to the financial statements. Contingent liabilities are evaluated continually to determine whether an outflow of resources has become probable. If an outflow becomes probable, a provision is recognized in the financial statements in the period in which probability occurs.

3.9 Leases

31. Leases, where the lessor retains a significant portion of the risks and rewards inherent in ownership, are classified as operating leases. Payments, made under operating leases are charged on the Statement of Financial Performance as an expenses on a straight-line basis over the period of the lease.

Revenue

3.10 Non-exchange Revenue and Receivables

32. Indicative contributions to the Core Budget and are recognised at the beginning of the year to which the assessment relates. The revenue amount is determined based on the approved budgets and the scale of assessment approved by the United Nations General Assembly as adopted by the Conference of the Parties.

33. Voluntary contributions are recognised upon the signing of a binding agreement with the donor. Revenue is recognised immediately if no condition is attached. If conditions are attached, including a requirement that funds not utilized

in accordance with the agreement must be returned to the contributing entity, revenue is recognised only upon satisfying the conditions. Until such conditions are met a liability (deferred revenue) is recognised. Voluntary contributions such as pledges and other promised donations which are not supported by binding agreements are considered contingent assets and are recognised as revenue when received and disclosed in the Notes to the financial statements if receipt is considered probable.

34. Multi-year voluntary conditional contributions due in future financial periods are recognized as receivables on the signing of the agreement along with a liability (deferred revenue) until the conditions are met.

35. Goods in kind are recognised at their fair value, measured as of the date the donated assets are acquired. Services in kind including the use of space provided are not recognized.

36. UNCCD charges projects financed by voluntary contributions with the cost of providing programme support services. The charge is recognized as revenue in the funds performing the service and expenses in the funds receiving support services and reflected in the statement of financial performance by fund. In the consolidated Statement of Financial Performance (Statement II) both programme support revenue and expenses are eliminated since they represent inter-fund charges and revenue.

37. Receivables are stated at amortized cost less allowances for estimated irrecoverable amounts. A provision is established equal to 50% of indicative contributions receivable outstanding for more than 36 months and 100% of receivables outstanding for more than 48 months. A provision is established for all other receivables equal to 50% of the amount outstanding for more than 24 months and 100% for receivables outstanding for more than 36 months.

3.11 Exchange Revenue

38. Interest revenue is recognised on a time proportion basis as it accrues, taking into account the effective yield.

3.12 Expenses

39. Expenses arising from the purchase of goods and services are recognized when the services or goods have been received and accepted by UNCCD. Services are considered received on the date when the service is certified as rendered. For some service contracts, this process may occur in stages. Balances of unliquidated obligations recognized as expenses in the Core Budget on the Statement of Budget to Actual Comparison related to services or goods not received and accepted by UNCCD at the reporting date are not recognized as expenses on the Statement of Financial Performance.

40. Savings resulting from the cancellation of expenses accrued in prior period and from instances where actual costs incurred are lower than the amount accrued in a prior period are recognized as a reduction of expenses in the current period on the Statement of Financial Performance.

3.13 Segment Reporting

41. UNCCD is a single purpose entity with a mandate to assist the signatories of the UN Convention to Combat Desertification to the living conditions for people in drylands, to maintain and restore land and soil productivity, and to mitigate the effects of drought. Its operations, therefore, consist of a single segment. However, to provide additional information for use to senior management and Parties to the Convention supplemental disclosures are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all UNCCD funds. A fund is a self-balancing accounting entity established to account for the

transactions of a specified purpose or objective. Fund balances represent the accumulated residual of revenue and expenses.

42. UNCCD classifies all projects, operations and fund activities into seven funds and special accounts:

- Trust fund for the Core Budget of UNCCD financed from indicative contributions (or general purpose contributions from donors),
- Trust fund for Participation of representatives of State Parties in the session of UNCCD Conference,
- Trust fund for Convention events organized by the UNCCD Secretariat (the Bonn Fund),
- Trust fund for Voluntary financing of activities under the UNCCD,
- Special account for UNCCD Programme Support,
- UNCCD Cost Recovery under Host Country Agreement,
- Trust fund for the Voluntary financing of the UNCCD Global Mechanism.

43. Transactions occurring between funds are accounted for at cost and eliminated on consolidation.

44. UNCCD reports on the transactions of each fund during the financial period, and the balances held at the end of the period.

3.14 Budget Comparison

45. UNCCD's budget is prepared on a modified cash basis and the financial statements are prepared on an accrual basis. The budget is adopted on a biennial basis and presented in annual estimates in the financial statements. Unexpended balances at the end of the first year of the biennium are carried forward and added to the annual budget estimate for the second year of the biennium.

46. Statement V compares the final budget to actual revenue and expenses amounts calculated on the same basis as the corresponding approved budget.

47. As the basis used to prepare the budget and financial statements differ, Note 17 provides a reconciliation between the actual amounts presented in statement V and the actual amounts presented on the Statement of Financial Performance.

48. The COP approves the biennial Core budget of the secretariat and the Global Mechanism in euros. The COP has delegated authority to the Executive Secretary to make transfers between each of the main appropriations lines in Statement V up to an aggregate limit of 20 percent of the total estimated expenses for those appropriation lines subject to a further limitation of up to minus 25 per cent of each appropriation line.

Note 4

Financial Risk and Instruments

4.1 Financial risk factors

49. UNCCD's operations may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

OAH cash pool related credit risk disclosures

50. In addition to directly held cash and cash equivalents and investments, the United Nations Convention to Combat Desertification ("UNCCD") participates in the United Nations Treasury main pool. The main pool comprises of operational

bank account balances in a number of currencies and investments in United States dollars.

51. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by 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.

52. As at 31 December 2016, UNCCD participated in the main pool that held total assets of \$9,033.6 million (2015: \$7,783.9 million), of which \$22.1 million was due to the Organization (2015: \$19.0 million), and its share of revenue from the main pool was \$0.1 million (2015: negative \$2.5 million).

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

(Thousands of United States dollars)

	<i>Main pool</i>
Fair value through the surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through the surplus or deficit investments	6 515 334
Loans and receivables	
Cash and cash equivalents	2 493 332
Accrued investment revenue	24 961
Total loans and receivables	2 518 293
Total carrying amount of financial assets	9 033 627
Cash pool liabilities	
Payable to UNCCD	22 071
Payable to other cash pool participants	9 011 556
Total liabilities	9 033 627
Net assets	—

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

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

(Thousands of United States dollars)

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

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

(Thousands of United States dollars)

	<i>Main pool</i>	<i>Euro pool</i>	<i>Total</i>
Fair value through the surplus or deficit			
Short-term investments	3 888 712	10 941	3 899 653
Long-term investments	2 617 626	-	2 617 626
Total fair value through the surplus or deficit investments	6 506 338	10 941	6 517 279
Loans and receivables			
Cash and cash equivalents	1 265 068	32 637	1 297 705
Accrued investment revenue	12 462	3	12 465
Total loans and receivables	1 277 530	32 640	1 310 170
Total carrying amount of financial assets	7 783 868	43 581	7 827 449
Cash pool liabilities			
Payable to the UNCCD	18 972	1	18 973
Payable to other cash pool participants	7 764 896	43 580	7 808 476
Total liabilities	7 783 868	43 581	7 827 449
Net assets	-	-	-

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

(Thousands of United States dollars)

	<i>Main pool</i>
Investment revenue	51 944
Unrealized gains / (losses)	(10 824)
Investment revenue from main pool	41 120
Foreign exchange gains / (losses)	(11 720)
Bank Fees	(525)
Operating expenses from main pool	(12 245)
Revenue and expenses from main pool	28 875

Financial risk management

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

54. 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.

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

Financial risk management: credit risk

56. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main pool 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 main pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

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

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

Investments of the cash pool by credit ratings as at 31 December 2016

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

59. 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 impaired investments.

Financial risk management: liquidity risk

60. 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 a day's notice to support operational requirements. The main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

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

Main pool interest rate risk sensitivity analysis

62. This analysis 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. The investments, being accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in 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). The basis point shifts are illustrative.

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

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

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

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

Other market price risk

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

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

Accounting classifications and fair value hierarchy

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

65. The levels are defined as:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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 (i.e. derived from prices).

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

66. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on 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 in the main pool is the current bid price.

67. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximise 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.

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

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

(Thousands of United States dollars)

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	697 676	-	697 676	149 682	-	149 682
Bonds - Non-United States agencies	1 903 557	-	1 903 557	2 190 965	-	2 190 965
Bonds - Non-United States sovereigns	124 854	-	124 854	124 612	-	124 612
Bonds - Supranational	213 224	-	213 224	139 828	-	139 828
Bonds - United States treasuries	586 739	-	586 739	1 092 139	-	1 092 139
Main pool - Commercial papers	149 285	-	149 284	949 112	-	949 112
Main pool - Term deposits	-	2 840 000	2 840 000	-	1 860 000	1 860 000
Main pool total	3 675 334	2 840 000	6 515 334	4 646 338	1 860 000	6 506 338

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

Financial Instruments
(United States dollars)

	2016	2015
Cash and cash equivalents at fair value through surplus and deficit	6,091,696	3 083 939
Short-term investments at fair value through surplus and deficit	10,724,685	9 478 251
Long-term investments	5,193,544	6,380,014
Accounts Receivable at amortized cost	11,554,190	3,496,029
Accounts Payable at amortized cost	(2 021 296)	(1 574 790)
Total net financial instruments	31,542,819	20,863,443

69. The carrying amounts of the indicative contributions receivable are denominated in euros.

70. The age of contributions receivables at the reporting date are as follows.

(United States dollars)

<i>Receivables past due</i>	<i>Assessed</i>	<i>Other receivables</i>
Up to 1 year	605 952	10,114,828
1 to 2 years	282 916	368,661
2 to 3 years	157 851	-
3 to 4 years	181 851	-
Above 4 years	1 578 653	-
Total receivables at 31 December	2 807 223	10,483,489
Provision for impaired receivables At 1 January	(1 590 747)	
Revaluation	(145 775)	-
Total receivables after provisioning as at 31 December	1 070 701	10,483,489

Note 5
Cash, Cash Equivalents and Investments

Note 5 - Cash and investments		
(in US dollars)	2016	2015
Cash at bank and on hand	-	-
Cash and cash equivalents held in OAH Euro dollar Cash Pool	6 091 696	3 083 939
Total cash	6 091 696	3 083 939
Short-term investments	10 724 685	9 478 251
Total current cash and short-term investments	16 816 381	12 562 190
Long-term investments	5 193 544	6 380 014
Total cash and investments	22 009 925	18 942 204

71. Most of UNCCD cash forms part of the cash pools that are maintained and managed by the UN Treasury. The cash pools comprises UNCCD's participating share of cash and term deposits, short term and long term investments and accrual of investment income all of which are managed in the pool.

Note 6
Accounts receivable

Accounts receivable	2016	2015
Assessed Contributions due from Parties to the Convention (Non-exchange transactions) (in US dollars)		
Current	2,807,223	4 177 788
Less revaluation	(145 775)	(87 485)
Less provision for doubtful debts	(1 590 747)	(1 716 202)
Sub-total indicative contributions	1 070 701	2 374 101

72. Indicative contributions reflect the contributions receivable from Parties to the Convention to fund the Core Budget in accordance with the Financial Rules adopted by the COP.

73. Other receivables include amounts invoiced for taxes reimbursable under the headquarters agreement with the host government, global mechanism receivables, voluntary contributions receivable and investment revenue receivable.

Other receivables (in US dollars)	2016	2015
VAT	41,994	35,797
Investment income receivable	60,984	30,375
Global Mechanism receivables less revaluation	5,563,563	218,818
Other receivables (exchange transactions)	10,131	-
Voluntary contributions receivable less revaluation	4,806,817	1,352,990
		-
Sub-total	10,483,489	1,637,980

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

74. Provisions have been established covering indicative contributions receivable and other receivables equal to 50% of amounts outstanding for more than three but less than four years and 100% of amounts outstanding for more than four years.

Note 7

Other current assets

75. Other current assets consist of the following:

Other current assets (in US dollars)	2016	2015
Travel advance	58,112	15,726
Education grant advance	226,299	-
Salary advance	-2,297	13,189
UNDP Remittances net of charges	208,891	1,103,658
Other	226,448	-
Total other current assets	717,453	1,132,573

Note 8

Fixed Assets

(United States dollars)

<i>Equipment</i>	<i>Vehicles</i>
Cost	
At 31 December 2015	109 881
Disposal	-
Impairment	-
At 31 December 2016	109 881
Accumulated depreciation	
At 31 December 2014	(70 502)
At 31 December 2015	(984)
Depreciation during the year	(3 938)
Disposal	-
At 31 December 2016	(75 424)
Net Book Value	
At 31 December 2016	34 457
At 31 December 2015	38 395

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

76. In 2015, the organization acquired a new vehicle at the cost exceeding the capitalization threshold of USD 5,000. The vehicle has been capitalized as an asset and is being depreciated over a period of ten years (see accounting policy note 3.4).

<i>Equipment</i>	<i>Communication Equipment</i>
Cost	
At 31 December 2015	
Additions	5 440
Disposal	-
Impairment	-
At 31 December 2016	5 440
Accumulated depreciation	
Depreciation during the year	(907)
Disposal	-
At 31 December 2016	(907)
Net Book Value	
At 31 December 2016	4 533
At 31 December 2015	-

77. In 2016 the Organization acquired additional IT equipment at a cost exceeding the capitalization threshold of USD 5,000. The equipment has been capitalized as an asset and is being depreciated over a period of five years (see accounting policy note 3.4).

Note 9
Intangibles
(United States dollars)

<i>(in US dollars)</i>	<i>Software externally acquired</i>	<i>Software internally developed</i>	<i>Total</i>
Opening balance			
At 1 January 2016	197,138	-	197,138
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
At 31 December 2016	197,138	-	197,138
Accumulated Amortisation Opening Balance			
At 1 January 2014 (restated)	(93,913)	-	(93,913)
Amortisation 2014	(39,428)	-	(39,428)
Amortisation 2015	(34,982)	-	(34,982)
Amortisation 2016	(28 815)	-	(28 815)
Closing balance	(197 138)	-	(197 138)
Net Book Value			
At 31 December 2016	0	-	0
At 31 December 2015	28 815	-	28 815

78. UNCCD has utilized the transition provision in IPSAS-31. Intangible assets and the value of intangibles assets were recognized prospectively beginning with costs incurred on or after 1 January 2014.

Note 10
Payables and Accruals

(in US dollars)	2016	2015
Vendor payables	1,051,596	1 577 247
Unexpended balance of contribution from the Government of the Bolivarian Republic of Venezuela	969,699	969 699
Accruals for goods and services	95,600	1 016 377
Total payables and accrued expenses	2 116 895	3 563 323

79. Payables to vendors relate to amounts due for goods received and services rendered payment had not been completed.

80. The amount payable to the Government of the Bolivarian Republic of Venezuela is the unexpended balance of a grant of \$2.0 million awarded to the Organization in 2004. Discussions with the government continued into 2017 are expected to conclude the matter within the year.

81. Accruals are liabilities for goods and services that have been received or provided to UNCCD during the year and which have not been invoiced by suppliers.

Note 11

Advance receipts and deferred revenue

(in US dollars)	2016	2015
Conditional voluntary contributions	10,343,052	1 391 537
Indicative contributions received in advance	236,607	773 984
Total advance receipts	10 579 659	2 165 521

82. UNCCD recognizes a liability in cases where conditions are attached to voluntary contributions. Conditions are imposed by donors on the use of contributions, and include both an obligation to use the donation in a specified manner and an obligation to return any amount not expended in accordance with performance specified by the donation. The amount recognised as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As UNCCD satisfies the conditions on voluntary contributions through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognised.

83. Indicative contributions received in advance cover amounts received before the due date as established by the Financial Regulations.

Note 12

Employee Benefits

84. The employee benefit liabilities outstanding at the reporting date are as follows:

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

(in United States dollars)	2016	2015
Current liabilities		
Repatriation grant	203,000	173 000
ASHI liability	80,000	66 000
Accumulated annual leave	123,000	135 000
Death Benefit	4,000	4 000
USA Tax reimbursement	12,054	1 822
Home leave	88,246	73 795
Other	56,798	84 457
Subtotal current liabilities	567,098	538,074
Non-current liabilities		
Home leave		-
Death benefit	28,000	29 000
Accumulated annual leave	1,016,000	1 071 000
Repatriation grant and travel	1,189,000	1 241 000
After service health insurance	12,195,000	11 998 000
Subtotal non-current liabilities	14 428 000	14 339 000
Total employee benefits liabilities	14 995 098	14 877 074

85. The methodology for estimating the amounts of each liability is as follows:

Short term benefits:

Education grant: Internationally recruited staff members are eligible for partial reimbursement of the amounts paid for the education of dependent children up to maximum allowances established by the International Civil Service Commission (ICSC). The liability relates to the amount earned but not claimed at the reporting date.

Home leave: Non-locally recruited UNCCD staffs are entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter, every second year. The liability recorded has been calculated proportionately reflecting the number of months of home leave entitlement earned by officials since their last entitlement at the reporting date.

US taxes: American citizens that are officials of UNCCD are reimbursed for the amount of income taxes payable on the compensation they earn from the Organization.

Post-employment benefits

Annual leave: In accordance with UN Staff Rules and Staff Regulations, UNCCD staff may accumulate annual leave of up to 60 working days which is payable on separation from service.

Repatriation grant and travel: In accordance with UN Staff Rules and Staff Regulations, non-locally recruited UNCCD staff are entitled to a grant calculated based on length of services and family status on separation from service if they have completed at least one year of service outside their home country. In addition, non-locally recruited UNCCD staff are entitled to reimbursement of travel and transport of personal effects on separation for themselves, their spouse and their dependent children.

After Service Health Insurance (ASHI): Staff members (and their spouses, dependent children and survivors) retiring from service at the age of 55 or later are eligible for ASHI coverage if they have contributory health insurance coverage prior to retirement for at least five years of service for staff hired before 1 July 2007 and ten years of service for staff hired after 1 July 2007. Staffs hired before 1 July 2007 who retire with less than ten years but more than 5 years of covered receive unsubsidized coverage until enrolled for 10 years at which time the coverage is subsidized. UNCCD's liability for ASHI is calculated as the residual liability after deducting contributions from retirees and a portion of the contribution from active staff. For 2016, the gross liability was calculated by the actuary as \$12,275,000 net of contributions from plan participants (\$12,064,000 at 31 December 2015).

86. An actuarial valuation at 31 December 2016 has been utilized to determine the UNCCD's estimated liability and expenses recognized on the Statement of Financial Performance for repatriation grants and travel, death benefit, accumulated leave and after-service health insurance at the reporting date.

87. Each year, the UNCCD reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expenses and contribution requirements for the UNCCD's after-service medical care plans and separation benefit plans. The discount rate is determined by calculating the expected benefit payments for each future year attributable to past service as of the valuation date and then discounting these benefit payments using spot rates for high quality corporate bonds. A single equivalent discount rate was then determined that resulted in the same past service obligation. The resulting single discount rate was rounded to the nearest 1/2 basis point.

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

88. The following assumptions and methods have been used to determine the value of employee benefit liabilities for the UNCCD at 31 December 2016 and at 31 December 2015.

<i>Key financial assumptions</i>	<i>ASHI</i>	Repatriation Grant & Travel	Annual Leave	Death Benefit
Discount rate at beginning of period	1.13%	3.38%	3.61%	3.29%
Discount rate at end of period	1.33%	3.32%	3.51%	3.24%
General inflation rate at beginning of period		2.50%		
General inflation rate at end of period		2.25%		
Salary increase rate at beginning and end of period	Based on the age of staff member calculated separately for professional and general service staff			
Healthcare cost trend rate at beginning of period	5.00%			
Healthcare cost trend rate at end of period	4.00%			

89. The effect of a one percent change in the health care trend rate on UNCCD's defined benefit obligation for ASHI for 2016 is as follows:

(in thousands of US dollars)		
On total defined benefit obligation	1%	3,721.00
	-1%	-2,736.00
On current service cost and interest cost component of liability	1%	365
	-1%	-255

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

90. The liabilities established for defined benefit obligations and the net service costs for 2016 are as follows:

(Thousands of United States dollars)	ASHI	Repatriation Grant & Travel	Annual Leave	Death Benefit
Reconciliation of defined benefit obligation				
Defined benefit obligation, beginning of year	12,064	1,414	1,206	33
Current service cost	781	106	22	2
Interest cost	137	45	41	1
Benefits paid (net of participant contribution)	(67)	(179)	(140)	(4)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	<u>(640)</u>	<u>6</u>	<u>10</u>	<u>0</u>
Total liability recognized on Statement of Financial Position	12,275	1,392	1,139	32
Annual expense for calendar year				
Current service cost	781	106	22	2
Interest cost	137	45	41	1
Benefits paid (net of participant contribution)	<u>(67)</u>	<u>(179)</u>	<u>(140)</u>	<u>(4)</u>
Total (charge)/credit recognized on statement of financial performance	851	(28)	(77)	(1)
Estimated benefit payments net of participant contributions payable	81	210	128	4
Cumulative amount of actuarial (gain)/loss recognized in net assets				
Amount at beginning of year	3,690	37	43	(3)
Adjustment to opening balance to reflect change in valuation methodology recognized in net assets	-	-	-	-
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	<u>(4,330)</u>	<u>(31)</u>	<u>(33)</u>	<u>3</u>
Total portion of cumulative liability recognized in net assets at end of year	(640)	6	10	0

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

91. Comparative information on defined benefit obligations for the current year and four previous years is as follows:

(Thousands of United States dollars)

Present value of liability for defined benefit obligations at 31 December	2016	2015	2014	2013	2012	2011
(Thousands of United States dollars)						
After service health insurance	12,275	12,064	14,776	10,090	8,348	7,665
Repatriation grant and travel	1,392	1,414	1,392	1,386	979	944
Annual leave	1,139	1,206	652	615	360	336
Death benefit	32	33	25	22	28	-
Total	14,838	14,717	16,845	12,113	9,715	8,945
Note 1 - actuarial valuations calculated on biennially through 2011						

92. Under IPSAS-25: Employee benefits, the liabilities for ASHI, repatriation grant and travel, death benefit and accumulated leave are considered unfunded and, therefore, no fair value of plan assets has been recognized and the entire ASHI liability is recognized as a liability of the UNCCD.

93. Beginning in 2014 with the adoption of IPSAS, interest cost and current service cost related to the defined benefit obligation for ASHI liability, repatriation grant and travel, death benefits and accumulated leave have been recognized on the statement of financial performance as a component of staff costs. Actuarial gains or losses for the ASHI defined benefits plan results from changes in actuarial assumptions or experience adjustments including experience adjustments are directly recognized in the consolidated statement of changes in net assets. Actuarial adjustments for other long-term benefits including repatriation grants, death benefits and accumulated leave are recognized directly in the Statement of Financial Performance. The balance of each provision is reviewed annually and adjusted to reflect actual experience.

94. Short-term employee benefit liabilities for education grants and home leave are recognized at an undiscounted amount. Short-term compensated absences are recognized, as employees earn their entitlement to future compensated absences through rendering a service to the UNCCD. For non-accumulating compensating absences an expenses is recognized when the absence occurs.

United Nations Joint Staff Pension Fund

95. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

96. UNCCD's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

97. The latest actuarial valuation was performed as of 31 December 2015. The valuation revealed an actuarial surplus of 0.16% (deficit of 0.72% in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2015 was 23.54% of pensionable remuneration, compared to the actual contribution rate of 23.70%. The next actuarial valuation will be conducted as of 31 December 2017.

98. At 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1% (127.5% in the 2013 valuation). The funded ratio was 100.9% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

99. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2015, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26. During 2016, contributions paid to UNJSPF amounted to USD 1.2 million. Expected contributions due in 2017 are 1.3 million.

100. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

Note 13
Other current liabilities

(United States dollars)

(in US dollars)	2016	2015
Repatriation grant held in trust	4,323	-
Inter-fund balances	-	-
Total advance receipts	4,323	-

101. The amount relates to a repatriation grant payable to a staff member whose contract expired in 2016. The amount will be settled through payroll by United Nations Office at Geneva.

Note 14
Revenue

102. Indicative contributions are funds received from Parties to the Convention toward funding the Core Budget based on the United Nations scale of assessment. The contributions are based on a biennium budget adjusted for changes in exchange rates and post adjustments and are recognized as of the first day of the year to which they relate. Indicative contributions are considered to be without conditions.

103. Voluntary contributions are recognised as revenue at the point of signature except where such agreement contains a condition in which case recognition as revenue is deferred until the conditions specified in the donor agreement have been satisfied.

104. Program Support Revenue is charged in line with the UN financial procedures, where UNCCD charges a standard programme support cost of 13% on technical cooperation financed activities and 12% for Associate Experts.

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

Programme support revenue and matching expenses is eliminated in the financial statements since they represent inter-fund charges and revenue.

105. Exchange differences represent gains realized on transactions occurring in currencies other than US dollars and unrealized losses resulting from revaluation of monetary assets.

Note 15
Expenses

106. Employee salaries, allowances and benefits are for all international and national staff expenses such as salaries, post adjustments, entitlements, pension and health plan contributions for professional and general service category staff. It also includes temporary staff expenses such as costs relating to the employment of temporaries.

107. Non-employee compensation and allowances cover the cost of contracting with individual experts and consultants, including insurances and travel expenses of the consultants.

108. Travel covers the cost of airfare and other transport cost, daily support allowances and terminal allowances.

	2016	2015
Other operating expenses	USD	USD
Bank Charges and UNDP service fee	35,368	3 922
Communications Utilities	75,496	69 907
Contracted services	91,643	53 092
Insurance	4,470	511 387
Joint activities	272,462	28 021
Maintenance	3,180	3 422
Foreign exchange loss	-	67 768
Shared services	4,975	20 240
Rental	200,636	70 348
Shipping	6,090	31 419
Hospitality and official functions	18,097	91 928
Training	13,370	
Reverse provision for litigation	-	(48 780)
Others	924	(26 368)
Total Other Operating Expenses	726 711	876 305

109. Fellowship grants are made to individuals to attend educational institutions, seminars and workshops to carry out the mandates contained in the Convention.

110. Exchange revaluation differences represent losses realized on transactions occurring in currencies other than US dollars and unrealized losses resulting from revaluation of monetary assets.

Note 16
Reserves

111. A working capital reserve has been established for the Core Budget as part of the adoption of the budget by the COP along with operating reserves established for the Trust Fund for Voluntary Financing, Trust Fund for participation of State Parties in the Conference and Special Account for Programme Support. The total reserves

at the reporting date totalled USD 2.0 million (USD 2.0 million at 31 December 2015).

Note 17

Budget Comparison and Reconciliation

112. UNCCD's budget is prepared on a modified cash accounting basis and the financial statements are prepared on a full accrual basis in accordance with IPSAS. On statement V, the budget is adopted in euro on a biennial basis and divided into annual amounts for presentation in the financial statement. Comparison of budget and actual amounts are presented in euro, with the corresponding amount of actuals presented in United States dollars. The comparison is only made in respect of budgets adopted by the COP.

113. The actual amounts presented on a comparable basis to the budget are not prepared on a comparable basis to the Statement of Financial Performance, as the accounts are maintained in United States dollars. A reconciliation of the revenue and expenses on the budgetary basis as on the Statement V-A to the amounts presented on the Statement II is presented below. As required by IPSAS-24 the differences have been categorized as follows:

Presentation differences are differences in the format and classification schemes in the Statement of Financial Performance which includes both revenue and expenses and the Statement of Comparison of Budget and Actual Amounts which includes only revenue.

Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the net results on an IPSAS basis the non-cash elements such as un-liquidated obligations, payments against prior year obligations and outstanding indicative contributions are included as basis differences.

Entity differences represent funds other than Core budget that are reported in the Statement of Financial Performance.

114. The reconciliation between the actual amounts presented in statement V, and the actual amounts presented on the Statement of Financial Performance is as follows:

United Nations Convention to Combat Desertification
Notes to the 2016 financial statements (continued)

Reconciliation of net result on budgetary and IPSAS basis	Operations	Investing	Financing	Total
(in United States dollars)				
Actual net result on the Statement of budgets to actual comparison				
Core Budget (UXA) Revenue	8 106 329	-		8 106 329
Statement V-A Core Budget (UXA) expense on budgetary basis	7 795 984	-		7 795 984
Global mechanism cost of move to Bonn	<u>0</u>			<u>0</u>
Core Budget (UXA) Expense	7 795 984			7 795 984
Core Budget (UXA) Actual net result on budgetary basis	310 345	-		310 345
Basis differences				
Adjustments to revenue				
Miscellaneous revenue not included in budget	677 104			677 104
Prior period revenue used to finance core budget	<u>-</u>	-		<u>0</u>
	677 104			677 104
Capitalization of equipment & intangible assets	33 660	-		33 660
Changes in provision for doubtful debts	(125 455)	-		(125 455)
Mark investments to market	-	-		0
Other adjustments to expenditure	244 039			244 039
Exchange loss	38 283	-		38 283
Post employment benefit interest and current service cost	<u>(389 925)</u>	-		<u>(389 925)</u>
	(199 398)			(199 398)
Sub-total basis differences	477 706	-		477 706
Full accrual based net result for Core Budget	788 051	-		788 051
Entity differences on IPSAS Basis				
Global Mechanism (GMZ)	(1 985 787)	-		(1 985 787)
Participation in UNCCD COP Sessions (UVA)	(466 276)	-		(466 276)
Convention events organized by Secretariat (BMA)	(4 917)	-		(4,917)
Programme support costs (ZQA)	(634 963)	-		(634 963)
Cost Recovery under host country agreement (ZHC)	137 691	-		137 691
Voluntary Financing of activities (UWA)	<u>4 915 817</u>	-		<u>4 915 817</u>
Sub-total entity differences	1 961 565	-		1 961 565
Actual net result on the Statement of Financial Performance	2 749 616	-		2 749 616

Note 18

Budget to Actual variance analysis

115. Explanations of material differences between the original budget and final budget, and final budget and the actual amounts are presented in the statement from the Executive Secretary accompanying these statements.

Note 19

Related Parties

116. The key management personnel of UNCCD are the Executive Secretary, Deputy Executive Secretary and Coordinators of major organizational units, who have the authority and responsibility for planning, directing and controlling the activities of UNCCD and influencing its strategic direction.

Key management remuneration

(United States dollars)

	<i>Number of Individuals (full time equivalents)</i>	<i>Aggregate Remuneration</i>
Senior Management (2016)	10	1,526,669
Senior Management (2015)	10	2,099,188

117. The aggregate remuneration paid to key management personnel includes gross salaries, post adjustment, entitlements, assignments and other grant, rental subsidy, personal effects shipment costs, income tax reimbursement, employer contributions to pension plan and current health insurance contributions. Key management personnel are also qualified for post-employment benefits which are payable only upon separation.

118. Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund (UNJSPF).

119. Advances are those made against entitlements in accordance with the staff rules and regulations. There were no loans granted to key management personnel.

120. Except otherwise noted in these statements for revenue from non-exchange transactions including contributions in kind, all transactions made with 3rd parties occur within a normal supplier or client/recipient relationship or at arm's length terms and conditions.

121. The charges paid to the United Nations (UN Office at Geneva – UNOG) for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis. The United Nations Secretariat also provides support services on a normal supplier basis such as translation and editing of documents related to the meetings of the Conference of Parties to the Organization. In addition, the United Nations Volunteers (UNV) is responsible for the management of the building occupied by UNCCD in Bonn, Germany. UNV charges UNCCD for the costs of space occupancy and security services on a normal supplier basis.

122. The authority to establish funds is vested in the Secretary General of the United Nations with the approval of the Conference of the Parties. All such funds must be consistent with the objectives of the UN Convention to Combat Desertification. The termination of any existing fund by the Conference of the Parties and the distribution of any remaining fund balance is subject to consultation with the Secretary General of the United Nations.

123. The Organization reimburses the United Nations for the cost of all services provided at such rates as may from time to time be agreed upon for that purpose by both organizations.

Note 20

Leases and commitments and Contingencies

124. UNCCD has operating leases for photocopiers, water coolers, data and telecommunications equipment and outsourced computer services. The leases for photocopiers provide for the payment of costs per copy made above a maximum monthly amount, the leases for the water coolers for water supplies and for computer services provide for special services charged on an as needed basis. These additional charges are considered contingent rents and are not included in the minimum lease payments disclosed below.

125. The minimum lease payments under non-cancellable property leases are shown below:

(United States dollars)

<i>Equipment Non- cancellable leases</i>	<i>2016</i>	<i>2015</i>
No later than one year	17,963	17 563
1-2 years	<u>0</u>	<u>0</u>
Total Equipment Leases	17 963	17 563

126. UNCCD has no outstanding leases qualifying as finance leases at the reporting date. Lease payments recognised as expenses in the period are USD 17,963 (2015 USD 23,687).

127. Other commitments relate to the acquisition of goods and services contracted for, but not delivered, as at 31 December 2016 amount to USD 1,051,598 (2015 USD 1 022 307).

128. There are no contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to UNCCD.

Note 21

In-kind contributions of services

129. The UNCCD receives in-kind contributions from the government of the Federal Republic of Germany of the right to use land, office space and other facilities in its operations. The Organization has not received title to these properties which remain with the government. The facilities are provided to UNCCD without charge. The agreement under which the facilities are provided may be cancelled by the UNCCD or by the government with twelve months' notice but, in such case, would remain in force for whatever additional period is required for UNCCD to cease its activities in the Federal Republic of Germany in an orderly manner. UNCCD does not recognize the value of in-kind contributions of services including the financial value of the donated right to use the facilities provided by the Federal Republic of Germany on the financial statements.

Note 22

Fund Accounting

130. The UNCCD is a single purpose entity established by the Parties to the Convention and the United Nations. The UNCCD has one major mandate to assist the signatories of the Convention. It, therefore, does not have segments as defined under IPSAS-18: Segment reportings.

131. However, to provide essential information to senior management and owners on the utilization of resources by funding source, separate funds have been established to reflect the major funding sources of UNCCD as follows:

- Trust fund for the Core Budget of UNCCD financed from indicative contributions (or general purpose contributions from donors) supports the core functions of the secretariat.
- Trust fund for Participation of Representatives of eligible State Parties affected by Desertification and/or Drought in the sessions of the Conference of the Parties and its Subsidiary Bodies.
- Sub-Fund of the Special Fund for the voluntary financing of activities under the UNCCD (United Nations Convention to Combat Desertification) enabling a donor or a recipient government to make voluntary contributions supports mandated activities for which provisions are not made under the Core budget.
- Trust fund for the Sub-Fund of the Trust Fund for Convention Events organized by the UNCCD Secretariat.
- Trust Fund for voluntary financing of Global Mechanism.
- Special account for Programme Support Costs financed from charges made to the projects financed from voluntary contributions used to manage the overhead charges payable on all trust funds to cover costs relating to administrative services.
- Special account for UNCCD Cost Recovery under the Host Country Agreement used to finance costs associated with the hosting of the Conference of the Parties under the host country agreement. Balances in this account are refunded to the host country.

132. All funds elimination includes revenue and expenses arising from transfers between funds which are accounted for at cost and are eliminated on consolidation.

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION

Statement I: Statement of Financial Position by Fund

as at 31 December 2016

	TRUST FUND FOR THE CORE BUDGET OF THE UNCCD (UXA)		TRUST FUND FOR PARTICIPATION OF REPRESENTATIVES OF STATE PARTIES IN THE SESSION OF THE UNCCD CONFERENCE(UVA)		TRUST FUND FOR VOLUNTARY FINANCING OF ACTIVITIES UNDER THE UNCCD (UWA)		TRUST FUND FOR CONVENTION EVENTS ORGANIZED BY THE UNCCD SECRETARIAT (BMA)		SPECIAL ACCOUNT FOR UNCCD PROGRAMME SUPPORT COST (ZQA)		UNCCD COST RECOVERY UNDER HCA (ZHC)		TRUST FUND FOR VOLUNTARY FINANCING OF THE UNCCD GLOBAL MECHANISM (GMZ)	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Assets														
Current Assets														
Cash and cash equivalents	1 503 480	336 318	201 441	275 608	1 999 102	900 544	177 760	79 788	126 318	403 106	224 927	155 810	1 858 668	932 765
Short-term investments	2 646 940	1 823 041	354 646	847 075	3 519 502	2 767 767	312 953	245 232	222 388	449 571	395 993	478 860	3 272 263	2 866 705
Indicative contributions receivable	1 070 701	2 374 101	-	-	-	-	-	-	-	-	-	-	-	-
Other accounts receivable	28 887	39 405	34 518	2 714	4 722 599	1 362 022	2 515	786	3 036	1 441	106 854	1 568	5 585 080	230 044
Other current assets	526 598	1 095 050	-	-	21 575	18 204	-	-	125 779	1 609	2 978	2 978	40 523	14 732
Total current Assets	5 776 606	5 667 915	590 605	1 125 397	10 262 778	5 048 537	493 228	325 806	477 521	855 727	730 752	639 216	10 756 534	4 044 246
Non-Current Assets														
Intangible assets	-	28 815	-	-	-	-	-	-	-	-	-	-	-	-
Equipment	38 990	38 395	-	-	-	-	-	-	-	-	-	-	-	-
Long-term investments	1 281 809	1 227 134	171 741	570 186	1 704 357	1 863 045	151 551	165 072	107 694	302 614	191 764	322 329	1 584 628	1 929 634
Total Non-Current Assets	1 320 799	1 294 344	171 741	570 186	1 704 357	1 863 045	151 551	165 072	107 694	302 614	191 764	322 329	1 584 628	1 929 634
Total Assets	7 097 405	6 962 259	762 346	1 695 583	11 967 135	6 911 582	644 779	490 878	585 215	1 158 341	922 516	961 545	12 341 162	5 973 880
Liabilities														
Current Liabilities														
Accounts payable and accrued expenses	262 529	1 012 221	106 416	573 377	1 346 557	1 310 390	139 735	5 473	45 974	13 296	49 688	226 408	165 996	422 158
Advance receipts	236 607	773 984	-	-	1 554 313	1 171 757	-	-	-	-	-	-	8 788 739	219 780
Employee benefit liability	365 942	349 473	-	-	11 839	17 538	24 555	25 226	146 662	128 166	-	-	18 100	17 671
Other current liabilities	-	-	-	-	-	-	-	-	-	-	-	-	4 323	-
Total Current Liabilities	865 078	2 135 678	106 416	573 377	2 912 709	2 499 685	164 290	30 699	192 636	141 462	49 688	226 408	8 977 158	659 609
Non-Current Liabilities														
Employee benefit liability	8 175 389	8 184 963	-	-	399 640	399 737	878 104	879 630	4 295 204	4 194 461	-	-	679 663	680 209
Total Non-Current Liabilities	8 175 389	8 184 963	-	-	399 640	399 737	878 104	879 630	4 295 204	4 194 461	-	-	679 663	680 209
Total Liabilities	9,040,467	10,320,641	106,416	573,377	3,312,349	2,899,422	1,042,394	910,329	4,487,840	4,335,923	49,688	226,408	9,656,821	1,339,818
Net Assets	(1 943 062)	(3 358 382)	655 930	1 122 206	8 654 786	4 012 160	(397 615)	(419 451)	(3 902 625)	(3 177 582)	872 828	735 137	2 684 341	4 634 062
Accumulated surpluses/(deficits)														
Accumulated surpluses/(deficits)	(5 022 660)	(5 810 711)	440 253	906 529	8 440 319	3 524 502	(519 502)	(514 585)	(2 194 000)	(1 559 037)	872 828	735 137	2 604 273	4 590 060
Actuarial gain (loss) recognized in net assets	2 125 580	1 498 311	-	-	(170 927)	102 264	121 887	95 134	(2 105 791)	(2 015 711)	-	-	80 068	44 002
Operating reserves	954 018	954 018	215 677	215 677	385 394	385 394	-	-	397 166	397 166	-	-	-	-
Total Fund Balances and Reserves	(1 943 062)	(3 358 382)	655 930	1 122 206	8 654 786	4 012 160	(397 615)	(419 451)	(3 902 625)	(3 177 582)	872 828	735 137	2 684 341	4 634 062

STATEMENT II

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION

Statement of Financial Performance for the period 1 January to 31 December 2016 by fund

	TRUST FUND FOR THE CORE BUDGET OF THE UNCCD (UXA)		TRUST FUND FOR PARTICIPATION OF REPRESENTATIVES OF STATE PARTIES IN THE SESSION OF THE UNCCD CONFERENCE (UVA)		TRUST FUND FOR VOLUNTARY FINANCING OF ACTIVITIES UNDER THE UNCCD (UWA)		TRUST FUND FOR CONVENTION EVENTS ORGANIZED BY THE UNCCD SECRETARIAT (BMA)		SPECIAL ACCOUNT FOR UNCCD PROGRAMME SUPPORT COST (ZQA)		UNCCD COST RECOVERY UNDER HCA (ZHC)		TRUST FUND FOR VOLUNTARY FINANCING OF THE UNCCD GLOBAL MECHANISM (GMZ)		ELIMINATIONS		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
REVENUE																		
Indicative contributions	8 118 060	8 936 622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8 118 060	8 936 622
Voluntary contributions	570 002	541 050	20 000	2 135 188	8 195 920	3 219 232	565 589	348 402	-	-	106 157	1 411 900	1 062 685	5 013 534	-	-	10 520 353	12 669 306
Fees for services rendered	-	-	-	-	-	-	-	-	765	10 497	-	-	-	-	-	-	765	10 497
Interest Revenue	29 375	(1 191)	13 012	(2 669)	45 427	(7 679)	10 073	(509)	3 338	(1 075)	7 312	(1 419)	46 898	(6 579)	-	-	155 435	(21 121)
Programme support revenue	-	-	-	-	-	-	-	-	1 708 139	1 698 571	-	-	-	-	(1 708 139)	(1 698 571)	-	-
Gain on investments	29 998	-	7 902	-	43 678	-	4 631	-	6 701	-	3 002	-	187 556	-	-	-	283 468	-
Miscellaneous revenue	35 997	11 459	-	-	28 538	-	-	-	-	-	-	-	2 496	3 191	-	-	67 031	14 650
Other revenue	-	-	-	-	(5 138)	-	-	-	(25 344)	-	-	-	-	-	-	-	(30 482)	-
TOTAL REVENUE	8 783 432	9 487 940	40 914	2 132 519	8 308 425	3 211 553	580 293	347 893	1 693 599	1 707 993	116 471	1 410 481	1 299 635	5 010 146	(1 708 139)	(1 698 571)	19 114 630	21 609 954
EXPENSES																		
Personnel expenses	5 207 661	6 107 513	-	-	396 355	744 805	293 343	391 682	2 266 538	1 753 950	(95 740)	141 305	362 610	729 089	-	-	8 430 767	9 868 344
Travel	541 102	517 167	455 998	1 134 373	496 153	153 895	189 825	6 443	(12 920)	-	12 880	718 930	116 855	159 003	-	-	1 799 893	2 689 811
Contractual services	461 417	1 069 101	-	-	1 858 887	724 408	37 501	22 193	5 604	8 768	(43)	13 411	2 508 716	2 174 917	-	-	4 872 082	4 012 798
Operating and other direct costs	488 214	750 976	-	-	73 337	91 287	-	-	69 340	980	61 685	52 416	34 135	(19 354)	-	-	726 711	876 305
Supplies commodities and materials	1 939	162 998	-	-	-	4 082	-	-	-	-	-	1 194	725	3 826	-	-	2 664	172 100
Equipment vehicles and furniture	61 552	-	-	-	-	-	-	-	-	-	-	-	1 158	-	-	-	62 710	-
Grants	389 946	17 597	-	-	133 753	105 280	-	1 000	-	-	-	-	-	-	-	-	523 699	123 877
Programme support costs	897 061	1 044 503	51 193	155 720	434 122	235 456	64 541	43 404	-	-	-	-	261 222	219 488	(1 708 139)	(1 698 571)	-	-
Loss on investments	-	211	-	15	-	204	-	19	-	96	-	21	-	307	-	-	-	873
Amortization/depreciation	33 660	35 967	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33 660	35 967
Change in provision for doubtful debts	(125 455)	(178 225)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(125 455)	(178 225)
Loss on foreign exchange	38 283	1 334 245	-	66 434	-	565 495	-	53 841	-	168 134	-	60 029	-	817 836	-	-	38 283	3 066 014
TOTAL EXPENSES	7 995 380	10 862 053	507 191	1 356 542	3 392 607	2 624 912	585 210	518 582	2 328 562	1 931 928	(21 218)	987 306	3 285 421	4 085 112	(1 708 139)	(1 698 571)	16 365 014	20 667 864
SURPLUS/(DEFICIT) FOR THE PERIOD	788 052	(1 374 113)	(466 277)	775 977	4 915 818	586 641	(4 917)	(170 689)	(634 963)	(223 935)	137 689	423 175	(1 985 786)	925 034	-	-	2 749 616	942 090

ACRONYMS

ASHI	After service health insurance
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
IPSAS	International Public Sector Accounting Standards
PP&E	Property, plant and equipment
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNJSPF	United Nations Joint Staff Pension Fund
UNOG	United Nations Office at Geneva
UNORE	United Nations operational rate of exchange
UNV	United Nations Volunteers
USD	United States dollar