

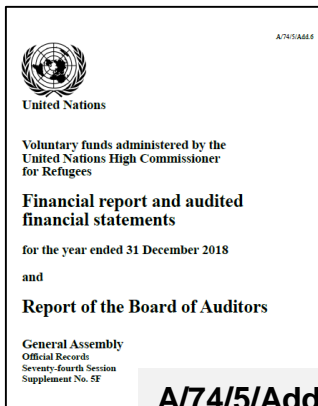
2 (a) Finance and Oversight

Mr. Hans G. Baritt
Controller and Director
Division of Financial and Administrative Management

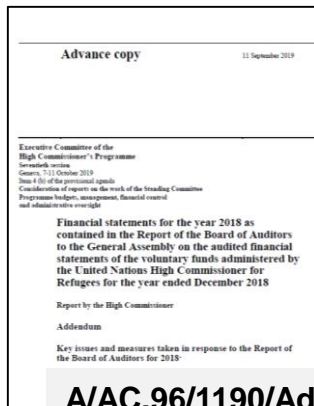
76th Standing Committee
18-19 September 2019



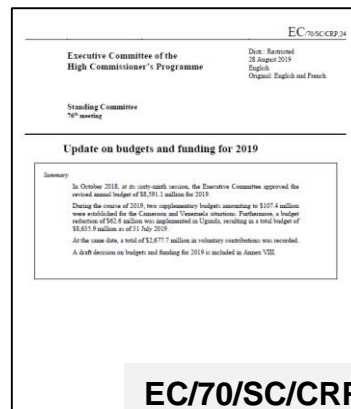
Key financial documents issued



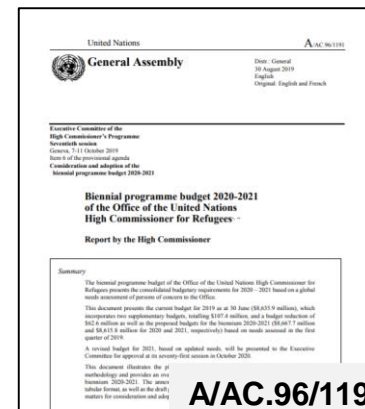
A/74/5/Add.6



A/AC.96/1190/Add.1



EC/70/SC/CRP.24



A/AC.96/1191

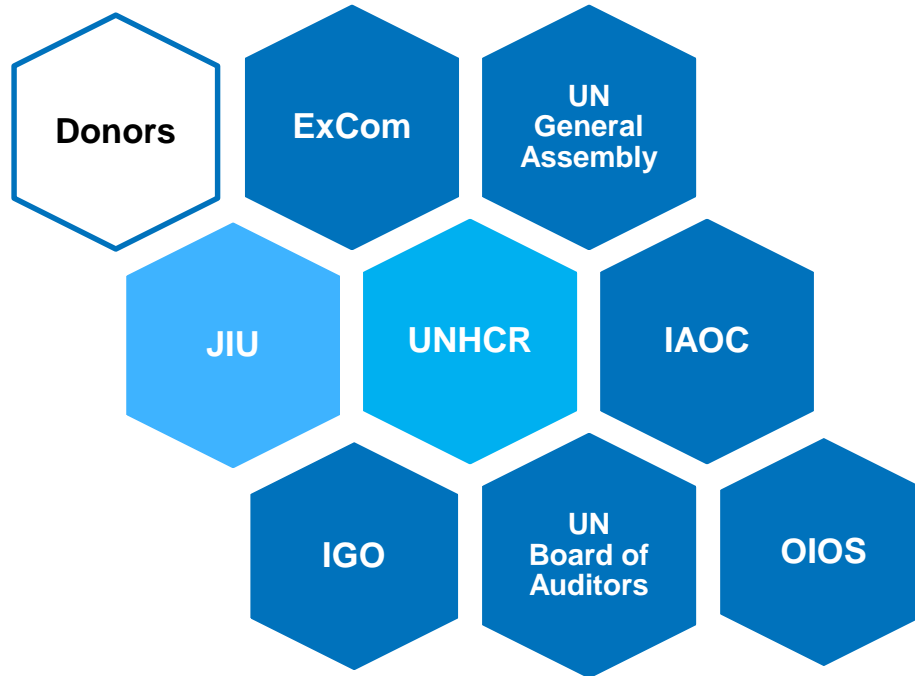
Financial Statements for 2018

- Completed and submitted to Board of Auditors (BoA) in March 2019
- Audited by BoA during March to May 2019
- Clean audit opinion issued as reflected in A/74/5/Add.6

Budget

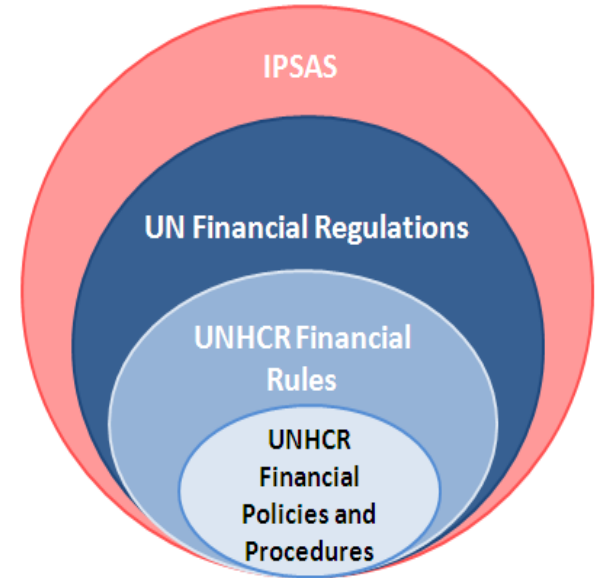
- Biennial programme budget 2020-2021
- Updates on programme budgets and funding

Governance and Oversight

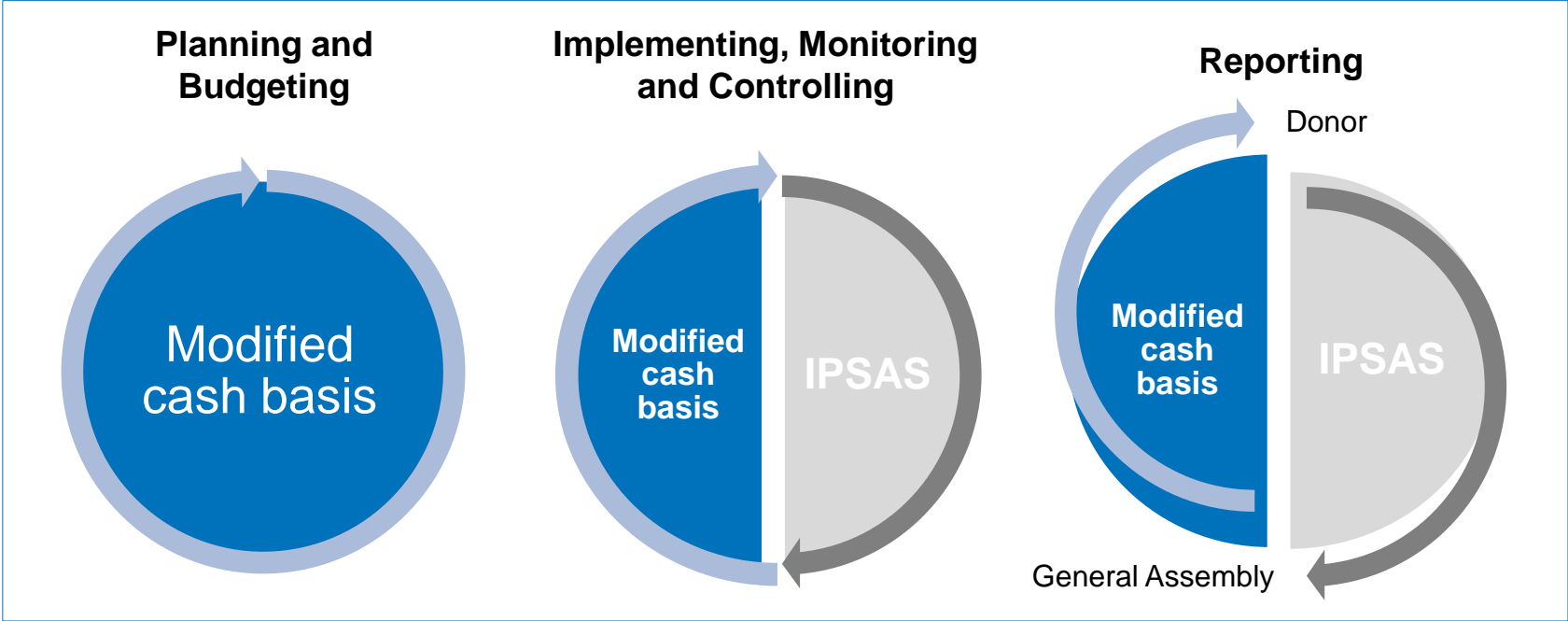


IPSAS background

- UNHCR has adopted International Public Sector Accounting Standards (IPSAS) as of **1 January 2012** (replacing UNSAS) in order to comply with the 2006 UN General Assembly resolution 60/283.
- **Aim:** improved comparability, harmonization, transparency and accountability of the UN system organizations' financial reporting.



Modified cash basis vs. IPSAS reporting



Benefits of IPSAS

For financial management and reporting

- Enhanced quality, transparency and comparability of information
- Increased discipline in recording and reporting financial transactions

To operations

- Improved management of inventories
- Better control, safeguarding and oversight of PPE
- Improved recognition of expenses (delivery principle)
- Improved view over longer term liabilities (e.g. ASHI)

II. Statement of financial performance 31 Dec. 2018

- The total of all revenues and expenses that UNHCR incurred throughout the year
- Revenues 2018 – 98% voluntary contributions
- Expenses – Implementing partners (34%)
Salaries and employee benefits (25%)

What is meaning “Surplus” for UNHCR?

(Thousands of United States dollars)

| | Reference | 2018 | 2017 (restated) |
|--|-----------|------------------|------------------|
| Revenue | | | |
| Voluntary contributions | Note 5.1 | 4 260 756 | 4 151 995 |
| United Nations regular budget | | 38 642 | 47 755 |
| Interest revenue | | 18 130 | 9 896 |
| Other revenue | Note 5.2 | 20 766 | 20 766 |
| Total revenue | | 4 338 294 | 4 230 412 |
| Expenses | | | |
| Implementing partnership expenses | Note 6.1 | 1 375 073 | 1 404 093 |
| Salaries and employee benefits | Note 6.2 | 996 364 | 929 722 |
| Cash assistance to beneficiaries | Note 6.3 | 472 381 | 370 540 |
| Contractual services | Note 6.4 | 455 425 | 466 595 |
| Supplies and consumables for beneficiaries | Note 6.5 | 289 269 | 340 120 |
| Operating expenses | Note 6.6 | 240 646 | 216 192 |
| Equipment and supplies | Note 6.7 | 87 635 | 78 463 |
| Travel expenses | | 74 046 | 66 164 |
| Depreciation, amortization and impairment | Note 6.8 | 45 030 | 44 592 |
| Other expenses | Note 6.9 | 28 112 | 28 249 |
| Total expenses | | 4 063 980 | 3 944 729 |
| Foreign exchange (gains)/losses | Note 6.10 | 18 539 | (93 774) |
| Surplus/(deficit) for the year | | 255 775 | 379 457 |

I. Statement of financial position 31 Dec. 2018

- **Balance Sheet** – Shows a snapshot of UNHCR assets, liabilities and the resulting net assets at year-end
- **Assets** – Accounts receivable \$1.226m, Cash \$965m
- **Liabilities**
 - Accounts payable \$200m
 - Employee benefits \$92m
- **Net Assets**
 - Cumulative balance of “surplus”
 - Working Capital, Medical Insurance Plan
 - Staff Benefits

(Thousands of United States dollars)

| | Reference | 31 December 2018 | 31 December 2017 (restated) |
|---|-----------|------------------|-----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | Note 3.1 | 965 055 | 945 635 |
| Investments | Note 3.1 | 250 000 | 170 000 |
| Contributions receivable | Note 3.2 | 1 226 581 | 1 049 686 |
| Inventories | Note 3.3 | 225 501 | 226 009 |
| Other current assets | Note 3.4 | 204 445 | 153 577 |
| Total current assets | | 2 871 582 | 2 544 907 |
| Non-current assets | | | |
| Contributions receivable | Note 3.2 | 230 742 | 255 994 |
| Property, plant and equipment | Note 3.5 | 171 628 | 145 429 |
| Intangible assets | Note 3.6 | 30 717 | 26 235 |
| Total non-current assets | | 433 087 | 427 658 |
| Total assets | | 3 304 669 | 2 972 565 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accruals | Note 3.7 | 200 403 | 161 276 |
| Employee benefits | Note 3.8 | 92 570 | 92 714 |
| Provisions | Note 3.10 | 4 578 | – |
| Other current liabilities | Note 3.9 | 3 824 | 4 182 |
| Total current liabilities | | 301 376 | 258 173 |
| Non-current liabilities | | | |
| Employee benefits | Note 3.8 | 684 105 | 725 650 |
| Provisions | Note 3.10 | 64 | 13 708 |
| Total non-current liabilities | | 684 169 | 739 359 |
| Total liabilities | | 985 545 | 997 531 |
| Net assets | | 2 319 125 | 1 975 034 |
| Fund balances and reserves | | | |
| Accumulated fund balances and reserves | Note 3.11 | 2 744 365 | 2 515 500 |
| Working Capital and Guarantee Fund | Note 3.12 | 100 000 | 100 000 |
| Medical Insurance Plan | Note 3.13 | 41 759 | 37 041 |
| Staff Benefits Fund | Note 3.14 | (566 999) | (677 507) |
| Total fund balances and reserves | | 2 319 125 | 1 975 034 |

III. Statement of changes in net assets

31 Dec. 2018

- Reveals movements in the fund balances and reserves broken down by main Funds of UNHCR, including:
 - Accumulated fund balances and reserves,
 - Working Capital Fund,
 - Staff Benefits Fund and
 - Medical Insurance Plan

(Thousands of United States dollars)

| | <i>Reference</i> | <i>Accumulated fund balances and reserves</i> | <i>Working Capital and Guarantee Fund</i> | <i>Staff Benefits Fund</i> | <i>Medical Insurance Plan</i> | <i>Total</i> |
|--|------------------------------|---|---|----------------------------|-------------------------------|------------------|
| Net assets at 31 December 2016 | | 2 213 987 | 50 000 | (666 239) | 32 351 | 1 630 099 |
| Accounting policy changes | Notes 2, 3.5 | (13 820) | – | – | – | (13 820) |
| Net assets at 1 January 2017 (restated) | | 2 200 167 | 50 000 | (666 239) | 32 351 | 1 616 279 |
| Movements in fund balances and reserves in 2017 | | | | | | |
| Surplus/(deficit) for the period | Notes 3.11, 3.12, 3.13, 3.14 | 325 103 | 99 713 | (50 050) | 4 690 | 379 457 |
| Loss on after-service health insurance actuarial valuation | Note 3.8 | – | – | (20 702) | – | (20 702) |
| Funding of long-term employee liabilities | Notes 3.8, 3.14 | (59 483) | – | 59 483 | – | – |
| Transfers | Notes 3.11, 3.12, 3.13, 3.14 | 49 713 | (49 713) | – | – | – |
| Total movements during 2017 | | 315 333 | 50 000 | (11 268) | 4 690 | 358 755 |
| Net assets at 31 December 2017 (restated) | | 2 515 500 | 100 000 | (677 507) | 37 041 | 1 975 034 |
| Movements in fund balances and reserves in 2018 | | | | | | |
| Surplus/(deficit) for the period | Notes 3.11, 3.12, 3.13, 3.14 | 305 496 | (10 665) | (43 774) | 4 718 | 255 775 |
| Gain on actuarial valuations of post-employment benefits | Note 3.8 | – | – | 88 316 | – | 88 316 |
| Funding of long-term employee liabilities | Notes 3.8, 3.14 | (65 966) | – | 65 966 | – | – |
| Transfers | Notes 3.11, 3.12, 3.13, 3.14 | (10 665) | 10 665 | – | – | – |
| Total movements during 2018 | | 228 865 | – | 110 508 | 4 718 | 344 091 |
| Total net assets at 31 December 2018 | | 2 744 365 | 100 000 | (566 999) | 41 759 | 2 319 125 |

IV. Statement of cash flow

31 Dec. 2018

- Overview of UNHCR cash inflows and outflows from organizational activities during a given period

(Thousands of United States dollars)

| | Reference | 2018 | 2017 (restated) |
|--|----------------|------------------|--------------------|
| Cash flows from operating activities: | | | |
| Surplus/(deficit) for the period | | 255 775 | 379 457 |
| Depreciation, amortization and impairment | Notes 3.5, 3.6 | 45 030 | 44 592 |
| (Increase)/decrease in contributions receivable | Note 3.2 | (151 643) | (371 411) |
| (Increase)/decrease in inventories | Note 3.3 | 508 | (22 189) |
| (Increase)/decrease in other assets | Note 3.4 | (50 869) | (19 137) |
| Increase/(decrease) in accounts payable and accruals | Note 3.7 | 39 127 | (22 771) |
| Increase/(decrease) in employee benefits liabilities, net of actuarial gain/loss | | 46 627 | 51 468 |
| Increase/(decrease) in provisions | Note 3.10 | (9 066) | 10 509 |
| Increase/(decrease) in other liabilities | Note 3.9 | (358) | (2 083) |
| (Gain)/loss on disposal of property, plant and equipment, and intangibles | | (4 481) | (5 218) |
| Revenue from in-kind contributions of property, plant and equipment | | (189) | (65) |
| Net cash flows from operating activities | | 170 461 | 43 152 |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | Note 3.5 | (74 527) | (50 130) |
| Purchase of intangible assets | Note 3.6 | (7 784) | (10 356) |
| Proceeds from sale of assets | | 11 270 | 10 619 |
| Purchase of short term investments | | (910 000) | (470 000) |
| Maturities and sale of short term investments | | 830 000 | 450 000 |
| Net cash flows from investing activities | | (151 041) | (69 867) |
| Cash flows from financing activities: | | | |
| Net cash flows from financing activities | | - | - |
| Net increase/(decrease) in cash and cash equivalents | | 19 420 | (26 715) |
| Cash and cash equivalents at beginning of the year | | 945 635 | 972 350 |
| Cash and cash equivalents at end of the year | | 965 055 | 945 635 |

V. Statement of comparison of budget and actual amounts 31 Dec. 2018

- Provides a comparison of actual expenditures against the original and final budget
- How do readers link this to Budget?**

(Thousands of United States dollars)

| | Ref- erence | Global needs assessment budget | | Actual on comparable basis | Variances: final budget and actual amounts |
|---|----------------|-----------------------------------|--------------------|----------------------------------|---|
| | | Original ^b | Final ^c | | |
| Field operations | | | | | |
| Africa | | 2 600 517 | 2 755 634 | 1 304 144 | 1 451 490 |
| Middle East and North Africa | | 2 168 103 | 2 481 767 | 1 255 052 | 1 226 715 |
| Asia and the Pacific | | 492 271 | 700 538 | 369 201 | 331 337 |
| Europe | | 876 290 | 881 360 | 485 445 | 395 915 |
| Americas | | 152 553 | 205 996 | 133 679 | 72 317 |
| Total field operations | | 6 289 734 | 7 025 294 | 3 547 520 | 3 477 775 |
| Global programmes | | 421 726 | 465 518 | 435 570 | 29 948 |
| Headquarters | | 217 274 | 239 972 | 235 076 | 4 896 |
| Operational reserve and new or additional activities – mandate-related reserve | | 567 680 | 477 668 | – | 477 668 |
| Junior Professional Officers Fund | | 12 000 | 12 000 | 8 088 | 3 912 |
| Total | Note 7 | 7 508 414 | 8 220 453 | 4 226 254 | 3 994 199 |

IPSAS 1: Qualitative Characteristics of Financial Reporting

1. Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning.

2. Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations.

3. Reliability

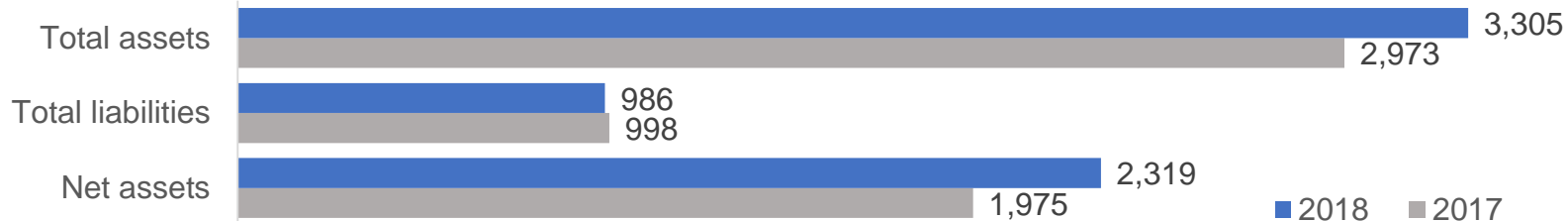
Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

4. Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

UNHCR finances remain sound in 2018

Assets, liabilities and net assets 2017/2018 (in millions of USD)



Key financial ratios, 31 December

| | 2018 | 2017 |
|--|------|------|
| Current assets to current liabilities ⁽¹⁾ | 9.53 | 9.86 |
| Total assets to total liabilities ⁽²⁾ | 3.35 | 2.98 |
| Cash and cash equivalent to current liabilities ⁽³⁾ | 3.20 | 3.66 |
| Cash, short-term investments and AR to current liabilities | 8.10 | 8.39 |
| Cash and short-term investments to current liabilities | 4.03 | 4.32 |

(1) A high ratio indicates an entity's ability to pay off its short-term liabilities; (2) A high ratio is a good indicator of solvency; (3) The cash ratio (without investments) indicates an entity's liquidity. It serves to measure the amount of cash, cash equivalents available in current assets to cover current liabilities.

UNHCR fund balances and reserves

| Fund balances and reserves | | 2018 | 2017 |
|---|-----------|------------------|------------------|
| Accumulated fund balances and reserves | Note 3.11 | 2 744 365 | 2 515 500 |
| Working Capital and Guarantee Fund | Note 3.12 | 100 000 | 100 000 |
| Medical Insurance Plan | Note 3.13 | 41 759 | 37 041 |
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| Total fund balances and reserves | | 2 319 125 | 1 975 034 |

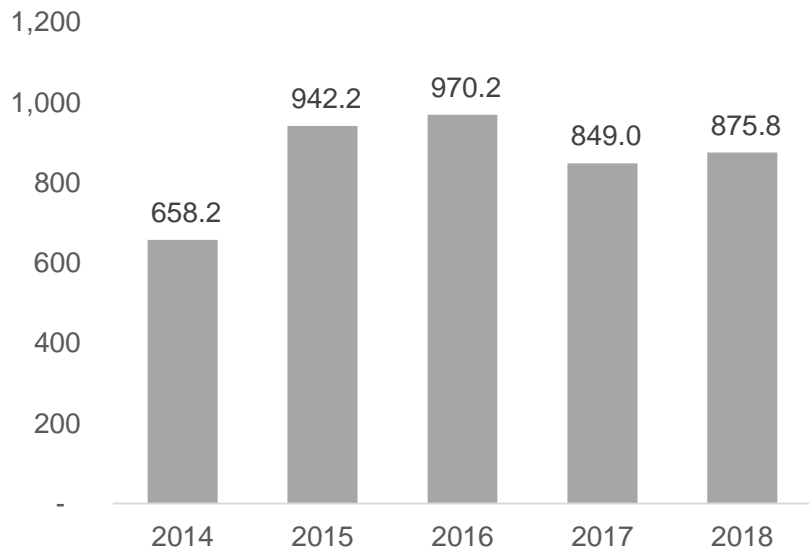
Net assets available to UNHCR for use differ from net assets as reflected in IPSAS based statement

| Reconciliation of net assets 2018 (in millions of USD) | |
|---|--------------|
| IPSAS based net assets 31 Dec. 2018 | 2,319 |
| Less: | |
| Cash received in 2018 for activities of 2019 and beyond | - 196 |
| AR tied to time conditioned pledges not yet implemented | - 1,184 |
| IPSAS assets previously expensed for budget purpose | - 428 |
| Other adjustments | - 27 |
| Adjusted net assets 31 Dec. 2018⁽¹⁾ | 484 |

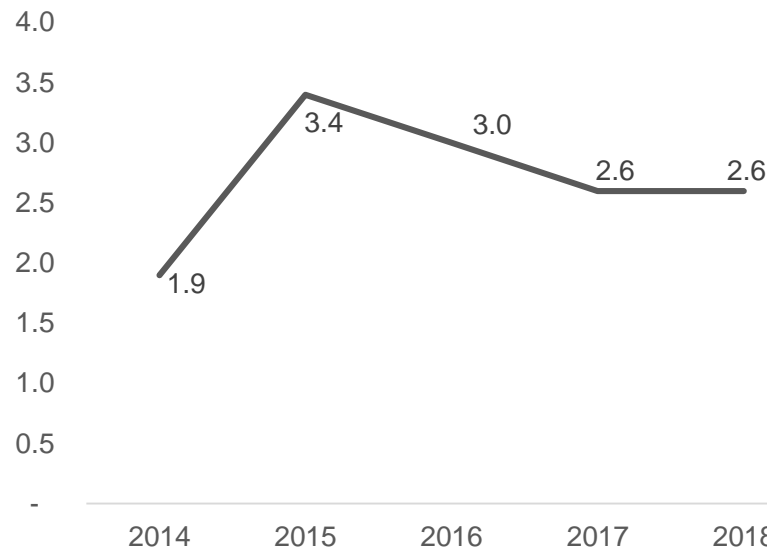
Note: (1) Representing the carry-over balance as per Table IV.3 of Financial Statements 2018 (A/74/5/Add.6) and in Table I.7 of Biennial Programme Budget 2020-2021 (A/AC.96/1191).

Cash for operational activities - coverage of needs remained low at less than 3 months in 2018

Total amount of cash and short-term investments available for operational activities 2014 to 2018 (in millions of USD)



Months of operational needs covered 2014 to 2018 (in months)

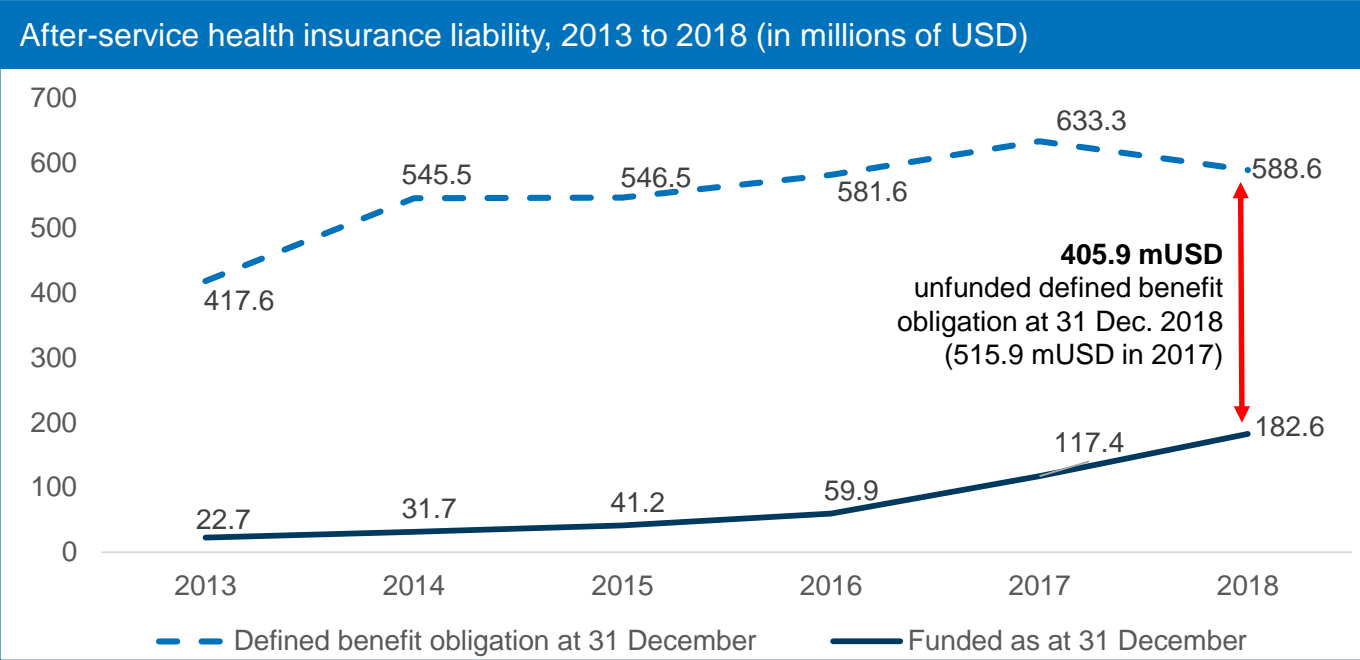


Inventory distribution and on stock

Inventory distribution and on stock at year-end, 2014 to 2018 (in millions of USD)



Funding for after-service health insurance (ASHI) liability continues to be built but the gap persists



Cash flows - Multi-Currency Portfolio

UNHCR Currency Risks managed centralized

| Currency | 2018 Inflow | 2018 Outflow |
|---------------------------------|-------------|--------------|
| USD | 50% | 44% |
| EUR | 30% | 10% |
| EUR correlated ⁽¹⁾ | 2% | 8% |
| SEK | 5% | - |
| GBP | 2% | - |
| NOK | 2% | - |
| CAD | 2% | - |
| AUD | 1% | - |
| JPY | 1% | 1% |
| CHF | 1% | 4% |
| Other currencies ⁽²⁾ | 4% | 33% |
| Total Inflow/Outflow | 100% | 100% |

- UNHCR Global Currency Portfolio benefits from significant natural correlations related to either USD or EUR
- UNHCR Value at Risk (VaR) confirms natural correlation i.e. naturally hedged in the range of 60-75%
- Currency Portfolio: inflows in 10 major G10 currencies and outflows in 93 currencies
- Remaining risk concentrated in EUR
- Emerging markets currencies reduce risk - mainly to USD but also to EUR
- FX mitigation optimized through limited hedging contracts

Note: (1) Correlated currencies e.g. DKK, XOF, XAF; HUF;
 (2) Other currencies include mainly Emerging Market currencies

“IPSAS Lite” – For consideration

- **IPSAS 23**
Revenue recognition – simplify to make revenue and net assets more meaningful and in line with budget figures (carryforward).
- **IPSAS 28, 29, 30**
Financial instruments accounting/presentation/recognition/disclosure to be simplified
- **IPSAS 31**
Simplification of recognition of intangible assets

Goal: Increase understandability, relevance, and comparability of Financial Statements.

Key issues and measures taken by UNHCR in response to the Report of the Board of Auditors

Key findings 2018

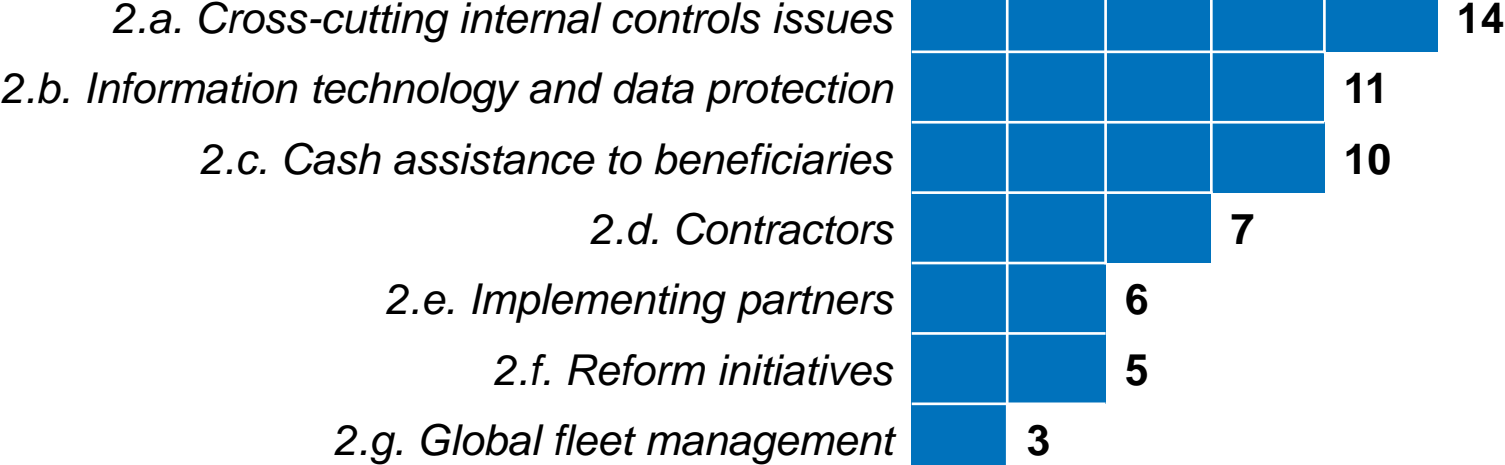
- Unqualified audit opinion
- Board confirmed that UNHCR financial position remained strong and there are sufficient assets to meet liabilities
- Key financial indicators remained robust and the level of demand for UNHCR interventions further increased with the on-going emergencies
- 64 new recommendations issued in 2018

64 recommendations issued in 2018

1. Financial management findings and observations



2. Administration and management of operations



1. Financial management findings and observations

UNHCR Actions

- ✓ will only consider revising the net asset presentation when the new IPSAS standard on revenue recognition is revised
- ✓ will look at past trends of individual donors to establish an allowance to be reflected as a revenue adjustment/provision in the financial statements for 2019
- ✓ will improve the accounting process for those items procured for direct transfer of ownership to other entities like implementing partners

2.a. Cross-cutting internal controls issues

UNHCR Actions

- ✓ Improve documentation on existing controls and the presentation of its internal control system - this will support the issuance of a statement of internal controls
- ✓ Enhance the content of current reports, which will be accessible in real time through the business intelligence platform
- ✓ Introduce new analysis tools to improve salary variance analysis
- ✓ Explore technical solutions for the central monitoring of key HR reports and for creation of additional automated HR reports

2.b. Information technology and data protection

UNHCR Actions

- ✓ Draft mandatory guidance on information security
- ✓ Implement minimum security standards through the CyberSecurity Transformation Programme
- ✓ Establish an information security risk assessment process based upon ISO 27005

2.c. Cash assistance to beneficiaries

UNHCR Actions

- ✓ Use automated notifications for repayment claims from financial service providers
- ✓ Enhance monitoring of refunds from financial service providers
- ✓ Introduce spot checks in the monitoring of the distribution of non-digital cash, in addition to the post distribution monitoring (PDM) mechanism
- ✓ Strengthen controls when changes to the final distribution lists are made
- ✓ Established integrated controls in ProGres and CashAssist to prevent and detect duplicate payments at different stages of the process

2.d. Contractors

UNHCR Actions

- ✓ Review the policy on individual contractors and the administrative instruction on the use of affiliate workforce arrangements
- ✓ Clarify the requirements for the justification and documentation for hiring individual contractors, prescribe a broader feasibility analysis and emphasize HR clearance
- ✓ Explore the technical possibility of including the recruitment of individual contractors in the recently rolled out MSRP recruitment module

2.e. Implementing partners

UNHCR Actions

- ✓ Steps taken to digitalize and centralize the entire partnership process
- ✓ Amended the format of the project financial reports to strengthen their link with the authorisation of additional instalments
- ✓ Will develop the technical solution to reference the partnership agreement symbol in the transfer of ownership agreement template to better monitor the purpose of the transfer

2.f. Reform initiatives

UNHCR Actions

- ✓ Integrated a number of senior positions in the future regional bureaux (RB) to monitor and support operations, with a reporting line to the RB Directors and a functional line to the respective HQ Divisions
- ✓ Roll out the new RBM framework in early 2021 to support the planning for the year 2022 and beyond

2.g. Global fleet management

UNHCR Actions

- ✓ Finalized the new global fleet management (GFM) strategy covering the period from 2019 to 2021, which was, inter alia, informed by the results of the GFM evaluation report
- ✓ Issued an administrative instruction on supply chain management, requiring field offices to include all operational and cost data in the GFM database, FleetWave

67 recommendations from 2017 and previous years – status update

implemented (35)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ | ✓ | | | | | |

under implementation (32)

| | | | | | | | | | |
|---------------------------|-----|-------------|-----|----------|-----|-------|-----|--------|-----|
| SDG | SDG | SDG | SDG | SDG | SDG | SDG | SDG | SDG | SDG |
| Consultants | | Consultants | | Supply | | | GFM | Travel | |
| Business continuity mgmt. | | | | Partners | | Other | | | |
| Other | | | | | | | | | |

Progress on outstanding recommendations from previous years

SDG Continuing to work on the operationalization of UNHCR's corporate position on SDGs

Consultants Enhancing policies and systems for the management of contractors and consultants contracts

Partner Strengthening quality control over the financial and performance monitoring reports of partners through capacity building and reinforcing 2nd line of defence

Other Work in progress in areas like supply, business continuity management, travel, RBM, global fleet management, accessibility, etc.

Conclusion

- ✓ Addressing the BoA's recommendations is a management priority and notable progress was made
- ✓ BoA's findings and recommendations allowed UNHCR to focus its resources on the most relevant risk areas
- ✓ UNHCR will continue to take action to address recommendations and reiterates its commitment to improving procedures, systems and controls in order to mitigate the identified risks

Thank you