

Note 2

Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations System Accounting Standards, as adopted by the former Administrative Committee on Coordination, which has since been replaced by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, Presentation of financial statements, on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

- (i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;
- (ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;
- (iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;
- (iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;
- (v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;
- (vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium consisting of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period from 1 July to 30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting. For assessed income, the policy set out in paragraph k (ii) below applies.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flows statement is based on the indirect method of cash flows, as referred to in the United Nations System Accounting Standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the United Nations System Chief Executives Board for Coordination.

(i) The results of the Organization's operations presented in Statements I, II, and III are summarized by general type of activity and are presented on a combined basis for funds other than those that are reported on separately, after the elimination of all interfund balances and instances of double-counting of income and expenditure. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Separate financial statements are issued for the United Nations general and related funds, for the United Nations Iraq escrow accounts, for the United Nations Compensation Commission, for the International Tribunal for the former Yugoslavia under the provisions of Security Council resolutions 808 (1993) and 827 (1993), for the International Tribunal for Rwanda, under the provisions of Security Council resolution 955 (1994), and for the peacekeeping accounts, which are reported separately on a fiscal year basis covering the period from 1 July to 30 June.

(k) Income:

- (i) The amounts necessary to finance the activities of the United Nations regular budget, the peacekeeping operations, the Capital Master Plan, the International Tribunals for Yugoslavia and Rwanda and the Working Capital Fund are assessed to Member States in accordance with the scale of assessments determined by the General Assembly;
- (ii) Income is recognized when assessments to Member States have been authorized by the General Assembly. Neither appropriations nor spending authorities are recognized as income except to the extent that a matching assessment on Member States has been levied;

- (iii) Amounts assessed to non-member States that agree to reimburse the Organization for the costs of their participation in United Nations treaty bodies, organs and conferences are credited to miscellaneous income;
 - (iv) Voluntary contributions from Member States and other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;
 - (v) Income from revenue-producing activities (including activities handled by outside contractors) is shown in the financial statements on a net basis, after the subtraction of directly related operating expenditures;
 - (vi) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;
 - (vii) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;
 - (viii) Income from jointly-financed activities represents amounts charged to other organizations for their share of joint costs paid for by the Organization;
 - (ix) Income for services rendered includes amounts charged for staff member salaries and other costs that are attributable to providing technical and administrative support to other organizations;
 - (x) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities, and other negotiable instruments and investment income earned in the cash pools. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;
 - (xi) Miscellaneous income includes income from rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency exchange adjustments except for those arising from revaluation of current-period obligations as stated in (l)(i) below, settlements of insurance claims, amounts assessed on new Member States for the year of admission to the United Nations, amounts assessed to non-member States as stated in (k)(iii) above, monies accepted for which no purpose was specified and other sundry income. In respect of general trust funds, miscellaneous income also includes savings on, or cancellation of, prior-period obligations;
 - (xii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in item (n)(iii) below.
- (l) Expenditure:
- (i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from revaluation of current-period obligations;

- (ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;
 - (iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in item (m) (vi) below.
- (m) Assets:
- (i) Cash and term deposits represent funds held in demand-deposit accounts and interest-bearing bank deposits;
 - (ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements;
 - (iii) Cash pools comprise participating funds' share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools are similar in nature and are accounted for as set out in item (m)(ii) above. The share in the cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in the footnote to the statement;
 - (iv) Assessed contributions represent legal obligations of contributors and, therefore, the balances of unpaid assessed contributions due from Member States are reported irrespective of collectability. It is the policy of the United Nations not to make provision for delays in the collection of such assessments;
 - (v) Interfund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Interfund balances also reflect transactions directly with the United Nations General Fund. Interfund balances are settled periodically depending on the availability of cash resources;
 - (vi) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;
 - (vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;
 - (viii) Construction in progress is shown in the accounts as such until completion of the construction projects, at which time the completed construction projects, together with the cost of the land, are reflected as capital assets of the Organization;

- (ix) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

- (n) Liabilities and reserves and fund balances:
 - (i) Operating and other types of reserves are included in the totals for reserves and fund balances shown in the financial statements;
 - (ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;
 - (iii) Deferred income includes pledged contributions for future periods, advances received under revenue-producing activities and other income received but not yet earned;
 - (iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Current-period obligations related to the regular budget and special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical cooperation activities remain valid for 12 months after the end of each calendar year. Unliquidated obligations relating to amounts owed by peacekeeping operations to Member States may be retained for a period of five years beyond the end of the financial period. Unliquidated obligations relating to funds with a multi-year financial cycle remain valid until the completion of the project;
 - (v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;
 - (vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the General Assembly to provide retirement, death, disability and related benefits. The UNJSPF is a funded defined benefit plan. The financial obligation of the Organization to the UNJSPF consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the UNJSPF. Such deficiency payments are only payable if and when the 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 UNJSPF as at the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

- (o) Technical cooperation activities:
 - (i) The technical cooperation financial statements report on activities financed by voluntary contributions, funds received under inter-organizational arrangements from UNDP, UNFPA and other sources, and by allocation from section 23 of the regular budget;
 - (ii) Voluntary contributions from Member States or other donors for technical cooperation activities are recorded as income upon receipt of cash, including amounts received pending the identification of specific projects;
 - (iii) The allocation income from UNDP and UNFPA is determined taking into account interest and other miscellaneous income against total expenditure;

- (iv) Distribution of interest income for trust funds is calculated at year's end using the percentage participation of each fund based on the monthly average fund balance.
 - (v) Miscellaneous income arising from regular budget activities is credited to miscellaneous income of the General Fund. Interest and miscellaneous income for technical cooperation trust funds are credited to the trust funds concerned;
 - (vi) Unliquidated obligations for the current period in respect of all technical cooperation activities other than the regular budget remain valid for 12 months following the end of the calendar year, rather than the biennium, to which they relate. However, in accordance with UNDP/UNFPA reporting requirements, such obligations may be retained beyond 12 months when a firm liability to pay still exists. Savings on or cancellation of prior-period obligations are credited to individual projects as a reduction of current-period expenditure;
 - (vii) The appropriation for the technical cooperation programmes of the regular budget is administered in accordance with the Financial Regulations of the Organization. Unliquidated obligations for the regular programme of technical cooperation that are outstanding at the end of a financial period are transferred from the United Nations General Fund accounts to the technical cooperation accounts in the following financial period;
 - (viii) A system of average costing is used for UNDP/UNFPA projects whereby those elements of experts' actual costs that are unique to the individual expert are charged to UNDP/UNFPA projects at average cost. This is calculated by apportioning those costs over all UNDP or UNFPA projects in respect of which expert-months have been delivered in the current period;
 - (ix) The repatriation grant entitlement is calculated on the basis of eight per cent of net base pay for eligible project personnel, except those subject to average costing;
- (p) Trust Funds established by the General Assembly or the Secretary-General are of two types — general trust funds and technical cooperation trust funds:
- (i) Accounts for general trust funds are maintained under the same accounting procedures as those adopted for the regular budget, except that savings on or cancellation of prior-period obligations are credited to miscellaneous income;
 - (ii) Effective 1 January 2005, general trust funds are charged with costs for the repatriation grant entitlement, which is calculated on the basis of eight per cent of net base pay of eligible personnel.
 - (iii) Accounts for technical cooperation trust funds and for UNDP/UNFPA general trust funds are accounted for on the same basis as described above for technical cooperation activities;
 - (iv) Funds provided to reimburse the Organization for the use of its facilities are not treated as trust funds. Any unspent balances of such funds held by the Organization are included as part of accounts payable totals reported in the General Fund (Statement V) or in other statements.