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Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council, the report of the Board of Auditors on the audit of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011, and the accounts of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011.

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Letters of transmittal

30 March 2012

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(*Signed*) **BAN** Ki-moon

Mr. **Liu** Jiayi
Chair of the Board of Auditors
United Nations
New York

30 March 2012

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) for the biennium ended 31 December 2011, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(*Signed*) **BAN** Ki-moon

Mr. **Liu** Jiayi
Chair of the Board of Auditors
United Nations
New York

30 June 2012

I have the honour to transmit to you the report of the United Nations Board of Auditors on the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011 and the accounts of the United Nations escrow accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair, United Nations Board of Auditors

The President of the Security Council
United Nations
New York

Report of the Board of Auditors on the audit of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011, and Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011

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I. Report of the Board of Auditors (audit opinion)

Report on the financial statements

We have audited the accompanying financial statements of the United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (excluding resolution 1958 (2010)) (hereinafter the old accounts) for the biennium ended 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I); the statement of assets, liabilities and reserves and fund balances (statement II); the cash flow statement (statement III), and the notes to the financial statements.

We have also audited the accompanying financial statements of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) (hereinafter the new account) for the period from 15 December 2010 to 31 December 2011, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I); the statement of assets, liabilities and reserves and fund balances (statement II); and the statement of cash flow (statement III), and the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinions on the two sets of financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements of the old accounts present fairly, in all material respects, the financial position as at 31 December 2011 and their financial performance and cash flows for the biennium ended 31 December 2011 in accordance with the United Nations system accounting standards.

In our opinion, the financial statements of the new account present fairly, in all material respects, the financial position as at 31 December 2011 and its financial performance and cash flows for the period from 15 December 2010 to 31 December 2011 in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of both the old accounts and the new account that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

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

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland

30 June 2012

II. Report of the Board of Auditors (long-form report)

Summary

In 2011, the liquidation of the oil-for-food programme was in its eighth year, following the adoption of resolution 1483 (2003) by the Security Council. The Council, in its resolution 1958 (2010) dated 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the programme.

Pursuant to resolution 1958 (2010), $151 million was transferred from the old escrow accounts to the new escrow accounts in 2010, including $20 million of the administration fund and $131 million of the indemnification reserve fund.

As at 31 December 2011, the old accounts have terminated all residual activities under the programme, all remaining unencumbered funds have been transferred to the Development Fund of Iraq, all non-expendable property has been written off and the balances of small accounts receivable and payables have been cleared through payment.

The Board of Auditors has audited the financial statements of both the old accounts for the biennium ended 31 December 2011 and the new account for the period from 15 December 2010 to 31 December 2011. The audit was carried out through a review of the financial transactions covering the eighth year of the phase-down operations of the United Nations escrow accounts.

Audit opinion

The Board issued unmodified audit opinions on the two sets of financial statements for the period under review, as reflected in Chapter I.

Follow-up of previous recommendations

All of the three recommendations made for 2010 had been fully implemented by 31 December 2011.

Financial overview

Old accounts

For the period under review, total income amounted to $3.75 million, compared with $44.02 million for the previous biennium, a decrease of 91 per cent, due to a transferral of $660.79 million of reserves to the Development Fund of Iraq, resulting in a significant decrease in interest income. Total expenditures amounted to $46.86 million, compared with $21.47 million for the previous biennium, an increase of 118 per cent attributable mainly to the currency exchange loss of $44.84 million. This resulted in a shortfall of income over expenditure of $43.11 million, compared with an excess of $22.54 million in the preceding biennium.

As at 31 December 2011, all accounts under the old accounts had been cleared.

New account

For the period under review, total income amounted to $2.26 million, while total expenditures amounted to $1.48 million, resulting in an excess of income over

expenditures of $0.78 million as of 31 December 2011. No indemnification expenditures were incurred in the indemnification reserves fund as of 31 December 2011.

Expenditure/unliquidated obligations

In the new account, expenditure on legal services for 2011 was $1.4 million, including $1.22 million of unliquidated obligations and $0.18 million of disbursement.

The Board noted that the purchase orders for legal services covered a period ended in December 2011, indicating that the legal services which had not been provided as at year-end should not be charged against the current financial period, resulting in an invalid obligation of $1.22 million.

Subsequent to the audit, the Administration cancelled $1.22 million of unliquidated obligations for 2011 and made adjustments to the financial statements accordingly.

Non-expendable property

The Board noted that the old accounts incorrectly disclosed that non-expendable property held by the World Health Organization (WHO) (a custodian of the escrow’s assets) was $0.67 million as at 31 December 2011. However, the Board verified that all the non-expendable property items held by WHO had been written down to zero in 2011. The Administration did not track the status of those assets with WHO in a timely manner, which resulted in the value of non-expendable property being overstated by $0.67 million as at 31 December 2011. Subsequent to the audit, the Administration made adjustments to the financial statements.

Budgeting formulation and management

The Board found inconsistencies in the preparation of the legal services budgets: one is based on a historical cost of legal services for a legal firm; the other is based on the legal firm’s anticipation of cost without providing sufficient justification. As a result, the anticipated cost of $1.16 million for the latter was much more than its actual cost of $0.02 million in 2011.

The Board is of the view that the inconsistent approaches applied to the cost estimation for legal services and the lack of sufficient justification for the cost estimation will affect the accuracy and effective management of the budget.

Recommendations

In the light of the findings set out above, the Board recommended that the Administration:

(a) **Conduct systematically and carefully review the unliquidated obligations to ensure their validity and avoid misstatement of expenditures;**

(b) **Take account of the historical disbursement and apply a consistent approach for the estimation of costs supported by adequate justification when preparing the cost plan for legal services.**

A. Background

1. The old accounts were established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986(1995), 1284 (1999), 1483 (2003) and 1762 (2007). In 2011, the liquidation of the oil-for-food programme was in its eighth year, following the adoption by the Security Council of resolution 1483 (2003).

2. The Security Council, in its resolution 1958 (2010), requested the Secretary-General to take all necessary actions to terminate all residual activities under the programme, establish a new escrow account containing a fund of $20 million for administration and up to $131 million as an indemnification reserve fund, and to transfer all the remaining funds to the Government of Iraq by 31 December 2016, unless it was authorized otherwise.

3. After the adoption of Security Council resolution 1958 (2010), all residual activities under the programme in 2011 under the old accounts were terminated. All the remaining unencumbered funds amounting to $4.79 million were transferred to the Development Fund of Iraq, all non-expendable property amounting to $0.67 million were written off and small accounts receivables and payables balances were cleared. From the adoption of Security Council resolution 1483 (2003) until the end of 2011, funds transferred from the old accounts to the Development Fund for Iraq totalled $11,078 million.

4. A total amount of $151 million was transferred to the new account in 2010. The Board noted that there was no indemnification disbursement which occurred in 2011.

5. The Board performed audits on the financial statements of the new account and the old accounts, and issued a consolidated audit report.

6. The Development Fund for Iraq was established pursuant to Security Council resolution 1483 (2003), to which, inter alia, all unencumbered funds from the oil-for-food programme must be transferred. The mandate of the Board does not include auditing the activities or financial records of the Fund. That audit is undertaken by independent auditors nominated and appointed by the Government of Iraq, subject to approval by the International Advisory and Monitoring Board, which is the oversight body for the Development Fund for Iraq.

B. Mandate, scope and methodology

7. The Board of Auditors has audited the financial statements of both the old Accounts for the biennium ended 31 December 2011 and the new account for the period from 15 December 2010 to 31 December 2011. The audits were conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those 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.

8. The audit was conducted primarily to enable the Board to form opinions as to whether the financial statements presented fairly the financial positions of the United Nations escrow accounts as at 31 December 2011, and the results of

operations and cash flows for the period then ended, in accordance with the United Nations system accounting standards. 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 income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form opinions on the two set of financial statements.

9. The present report covers matters that, in the opinion of the Board, should be brought to the attention to the Security Council. The Board's observations and conclusions were discussed with the Administration, whose views have been taken into account in the present report.

C. Findings and recommendations

1. Follow-up of previous recommendations

10. All three of the recommendations made in 2010 had been fully implemented by 31 December 2011.

2. Financial overview

Old accounts for the biennium ended 31 December 2011

11. Total income for the period under review amounted to $3.75 million, while total expenditure amounted to $46.86 million, resulting in a shortfall of income over expenditures of $43.11 million.

12. The decrease in income of 40.27 million, or 98 per cent, during the period under review was attributable mainly to a transferral of reserves to the Development Fund for Iraq amounting to $660.79 million in 2010-2011 ($656 million in 2010 and $4.79 million in 2011). This resulted in a decrease of interest income from $40.55 million in 2008-2009 to $3.13 million in 2010-2011.

13. Total expenditure amounted to $46.86 million, compared with $21.48 million for the previous biennium, an increase of 118 per cent attributable mainly to the currency exchange loss of $44.84 million.

14. The old accounts were cleared in 2011, and there was no reserve fund balance or cash resource balance pertaining to the old accounts as at 31 December 2011.

New Account for the period from 15 December 2010 to 31 December 2011

15. As at 31 December 2011, total income amounted to $2.26 million, while total expenditure amounted to $1.48 million, resulting in an excess of income over expenditure of $0.78 million.

16. Total cash resources (cash and term deposits and cash pool) amounted to $151.94 million, which comprises $18.98 million of the administration fund and $132.96 million of the indemnification reserve fund.

3. Unliquidated obligations in the new account

Invalid unliquidated obligations

17. In the new account, expenditures on legal services for 2011 were $1.4 million, including $1.22 million of unliquidated obligations and $0.18 million of disbursements.

18. The Board noted that the purchase orders for legal services covered a period ending in December 2011, indicating that legal services which had not been provided as at year-end should not be charged against the current financial period, resulting in an invalid obligation of $1.22 million.

19. The Administration agreed with the Board's recommendations to conduct systematically and carefully a review of the unliquidated obligations to ensure their validity and avoid misstatement of expenditures.

20. Subsequent to the audit, the Administration cancelled $1.22 million of unliquidated obligations for legal services for 2011.

Termination of the residual activities-expenditure reported to the Security Council

21. In a report (S/2012/191) to the Security Council pursuant to Security Council resolution 1958 (2010), the Secretary-General stated that the expenditure of the new account for 2011 amounted to $1.37 million.

22. The Board noted that, when the Administration reported its expenditure to the Security Council, it incorrectly reported the amount of disbursements instead of expenditure. Actually, in 2011, the disbursements under the new account were $1.39 million, while the adjusted expenditures (after the audited adjustments, including disbursement and adjusted unliquidated obligations) were $1.47 million. The Board further noted that, even for the disbursements, there was an error of $0.02 million in those reported to the Security Council.

23. The Administration agreed with the Board's recommendation to disclose complete and accurate information on expenditure in reports in the future to avoid a misunderstanding by the Security Council.

4. Non-expendable property

Inaccurate disclosure in the note to the financial statements of the old accounts

24. In a memorandum, WHO indicated that it would provide appropriate storage and maintenance services, and maintain an inventory of the humanitarian supplies and other property procured by funding from the United Nations Office of the Iraq Programme and provide periodic progress reports on the utilization of funds to the Office on the services provided.

25. The Board noted that the old accounts disclosed that non-expendable property held by WHO (a custodian of the escrow's assets) was $0.67 million as at 31 December 2011; however, the Board verified that the amount of $0.67 million was reported by WHO as at 31 December 2010, and that WHO had written down all non-expendable property assets to zero in 2011. The Administration did not track the status of these assets with WHO in a timely manner; as a result, the value of non-expendable property was overstated by $0.67 million as at 31 December 2011.

26. Subsequent to our recommendations, the Administration revised the disclosure on non-expendable property in 2011.

5. Budget formulation and management

27. The budget is a key tool for effective financial management and control, reflecting the financial characteristics of an organization’s plans for the forthcoming period, and is the central component of the processes that provide the oversight of the financial dimensions of an organization’s operations.

28. The Board found that the approaches to estimating legal services costs for two legal firms in the 2012-2013 cost plan were inconsistent. For one legal firm, the estimated legal service costs for 2012-2013 were based on the actual disbursements in 2011. For the other, however, the estimated costs for 2012-2013 were based on anticipated costs provided by the legal firm without sufficient justification. As a result, the latter’s estimated legal services costs for 2012-2013 were $1.16 million, much more than its actual disbursement of $0.02 million in 2011.

29. The Administration explained that the cost of an external legal counsel is extremely difficult to predict and depends on many factors and different stakeholders. The estimated costs for the latter were based on a number of trials scheduled and anticipated. On the other hand, the former legal firm provided legal support to the Organization in relation to the termination of residual activities. The Organization had continuous negotiations with the Government of Iraq in 2011 and the estimated cost was based on the 2011 disbursements.

30. The Board is of the view that the inconsistent approaches applied to the cost estimation for legal services and the lack of sufficient justification for the cost estimation for 2012-2013 will affect the accuracy and effective management of the budget.

31. **The Administration agreed with the recommendation to take account of the historical disbursement and to apply a consistent approach for the estimation of legal services costs when preparing the cost plan, supported by adequate justification.**

6. Procurement

32. The Oil Industry Investment Company has been using a document management system since 2004, and was not able to pay for it in 2011, as there was no formal amendment to the contract since the agreement ended in 2010. In January 2011, the Company submitted a partial ex post facto request for the extension of the contract which was subsequently approved by Headquarters Committee on Contracts on 31 December 2011.

33. In April 2012, the Company submitted another ex post facto request once again to extend the same contract through 31 December 2012, after the service had been provided by the vendor for more than three months. This request has to be yet submitted to the Headquarters Committee on Contracts for its review.

34. The Board is concerned that the recurring ex post facto/partial ex post facto cases should be avoided because the Administration should have foreseen the extension of the contract at an earlier time as the contract is of a continuing nature.

35. **The Administration agreed with the recommendation to enhance the monitoring of the contracts closely to avoid the recurrence of ex post facto/partial ex post facto cases.**

D. Disclosures by management

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

36. As required by rules 106.8 and 106.9 of the Financial Regulations and Rules of the United Nations, the Administration informed the Board that there had been no write-off of losses of cash, receivables or properties during the biennium ended 31 December 2011.

2. Ex gratia payments

37. As required by rule 105.12 of the Financial Regulations and Rules, the Administration reported that there had been no ex gratia payments during the biennium ended 31 December 2011.

3. Cases of fraud and presumptive fraud

38. The Administration advised the Board that there were no cases of fraud and presumptive fraud relating to the old Accounts and the new account for the period under review.

E. Acknowledgement

39. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Secretary-General, the Under-Secretary-General for Management, the Assistant Secretary-General and Controller and members of their staff.

(*Signed*) **Liu** Jiayi
Auditor-General of the People's Republic of China
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland

30 June 2012

Annex

Status of implementation of the Board's recommendations for the biennium ended 31 December 2009 and for the 12-month period ended 31 December 2010 of the biennium 2010-2011

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Transfer all remaining unencumbered funds of UNMOVIC to the Development Fund for Iraq in accordance with Security Council resolution 1762 (2007)	22[a]	2008	X	–	–	–
Keep under review the matter of transferring the unencumbered funds to the Development Fund for Iraq	33	2008	X	–	–	–
Dispose of the remaining non-expendable property	18[b]	2010	X	–	–	–
Settle the outstanding accounts payable and receivable	19	2010	X	–	–	–
Transfer all remaining unencumbered funds in the United Nations escrow (Iraq) accounts to the Development Fund for Iraq in accordance with the relevant Security Council resolutions	19	2010	X	–	–	–
Total number of recommendations			**5**	**–**	**–**	**–**
Percentage of total number of recommendations			**100**	**–**	**–**	**–**

[a] S/2009/314.
[b] S/2011/479.

III. Certification of the financial statements

A. United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011

1. The financial statements for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011 have been prepared in accordance with financial rule 106.10.

2. 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 and clarification for the financial activities related to Security Council resolution 1958 (2010) undertaken by the Organization during the period covered by the statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), numbered I to III, are correct.

(*Signed*) Maria Eugenia **Casar**
Assistant Secretary-General, Controller

28 March 2012

B. United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011

1. The financial statements for the United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011 have been prepared in accordance with financial rule 106.10.

2. 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 and clarification for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) undertaken by the Organization during the period covered by the statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements for the United Nations escrow (Iraq) accounts, numbered I to III, are correct.

(*Signed*) Maria Eugenia **Casar**
Assistant Secretary-General, Controller

28 March 2012

IV. Financial statements

A. Financial statements for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 15 December 2010 to 31 December 2011

Statement I

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)[a]

Statement of income and expenditure and changes in reserves and fund balances for the period from 15 December 2010 to 31 December 2011

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2011*
Income			
Sale of Iraqi oil	–	–	–
Interest income	298	1 957	2 255
Miscellaneous income	6	–	6
Total income	**304**	**1 957**	**2 261**
Expenditure			
Staff and other personnel costs	1 017	–	1 017
Travel	90	–	90
Contractual services	361	–	361
Operating expenses	17	1	18
Total expenditure	**1 485**	**1**	**1 486**
Excess (shortfall) of income over expenditure	**(1 181)**	**1 956**	**775**
Transfers from other funds[b]	20 000	131 000	151 000
Reserves and fund balances, beginning of period	–	–	–
Reserves and fund balances, end of period	**18 819**	**132 956**	**151 775**

[a] See note 1.

[b] Represents transfers from the United Nations Iraq escrow accounts as authorized by the Security Council in resolution 1958 (2010). The accompanying notes are an integral part of the financial statements.

Statement II

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)[a]

Statement of assets, liabilities and reserves and fund balances as at 31 December 2011

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2011*
Assets			
Cash and term deposits	45	44	89
Cash pool	18 894[b]	132 912[c]	151 806
Accounts receivable	23	–	23
Deferred expenditure	20	–	20
Total assets	**18 982**	**132 956**	**151 938**
Liabilities			
Unliquidated obligations — current year	91	–	91
Accounts payable	72	–	72
Total liabilities	**163**	**–**	**163**
Reserves and fund balances			
Operating reserves[d]	151	–	151
Cumulative surplus	18 668	132 956	151 624
Total reserves and fund balances	**18 819**	**132 956**	**151 775**
Total liabilities and reserves and fund balances	**18 982**	**132 956**	**151 938**

[a] See note 1.

[b] Represents share of the United Nations Headquarters cash pool, comprising cash and term deposits of $3,742,287, short-term investments of $4,420,166 (market value $4,427,852), long-term investments of $10,700,099 (market value $10,682,325) and accrued interest receivable of $30,948.

[c] Represents share of the United Nations Headquarters cash pool, comprising cash and term deposits of $26,326,284, short-term investments of $31,095,036 (market value $31,149,107), long-term investments of $75,273,176 (market value $75,148,141) and accrued interest receivable of $217,712.

[d] Represents reserves for end-of-service and post-retirement benefits. See note 5.

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

Statement III

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)[a]

Statement of cash flows for the period from 15 December 2010 to 31 December 2011

(Thousands of United States dollars)

	Administration	*Indemnification reserve*	*Total 2011*
Cash flows from operating activities			
Net excess (shortfall) of income overexpenditure (statement I)	(1 181)	1 956	775
(Increase) decrease in accounts receivable	(23)	–	(23)
(Increase) decrease in deferred expenditure	(20)	–	(20)
Increase (decrease) in unliquidated obligations	91	–	91
Increase (decrease) in accounts payable	72	–	72
Less: interest income	(298)	(1 957)	(2 255)
Net cash from operating activities	**(1 359)**	**(1)**	**(1 360)**
Cash flows from investing activities			
Interest income	298	1 957	2 255
Net cash from investing activities	**298**	**1 957**	**2 255**
Cash flows from financing activities			
Transfers from other funds	20 000	131 000	151 000
Net cash from financing activities	**20 000**	**131 000**	**151 000**
Net increase in cash and term deposits and cash pool	**18 939**	**132 956**	**151 895**
Cash and term deposits and cash pool, beginning of period	–	–	–
Cash and term deposits and cash pool, end of period	**18 939**	**132 956**	**151 895**

[a] See note 1.

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

Notes to the financial statements

Note 1
United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) (statements I, II and III)

(a) The Security Council, in its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities of the oil-for-food programme. The Council authorized the Secretary-General to establish an escrow account and retain $20 million in it until 31 December 2016 for the expenses related to the orderly termination of the residual activities, including the Organization's support to Member State investigations and Member State proceedings related to the programme, as well as the expenses of the Office of the High-level Coordinator created pursuant to its resolution 1284 (1999).

(b) In the same resolution, the Security Council authorized the Secretary-General to retain in the escrow account up to $131 million for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the oil-for-food programme since its inception, for a period of six years.

(c) Also in the same resolution, the Security Council requested that all funds remaining in the escrow account after six years be transferred to the Government of Iraq by 31 December 2016.

(d) The activities described in (a) and (b) above are shown in the "Administration" and "Indemnification reserve" columns, respectively, in these financial statements.

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, 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 United Nations System Chief Executives Board for Coordination (CEB). The Organization follows International Accounting Standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by CEB 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 and consists 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.

(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 dollar, translated at the applicable United Nations rates of exchange in effect 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 flow summary 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 High-level Committee on Management of CEB.

(i) Income:

(i) Voluntary contributions from Member States or 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;

(ii) 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;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) 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 pool. 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 pool are allocated to participating funds;

(vi) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, net gains on currency fluctuations other than for the current year's obligations, monies accepted for which no purpose was specified and other sundry income;

(vii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph l, item (iii) below.

(j) 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 the evaluation 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 paragraph (k) (v) below.

(k) Assets:

(i) Cash and term deposits represent funds 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 the 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 the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at the 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 share in cash pools is reported separately in each participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending on the availability of cash resources;

(v) Provision for delays in collection of receivable balances is not made;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in 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) Maintenance and repair 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.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits. Operating 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 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 remain valid for 12 months following the end of the financial period to which they relate;

(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, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded defined benefit plan. The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. As at the date of the current financial statement, the Assembly has not invoked this provision.

Note 3
Accounting policies for the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) (statements I, II and III)

The accounts of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) are maintained on a biennium cycle consisting of two consecutive years, the first of which shall be an even-numbered year. Annual financial statements are prepared for purposes of reporting usage of funds and expenditures to the Security Council.

Note 4
Cash pool

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the United Nations Secretariat, including the escrow account established under the provisions of Security Council resolution 1958 (2010). Such surplus funds are combined in one of three internally managed cash pools, which invest in major segments of the money and fixed-income markets. 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;

(ii) Investment activities are guided by the principles contained in the Investment Management Guidelines. An Investment Committee periodically assesses compliance with the Guidelines and makes recommendations for updates thereto, and also reviews performance of the various cash pools.

(b) Investment management objectives:

Further to the Guidelines, investment objectives of all the Cash pools, in order of priority, are the following:

(i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations to readily meet all operating requirements. Only assets which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return taking into account investment risk constraints, and the cash flow characteristics of the pool. Benchmarks determine whether satisfactory market returns are being achieved in the cash pool;

(c) Financial information pertaining to the Headquarters cash pool:

(i) The escrow account participates in the Headquarters cash pool only, which invests in a variety of securities. Such securities 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. All of the securities are denominated in United States dollars. The Headquarters pool does not invest in derivative instruments, asset-backed, mortgage-backed or equity products;

(ii) Investment transactions are accounted for on a settlement date basis. Investment income is recognized on the accrual basis; transaction costs that are directly attributable to the investment activity of the Headquarters pool are expensed as incurred in the Headquarters pool and the net income is distributed proportionately to the funds participating in the Headquarters pool;

(iii) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the Headquarters pool participants;

(iv) As at 31 December 2011, the Headquarters pool held assets of $8,853.9 million; of that amount, $151.8 million was due to the escrow account, as reflected against the Headquarters pool line in statement II — statement of assets, liabilities and reserves and fund balances;

(v) Financial information on the Headquarters pool as at 31 December 2011 is summarized in table 1.

Table 1

Summary of assets and liabilities of the Headquarters pool as at 31 December 2011

(Thousands of United States dollars)

Headquarters pool	
Assets	
Short-term investments[a]	3 825 106
Long-term investments[b]	5 014 303
Total investments	**8 839 409**
Cash	1
Accrued investment income	14 503
Total assets	**8 853 913**
Liabilities	
Payable to the Escrow Account	151 806
Payable to other funds participating in the Headquarters pool	8 702 107
Total liabilities	**8 853 913**
Net assets	**–**

Summary of net income of the Headquarters pool for the biennium ended 31 December 2011

(Thousands of United States dollars)

Headquarters pool	
Net income	
Interest income	190 622
Realized gains on sales of securities	103 405
Securities lending income[c]	4 388
Net income from operations	**298 415**

[a] Lower of book value or fair value.

[b] Book value.

[c] Securities lending refers to the short-term loan of securities owned by the United Nations to other parties, and for which a fee is paid to the United Nations. The terms of the loan are governed by an agreement, which requires the borrower to provide the United Nations with collateral of a value greater than the loaned security.

(d) Composition of the Headquarters pool:

Table 2 shows a breakdown of the investments held in the Headquarters pool by type of instrument.

Table 2
Investments of the Headquarters pool by type of instrument as at 31 December 2011
(Thousands of United States dollars)

	Book value	*Fair value*[a]
Bonds		
Government agencies	3 071 714	3 073 669
Non-United States sovereigns and supranationals	1 510 322	1 504 100
US Treasuries	1 603 813	1 603 796
Subtotal	**6 185 849**	**6 181 565**
Discounted instruments[b]	899 842	899 909
Term deposits	1 753 718	1 753 718
Total investments	**8 839 409**	**8 835 192**

[a] Fair value is determined by the independent custodian based on valuations of securities that are sourced from third parties.
[b] Includes United States Treasury bills and discount notes.

(e) Financial risk management:

The Headquarters pool is exposed to a variety of financial risks including credit risk, liquidity risk, and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk

The Guidelines stipulate that investments should not 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. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Individual Rating is used to rate term deposits.

The credit ratings of the issuers whose securities were held in the Headquarters pool as at 31 December 2011 are shown in table 3:

Table 3
Investments of the Headquarters pool by credit ratings as at 31 December 2011
(Thousands of United States dollars)

	Total[a]	*Ratings*
Bonds	6 185 849	S&P: 28.5% AAA, 69.9% AA+/AA- and 1.6% BBB+; Moody’s: 95.5% Aaa, 2.9% Aa1/Aa3 and 1.6% Ba1.
Discounted instruments[b]	899 842	S&P: A-1+; Moody’s: P-1.
Term deposits	1 753 718	Fitch: 76% A/B and 24% B.
Total investments	**8 839 409**	

[a] Represents the book value of securities as at 31 December 2011.
[b] Includes United States Treasury bills and discount notes.

(ii) Liquidity risk:

The Headquarters 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 United Nations commitments as and when they fall due. The major portion of the pool’s cash and cash equivalents and investments are available within one day’s notice to support operational requirements. Hence, the Headquarters pool is able to respond to withdrawal needs in a timely manner, and liquidity risk is considered to be low;

(iii) Interest rate risk:

Interest rate risk is the risk of variability in investment values due to changes in interest rates. In general, as interest rates rise, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security’s duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk.

The Headquarters pool is exposed to interest rate risk, as its holdings comprise interest-bearing securities. As at 31 December 2011, the Headquarters pool invested primarily in securities with shorter terms to maturity, with the maximum term being less than 4 years. The average duration of the Headquarters pool was 1.12 years, which is considered to be an indicator of low interest rate risk.

Table 4 shows how the fair value of the Headquarters pool as at 31 December 20011 would increase or decrease should the overall yield curve shift in response to changes in interest rates. 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). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative.

Table 4
Sensitivity of the Headquarters pool to interest rates as at 31 December 2011

Shift in yield curve (Basis points)	*Change in fair value (Millions of United States dollars)*
-200	197
-150	148
-100	99
-50	49
0	0
50	-49
100	-99
150	-148
200	-197

(iv) Other price risks

The Headquarters pool is not exposed to significant other price risks, as it does not sell short, borrow securities, or purchase securities on margin, all of which limit the potential loss of capital.

Note 5
Operating reserves

Operating reserves comprise estimated liabilities for end-of-service and post-retirement benefits for applicable staff members. The benefits comprise those for after-service health insurance coverage, repatriation benefits and commutation of unused vacation days. All these liabilities are determined on the basis of an actuarial valuation, which was undertaken by an independent, qualified actuarial firm. The estimated liabilities as at 31 December 2011 comprise $81,000 for after-service health insurance, $46,000 for repatriation benefits and $24,000 for unused vacation days, totalling $151,000. Operating reserves are included in the total for reserves and fund balances.

Note 6
Non-expendable property

Non-expendable property comprises assets valued at historical cost of $47,717, which were transferred from the escrow account established under the provisions of all the Security Council resolutions related to Iraq (with the exception of resolution 1958 (2010)).

Note 7
Contingent liabilities

Further to Security Council resolution 1958 (2010), the remaining 43 letters of credit under the oil-for-food programme with outstanding claims of delivery in the amount of $101 million have been closed. In addition, three letters of credit in the amount of $4.5 million, which were cancelled, were identified to have claims of delivery made prior to their expiry. In respect thereof, and in accordance with

Council resolution 1958 (2010), the Secretariat is negotiating an agreement with the Government of Iraq under which the Government would provide appropriate indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception and a waiver of any future claims that the Government of Iraq may have against the United Nations, its representatives, agents and independent contractors with regard to all activities in connection with the programme since its inception. With such an agreement, the United Nations is expected to be fully indemnified.

B. Financial statements for the United Nations escrow (Iraq) accounts established pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007), for the biennium ended 31 December 2011

Statement I

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (with the exception of resolution 1958 (2010))[a]

Statement of income and expenditures and changes in reserves and fund balances for the biennium ended 31 December 2011

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*[b]	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Income						
Interest income	2 634	469	31	–	3 134	40 553
Miscellaneous income	464	117	30	–	611	3 464
Total income	**3 098**	**586**	**61**	**–**	**3 745**	**44 017**
Expenditure						
Purchase of humanitarian supplies	326	–	–	–	326	–
Purchase of spare parts	–	–	–	–	–	1 794
Administrative expenses	–	1 086	20	271	1 377	7 152
Independent Inquiry Committee expenses[d]	–	310	–	–	310	724
Currency exchange adjustments[e]	44 843	–	–	–	44 843	11 803
Total expenditure	**45 169**	**1 396**[f]	**20**[f]	**271**	**46 856**	**21 473**
Excess (shortfall) of income over expenditure	**(42 071)**	**(810)**	**41**	**(271)**	**(43 111)**	**225 44**
Prior period adjustments[g]	545	(545)	–	–	–	(2)
Net excess (shortfall) of income over expenditure	**(41 526)**	**(1 355)**	**41**	**(271)**	**(43 111)**	**22 542**

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)[b]	Resolutions 687 (1991), 706 (1991), 1284 (1999)[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Cancellation of prior period obligations	164 862	593	–	5	165 460	282 020
Transfers to Development Fund for Iraq[h]	(656 172)	(3 389)	(1 108)	(116)	(660 85)	(5 980)
Transfers (to)/from other funds	(131 000)[i]	(17 578)[j]	–	362	(148 216)	–
Reserves and fund balances, beginning of period	663 836	21 729	1 067	20	686 652	388 070
Reserves and fund balances, end of period	**–**	**–**	**–**	**–**	**–**	**686 652**

[a] As all operations have been completed, this is the final set of financial statements for these escrow accounts. See also notes 1, 3 and 7.
[b] Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.
[c] Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 3.
[d] See note 4.
[e] Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.
[f] The portion of expenditures that relates to disbursements is met from operating reserves. See note 5.
[g] Represents refund of a letter of credit fee related to "Humanitarian activities in Iraq" that was recorded under "Administrative and operational costs" in 2009.
[h] Represents transfers to the Development Fund for Iraq held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003). See note 7 (f).
[i] Represents the transfer out of $131,000,000 to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010).
[j] Represents the transfer out of $20,000,000 to the United Nations escrow account established under the provision of Security Counsel resolution 1958 (2010) and the transfer out of $362,000 to the High-level Coordinator for missing Kuwaitis and third-country citizens and missing Kuwaiti property, partly offset by the transfer in of $2,784,413 from the closed United Nations trust funds (comprising $2,298,095 from Trust Fund for Humanitarian Relief in Iraq and $486,318 from the Emergency Trust Fund for Humanitarian Assistance for Iraq, Kuwait and the Iraq-Turkey and Iraq-Iran Border Areas).

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

Statement II

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (with the exception of resolution 1958 (2010))[a]

Statement of assets, liabilities and reserves and fund balances as at 31 December 2011

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*[b]	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Assets						
Cash and term deposits	–	–	–	–	–	932 456
Cash pool	–	–	–	–	–	23 448
Accounts receivable						
Inter-fund balances receivable	–	–	–	–	–	369
Other accounts receivable	–	–	–	–	–	41
Total assets	**–**	**–**	**–**	**–**	**–**	**956 314**
Liabilities						
Unliquidated obligations — current year	–	–	–	–	–	2 204
Unliquidated obligations — prior years	–	–	–	–	–	266 751
Accounts payable						
Inter-fund balances payable	–	–	–	–	–	577
Other accounts payable	–	–	–	–	–	130
Total liabilities	**–**	**–**	**–**	**–**	**–**	**269 662**
Reserves and fund balances						
Operating reserves						
Reserves for end-of-service and post-retirement benefits	–	–	–	–	–	1 730
Other reserves	–	–	–	–	–	206 020

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*[b]	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Cumulative surplus	–	–	–	–	–	478 902
Total reserves and fund balances	**–**	**–**	**–**	**–**	**–**	**686 652**
Total liabilities and reserves and fund balances	**–**	**–**	**–**	**–**	**–**	**956 314**

[a] As all operations have been completed, this is the final set of financial statements for these escrow accounts. See also notes 1, 3 and 7.
[b] Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.
[c] Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 3.

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

Statement III

United Nations escrow accounts established under the provisions of all Security Council resolutions relating to Iraq (with the exception of resolution 1958 (2010))[a]

Statement of cash flows for the biennium ended 31 December 2011

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		*Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)*[b]	*Resolutions 687 (1991), 706 (1991), 1284 (1999)*[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	(41 526)	(1 355)	41	(271)	(43 111)	22 542
(Increase) decrease in inter-fund balances receivable	–	334	–	35	369	(230)
(Increase) decrease in inter-agency accounts receivable	–	–	–	–	–	4 624
(Increase) decrease in other accounts receivable	8	10	16	7	41	140
(Increase) decrease in deferred charges	–	–	–	–	–	18
Increase (decrease) in unliquidated obligations	(268 017)	(762)	(171)	(5)	(268 955)	(388 557)
Increase (decrease) in inter-fund accounts payable	(545)	–	(32)	–	(577)	(3 275)
Increase (decrease) in other accounts payable	–	(64)	(49)	(17)	(130)	(160)
Less: interest income	(2 634)	(469)	(31)	–	(3 134)	(40 553)
Net cash from operating activities	**(312 714)**	**(2 306)**	**(226)**	**(251)**	**(315 497)**	**(405 451)**
Cash flows from investing activities						
Interest income	2 634	469	31	–	3 134	40 553
Net cash from investing activities	**2 634**	**469**	**31**	**–**	**3 134**	**40 553**
Cash flows from financing activities						
Cancellation of prior period obligations	164 862	593	–	5	165 460	282 020
Transfers to the Development Fund for Iraq	(656 172)	(3 389)	(1 108)	(116)	(660 785)	(5 980)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999), 1762 (2007)[b]	Resolutions 687 (1991), 706 (1991), 1284 (1999)[c]		
	Humanitarian activities in Iraq	*Administrative and operational costs*	*Monitoring, verification and inspection*	*Other activities*	*Total 2011*	*Total 2009*
Transfers (to)/from other funds	(131 000)	(17 578)	–	362	(148 216)	–
Net cash from financing activities	**(622 310)**	**(20 374)**	**(1 108)**	**251**	**(643 541)**	**276 040**
Net increase (decrease) in cash and term deposits and cash pool	**(932 390)**	**(22 211)**	**(1 303)**	**–**	**(955 904)**	**(88 858)**
Cash and term deposits and cash pool, beginning of period	**932 390**	**22 211**	**1 303**	**–**	**955 904**	**1 044 762**
Cash and term deposits and cash pool, end of period	**–**	**–**	**–**	**–**	**–**	**955 904**

[a] As all operations have been completed, this is the final set of financial statements for these escrow accounts. Also see notes 1, 3 and 7.
[b] Refers to the United Nations Monitoring, Verification and Inspection Commission. See note 3.
[c] Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991). See note 3.

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

Notes to the financial statements

Note 1
United Nations escrow account established under the provisions of Security Council resolution 986 (1995) (statements I, II and III)

As all operations have been completed and there are no assets, liabilities or fund balances remaining as of 31 December 2011, this is the final set of financial statements for these escrow accounts. The following, as well as notes 3 and 7, provide information on the operations and the final closure of these accounts:

(a) An escrow account to be administered by the Secretary-General was established in 1996, in order to receive the proceeds from the sale of Iraqi oil approved by the Security Council in its resolution 986 (1995). In paragraph 1 of that resolution, the Council authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $1 billion every 90 days. In paragraph 3 of the resolution, the Council decided that the provision should remain in force for 180 days;

(b) Authorization given in paragraph 2 of resolution 986 (1995) for Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after the deduction of 30 per cent for the Compensation Fund. In resolution 1330 (2000), the Security Council revised this deduction to 25 per cent. Owing to the cessation of the oil-for-food programme, pipeline tariff charges are no longer incurred;

(c) The provisions of resolution 986 (1995), which authorized sales of Iraqi oil not exceeding a total of $1 billion every 90 days, remained in force until 30 May 1998 in accordance with Security Council resolutions 1111 (1997), 1129 (1997), 1143 (1997) and 1158 (1998);

(d) The Security Council, in paragraph 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States under paragraph 1 of resolution 986 (1995) should permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $5.256 billion, in the 180-day period referred to in paragraph 1 of resolution 1153 (1998). This provision remained in force in accordance with resolution 1210 (1998), resolution 1242 (1999), and resolution 1281 (1999);

(e) By resolution 1284 (1999) of 17 December 1999, the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This provision remained in force in accordance with resolutions 1302 (2000), 1330 (2000), 1352 (2001), which extended the provisions of resolution 1330 (2000) for 30 days, and resolution 1360 (2001), by which the Council extended the mandate period for 150 days, resolutions 1382 (2001), 1409 (2002), 1443 (2002), by which the provisions of resolution 1409 (2002) were extended until 4 December 2002, and resolution 1447 (2002), by which the Council extended the mandate period to 3 June 2003. The final sale of oil under the programme was for shipment made on 20 March 2003;

(f) The Security Council, in paragraphs 1 and 3 of resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment (“spare parts”) to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998), and decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of $300 million might be used to meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to $600 million might be used to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retained the $600 million limit;

(g) Security Council resolution 1330 (2000) allowed for funds up to €600 million from the escrow account to be used for the cost of installation and maintenance, including training services, of spare parts and equipment relating to the oil industry;

(h) In its resolution 1472 (2003) of 28 March 2003, the Security Council recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the programme, and authorized the Secretary-General to make such changes for a period of 45 days;

(i) In its resolution 1476 (2003) of 24 April 2003, the Security Council decided that the provisions contained in paragraph 4 of resolution 1472 (2003) should remain in force until 3 June 2003 and might be subject to further renewal by the Council;

(j) In its resolution 1483 (2003) of 22 May 2003, the Security Council requested the Secretary-General to terminate the programme within six months, and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority. The Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) (relating 15 Governorates of Central and Southern Iraq) and 8 (b) (relating 3 Governorates of Northern Iraq) of resolution 986 (1995);

(k) The sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from the sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded after 20 March 2003;

(l) The funds from the sale of Iraqi oil pursuant to the authorization given by paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes set out in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it relates to military commodities and products, or military-related commodities or products covered by the Good Review List (see S/2002/515) and the amendments thereto contained in annex A to resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

(i) 53.034 per cent to finance the export to Iraq of medicine, health supplies, food, and materials and supplies for essential civilian needs. In follow-up to resolution 1302 (2000), this was increased to 54.034 per cent and resolution 1330 (2000) authorized a further increase, to 59.034 per cent, less the payment referred to in (vi) below;

(ii) 13.0 per cent to complement the distribution by the Government of Iraq of imported goods by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern governorates of Iraq, namely, Arbil, Dihouk and Suleimaniyeh;

(iii) 2.215 per cent to meet the operational and administrative costs to the United Nations;

(iv) 30.0 per cent allocated to the Compensation Fund established pursuant to Security Council resolution 705 (1991). Pursuant to resolution 1330 (2000) this percentage was decreased to 25.0 per cent, and further decreased to 5.0 per cent pursuant to resolution 1483 (2003);

(v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) established pursuant to Security Council resolution 1284 (1999), which replaced the special commissions established pursuant to Security Council resolution 687 (1991), to meet operating costs;

(vi) A maximum of $10 million every 90-day period to be allocated to the escrow account established pursuant to Security Council resolution 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999), the Council decided to suspend payments to this escrow account for an initial period of six months as from 17 December 1999. In resolution 1302 (2000), this suspension was extended for a further 180-day period and the allocation transferred to (i) above. In resolution 1330 (2000), the allocation of a maximum of $10 million every 90 days was reinstated as from 6 December 2000;

(m) Notwithstanding the periods for the sale of Iraqi oil as authorized by the Security Council, financial statements I, II and III (United Nations escrow accounts) were usually prepared every six months;

(n) Included in financial statements I, II and III (United Nations escrow accounts) are details relating to the humanitarian activities, and related operational and administrative costs that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the programme in December 1996 to mid-2000, implementation costs on actual expenditures incurred by agencies for activities associated with the purchase of humanitarian goods for northern Iraq were charged to the “Humanitarian activities in Iraq” account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the “Administrative and operational costs” account. In mid-2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the “Administrative and operational costs” account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid-2002, the Secretariat reverted to the earlier treatment, whereby direct costs of implementing the programme in northern Iraq were charged to the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment, whether the work was done by an agency itself or contracted out. In 2003 when agencies began to implement various aspects of the programme in southern/central Iraq, those implementation costs were also charged to the "Humanitarian Activities in Iraq" account, in line with the 2002 decision;

(o) The financial statements of the Compensation Fund (see para. (l) (iv) above) are reported on in a separate volume of the United Nations financial statements;

(p) Expenditures incurred during the biennium 2010-2011 for humanitarian supplies relate to adjustments and reinstatements of contracts entered into in previous years;

(q) The Security Council, by its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the programme; authorized the Secretary-General to ensure that 20 million United States dollars of the Iraq Account were retained in the escrow account until 31 December 2016, exclusively for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the High-level Coordinator's office created pursuant to resolution 1284 (1999) and further requested that all remaining funds be transferred to the Government of Iraq by 31 December 2016; also authorized the Secretary-General to ensure that up to 131 million United States dollars of the Iraq Account were retained in the escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents, and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception and further requested that all remaining funds be transferred to the Government of Iraq by 31 December 2016; and further authorized the Secretary-General to facilitate the transfer as soon as possible of all funds remaining, beyond those retained for the purposes of paragraphs 4 and 5 of the resolution, from the Iraq Account created pursuant to paragraph 16 (d) of resolution 1483 (2003) to the Development Fund of Iraq.

The transfer of all remaining funds was completed on 9 June 2011 (see note 7).

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 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 United Nations System Chief Executives Board for Coordination (CEB). The Organization follows

International Accounting Standard 1 “presentation of financial statements”, on the disclosure of accounting policies, as modified and adopted by CEB, 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 (see note 3 (a));

(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 and consists 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.

(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 dollar, translated at the applicable United Nations rates of exchange in effect 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 flow summary 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 High-level Committee on Management of CEB.

(i) Income:

(i) Voluntary contributions from Member States or 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;

(ii) 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;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) 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 pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;

(vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2002, the net amount is recognized as income or expenditure every six months in the financial statements;

(vii) Miscellaneous income includes income from rental of premises, sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified, and other sundry income;

(viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph l, item (iii) below.

(j) 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 evaluation 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 paragraph k, item (vi) below.

(k) Assets:

(i) Cash and term deposits represent funds 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/minus any unamortized premium/discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. 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 share in cash pools is reported separately in each of the participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, dependent upon availability of cash resources;

(v) Provision for delays in collection of receivable balances is not made;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in 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) 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 notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves include reserves for end-of-service and post-retirement benefits, which are shown in a separate line on the financial statements. Operating 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 income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current, and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the escrow account for humanitarian activities in Iraq remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;

(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, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a funded, multi-employer defined benefit plan.

An actuarial valuation of the Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, the United Nations 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. Thus, the United Nations share of the related net liability/asset position of the Fund is not reflected in the financial statements.

The Organization's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly. That rate is currently 7.9 per cent for the participant and 15.8 per cent for the Organization, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following the 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. As at the reporting date of the current financial statements, the General Assembly had not invoked this provision.

Note 3
United Nations escrow accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007) (statements I, II and III)

(a) As the United Nations escrow accounts have been closed (see note 7 below), the going concern assumption is not applicable and the financial statements are presented according to the liquidation basis of accounting, which may require realization of assets and extinguishment of liabilities outside the normal course of business;

(b) Included in financial statements I, II and III are the escrow accounts established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the special account established pursuant to Security Council resolutions 687 (1991), 706 (1991) and 1284 (1999). The escrow account established under resolutions 706 (1991), 712 (1991) and 778 (1992) returned all funds in 2003. As a result, there are no further transactions to report relating to this escrow account;

(c) The escrow account administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized under section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwaiti property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991), and of other necessary humanitarian activities in Iraq;

(d) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council adopted resolution 778 (1992) on 2 October 1992 as an alternate means of providing funds for the purposes specified. States in which there were petroleum products owned by Iraq, or States in which there were funds of the Government of Iraq representing the proceeds of petroleum sales paid for by the purchaser after 6 August 1990, were required to transfer some or all of those funds to the escrow account. In addition, in resolution 778 (1992) the Council urged States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds were provided, together with applicable interest, at such time when oil exports had taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account had received funds from the proceeds of sales. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds of sales that were transferred back to the accounts of States that had provided the original funds to the escrow account;

(e) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sales was suspended. The suspension, which was extended for an additional 180 days by the Security Council in resolution 1302 (2000), was lifted by the Council by resolution 1330 (2000) in December 2000;

(f) In May 2003, the Security Council, in its resolution 1483 (2003), requested that the Secretary-General restore funds that had been provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003;

(g) The Security Council, in resolution 687 (1991), requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance pending the receipt of payments to the Organization by Iraq in respect of certain activities, and jointly by Iraq and Kuwait in respect of the costs of the Boundary Commission;

(h) Since the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the escrow account. Furthermore, the costs of the Special Commission are met by transfers from the escrow account pursuant to Security Council resolution 986 (1995);

(i) The Security Council decided, by resolution 1284 (1999), to establish the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC), which undertook the responsibilities mandated to the Special Commission;

(j) In its resolutions 1483 (2003) and 1546 (2004), the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC;

(k) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC and requested the Secretary-General to transfer all remaining unencumbered funds to the Government of Iraq within three months, after returning to Member States, at their request, contributions made by them pursuant to paragraph 4 of resolution 699 (1991);

(l) The United Nations escrow account established pursuant to Security Council resolution 1958 (2010) is reported on in a separate set of financial statements.

Note 4
Independent Inquiry Committee into the United Nations Oil-for-Food Programme expenditure

(a) In April 2004, the United Nations Secretary-General appointed a high-level, Independent Inquiry Committee to investigate the administration and management of the programme from its inception to its transfer to the Coalition Provincial Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under the programme. By its resolution 1538 (2004), the Security Council welcomed the inquiry. The Independent Inquiry Committee completed its investigation on 27 October 2005 and issued its final report;

(b) Effective 1 January 2007, the Independent Inquiry Committee closed down its operation, and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. The work of the Office is being performed by the representative designated by the former members of the Committee and his or her designees. In November 2010, the

Secretary-General extended the mandate of the Independent Inquiry Committee until 31 December 2011;

(c) The costs of Independent Inquiry Committee were met from funds allocated for the administrative and operational costs of the programme. Expenditures of the Committee from 1 January to 31 December 2010 were as follows. Expenditures of the Committee from 1 January 2011 are reported in the new escrow account established pursuant to Security Council resolution 1958 (2010):

(Thousands of United States dollars)

Salaries	160
Contractual services	134
Premises	16
Total	**310**

Note 5
Operating reserves

"Humanitarian activities in Iraq" account

(a) An operating reserve of $126,660,000 was established as of 31 December 2005 under the "Humanitarian activities in Iraq" account, to ensure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General, recalling that the United Nations had no indemnification from the Government of Iraq on the funds that had been transferred to date to the Development Fund for Iraq, informed the Security Council that until the issues of claims from suppliers were resolved, and if there was no objection from the Council, an amount of $187 million would be held as a reserve for any unanticipated claims from suppliers. In a letter dated 11 August 2006 (S/2006/646), the President of the Security Council took note of the proposed arrangements, and an operating reserve of $187 million was established and maintained.

Under the terms of Security Council resolution 1958 (2010) of 15 December 2010, all expired letters of credit were closed and a new escrow account was established, which, inter alia, would provide indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception. Hence operating reserves under "Humanitarian activities in Iraq" account were no longer required and the balance was closed to "cumulative surplus" as of 31 December 2010.

"Administrative and operational costs" account

(b) An operating reserve of $21,132,192 was established as of 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the programme were completed.

Under the terms of Security Council resolution 1958 (2010), a new escrow account was established, which, inter alia, would provide for expenses for the orderly termination of the residual activities of the programme. Hence the operating reserve under the "Administrative and operational costs" account was no longer required and the remaining balance as at 31 December 2010 of $18,700,429 (except for $169,908, which was retained to discharge unliquidated obligations) netting $18,530,521 was closed to "cumulative surplus". The unliquidated obligations were discharged in 2011. Changes in the reserve since its establishment are summarized below:

(Thousands of United States dollars)

Operating reserves as at 31 December 2005		21 132
Utilization from 1 January 2006 to 31 December 2009	(10 877)	
Transfer from cumulative surplus	9 670	(1 207)
		19 925
Utilization from 1 January 2010 to 31 December 2010		(1 225)
Transfer to cumulative surplus		(18 530)
Balance retained as of 31 December 2010 to discharge unliquidated obligations		170
Liquidation of obligations		(170)
Balance as of 31 December 2011		–

"Monitoring, verification and inspection" account

(c) An operating reserve of $35,958,863 was established as of 30 June 2007 under the "Monitoring, verification and inspection" account to meet the estimated liquidation costs pertaining to UNMOVIC, including the settlement of debts owed to the Government of Germany, for archiving of documentation and archiving and staff-related costs.

Under the terms of Security Council resolution 1958 (2010), a new escrow account was established, which, inter alia, would provide for expenses for the orderly termination of the residual activities of the programme. Hence operating reserve under the "Monitoring, verification and inspection" account was no longer required and the remaining balance was closed to "cumulative surplus" as of 31 December 2010. Changes in the reserve since its establishment are summarized below:

(Thousands of United States dollars)

Operating reserves as at 30 June 2007		35 959
Utilization from 1 July 2007 to 31 December 2009	(32 671)	
Transfer from cumulative surplus	(2 463)	(35 134)
Operating reserve as at 31 December 2009		**825**
Utilization from 1 January to 31 December 2010		(20)
Transfer to cumulative surplus		(805)
Operating reserves as at 31 December 2011		**–**

Note 6
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records is shown below:

(Thousands of United States dollars)

	2011	*2009*
UNMOVIC	–	441
Agencies	–	805
Independent Inquiry Committee[a]	–	279

[a] Out of the balance of $278,655 as of 31 December 2009, surplus equipment of $230,938 was transferred to the United Nations Office of Information and Communications Technology in August 2010 and the remaining equipment of $47,717 was transferred to the new escrow account established by Security Council resolution 1958 (2010) as of 31 December 2010.

Note 7
Termination of the United Nations escrow accounts established under Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1762 (2007)

(a) In its resolution 1483 (2003) of 22 May 2003, the Security Council extended the Secretary-General's responsibilities under Security Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The Council requested the Secretary-General to terminate, in the most cost-effective manner, the ongoing operations of the programme, both at Headquarters and in the field, by 21 November 2003, and to transfer responsibility for the administration of any remaining activity under the programme to the Coalition Provisional Authority.

(b) Accordingly, in the three governorates of northern Iraq where the United Nations agencies were implementing the programme, contracts entered into by the agencies were transferred to the Authority. Similarly, in the 15 governorates of central and southern Iraq, where, after the outbreak of hostilities, agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) By its resolution 1546 (2004), the Security Council decided that, in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors would assume the rights, responsibilities and obligations relating to the programme that had been transferred to the Coalition Provisional Authority, including all operational responsibility for the programme and any obligations undertaken by the Coalition Provisional Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods had been delivered, and further decided that, following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors would assume all responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification would be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of these arrangements.

In accordance with Security Council resolution 1483 (2003), all obligations relating to contracts that had not been prioritized were closed, except for those cases in which letters of credit had been retained. As at 7 December 2010, 43 letters of credit had been retained for contracts prioritized pursuant to Security Council resolution 1483 (2003).

(d) Further, by his letters dated 8 August 2005 (S/2005/535), 17 October 2005 (S/2005/656), 19 December 2005 (S/2005/807), 10 July 2006 (S/2006/570), 8 December 2006 (S/2007/46), 27 March 2007 (S/2007/241), 19 April 2007 (S/2007/218), 25 July 2007 (S/2007/476), 7 December 2007 (S/2007/725), 11 March 2008 (S/2008/175), 9 May 2008 (S/2008/318), 25 July 2008 (S/2008/492), 1 May 2009 (S/2009/230), 8 December 2010 (S/2010/619) and his reports dated 27 July 2009 (S/2009/385), 1 November 2010 (S/2010/563) and 2 November 2010 (S/2010/567) the Secretary-General has kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit and of the slow progress being made.

(e) In his letter dated 8 December 2010 to the President of the Security Council (S/2010/619) the Secretary-General provided a comprehensive update on the status of residual activities of the programme, and made recommendations for their definitive conclusion. Acting thereon, the Security Council, by its resolution 1958 (2010) of 15 December 2010, requested the Secretary-General to take all actions necessary to terminate all residual activities under the programme, noting that the remaining 43 letters of credit with outstanding claims of delivery were closed for all purposes under the programme without prejudice to any rights or claims that the suppliers may have against the Government of Iraq. Following the closure of the letters of credits, the related obligations were also closed and, pursuant to the Security Council authorization to transfer all remaining funds in the Iraq escrow account as soon as possible to the Development Fund for Iraq, an amount of $656 million was transferred to the Development Fund for Iraq on 29 December 2010.

(f) Further, the Security Council, by its resolution 1958 (2010), authorized the Secretary-General to ensure that 20 million United States dollars of the Iraq Account were retained in the escrow account until 31 December 2016, exclusively for the expenses of the United Nations related to the orderly termination of the residual activities of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the High-level Coordinator's office created pursuant to resolution 1284 (1999) and further requested that all remaining funds be transferred to the Government of Iraq by 31 December 2016; also authorized the Secretary-General to ensure that up to 131 million United States dollars of the Iraq Account were retained in the escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents, and independent contractors for a period of six years with regard to all activities in connection with the programme since its inception and further requested that all remaining funds be transferred to the Government of Iraq by 31 December 2016; and further authorized the Secretary-General to facilitate the transfer as soon as possible of all funds remaining, beyond those retained for the purposes of paragraphs 4 and 5 of the resolution, from the Iraq Account created pursuant to paragraph 16 (d) of resolution 1483 (2003) to the Development Fund of Iraq. The transfers were effected on 30 December 2010.

(g) By its resolution 1762 (2007), the Security Council terminated the mandate of UNMOVIC, pursuant to which an operating reserve to meet liquidation costs was established (see note 5). Unencumbered funds in the amount of $25,104,523 were transferred to the Development Fund for Iraq on 28 September 2007, followed by $875,285 on 28 February 2008, $2,548,000 on 9 December 2008, $1,099,582 on 3 June 2011 and finally $8,066 on 9 June 2011.

(h) From the adoption of Security Council resolution 1483 (2003) up to the final closure of these escrow accounts on 9 June 2011, a total amount of $11.08 billion was transferred to the Development Fund for Iraq. This includes $660,785,962 transferred to the Development Fund for Iraq in the biennium ended 31 December 2011.

Note 8
Contingent liabilities

Under the terms of Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in carrying out the activities of the programme are to be transferred to, and become the responsibility of, the Authority, which has since been succeeded by the Government of Iraq. There may be some circumstances in which such transfer is not possible and any liability and related fees will need to be met from the new escrow account established under the provisions of Security Council resolution 1958 (2010) (see note 7 (f)). As such, there are no remaining contingent liabilities pertaining to these accounts.