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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 financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2011.

Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission 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 Compensation Commission 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, reserves and fund balances (statement II), the statement of cash flows (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 necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or to error.

Auditor's responsibility

It is the responsibility of the auditor to express an opinion on the financial statements based on the audit. The Board of Auditors conducted the audit in accordance with the International Standards on Auditing. Those standards require that the auditor 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 the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or to error. In making those risk assessments, the auditor considers internal control 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 control. 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.

The Board of Auditors believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

Opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at 31 December 2011 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Emphasis of matter

Without qualifying the opinion, the Board draws attention to note 3 (a) to the accompanying financial statements, which sets out the basis for the recognition of only the cash proceeds from the sales of Iraqi oil within the financial statements of the Compensation Fund in accordance with Security Council resolutions. The impact of cash and barter transactions and deficiencies in metering systems in connection with the sale of Iraqi oil are also explained in note 3 (e).

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to the notice of the Board, or that it tested as part of the 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, the Board is also issuing a long-form report on the audit of the United Nations Compensation Commission (see sect. II).

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

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

30 June 2012

II. Long-form report of the Board of Auditors

Summary

The United Nations Compensation Commission is funded almost entirely by contributions from Iraqi oil revenues, in accordance with Security Council resolution 692 (1991). The Commission received contributions from the Oil Proceeds Receipts Account of $6.5 billion during the biennium ended 31 December 2011, an increase of $1.5 billion (30 per cent) over the biennium 2008-2009, which allowed an increased level of compensation payments of $6.2 billion (2008-2009: $4.7 billion) during the biennium.

The Board of Auditors has audited the financial statements and reviewed the operations of the Compensation Commission for the biennium ended 31 December 2011. The audit was carried out through the examination of financial transactions and operations at the headquarters of the Commission, in Geneva.

Opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the Compensation Commission as at 31 December 2011 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. The transactions of the Commission that have come to the notice of the Board or that it tested as part of the audit have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

Without qualifying its opinion, the Board draws attention through an emphasis of matter to note 3 (a) to the financial statements, which sets out the basis for the recognition of only the cash proceeds from the sales of Iraqi oil within the financial statements of the Compensation Fund in accordance with Security Council resolutions. The impact of cash and barter transactions and deficiencies in metering systems in connection with the sale of Iraqi oil are also explained in note 3 (e).

Overall conclusion of the Board

The Compensation Commission is nearing the end of its mandate owing to the increased size of oil revenues and compensation payments. The Board has noted the Commission's efforts to prepare for the end of its mandate, particularly in relation to the Follow-up Programme for Environmental Awards. The Board has not identified any major areas of concern, and notes the full implementation of its previous recommendations and the full acceptance of the new recommendations made in the present report. The Board has, however, raised a number of relatively minor areas for the Commission to address, particularly in connection with resolving smaller claims as quickly as possible.

Overall financial position

The biennium 2010-2011 has been a period of gradual change for the Compensation Commission, which is now nearing the conclusion of its mandate for compensation payments and has operationalized the environmental programme.

Improved income from oil revenues has made possible the increased settlement of compensation awards. In the biennium ended 31 December 2011, the Commission made payments of $6.2 billion, an increase of 30 per cent over the previous biennium (2008-2009: $4.7 billion). As allowed under the United Nations system accounting standards, and in line with Security Council resolutions, oil revenues are recognized on a cash receipts rather than an accrual basis. This means that income is recognized only when cash receipts from the proceeds of oil sales are available for claim payments and under the control of the Commission.

At current projections of income growth, the Commission might be expected to have completed its mandate in a little more than three years. In that light, it is making efforts to conclude the work of the environmental programme. Similarly, the Board has made its recommendations in that context.

At 31 December 2011, the Commission had cash and cash equivalents of $2.1 billion held in the United Nations cash pools. The Board welcomes the efforts to provide greater disclosure around its treasury management, which provides the users of financial statements with a fuller understanding of the United Nations stewardship of the resources.

Key findings and recommendations

Compensation awards

As at 31 December 2011, $18.1 billion in compensation awards remained payable on eight claims. Six claims were under active payment, and the Board noted that the other two outstanding non-material awards, totalling $1.9 million, had not been pursued by the secretariat during the biennium.

Iraqi oil sales reporting

The Commission has worked with the Iraqi Committee of Financial Experts to ensure a smooth transition from the International Advisory and Monitoring Board, and the Board welcomes the Commission's continued monitoring of the audit reports provided by the external auditor of the Development Fund for Iraq and its successor, and its follow-up on the issues concerning the completeness of transfers to the Oil Proceeds Receipt Account.

Historic shortfall of income

The Compensation Commission has obtained updated information on the historical shortfall in the payments made to the United Nations Compensation Fund from non-monetary transactions, which amounted to $224.2 million as at 31 December 2011. The Commission is not aggressively pursuing this shortfall, as it considers that it would be detrimental to the overall operation of the Fund and because of the relatively short period of time remaining until all claims are settled, however the Governing Council has not closed the issue.

In the light of the findings set out above, the Board makes detailed recommendations in the main body of the report. In summary, the main recommendations are that the Compensation Commission:

(a) **Actively resolve and settle, where appropriate, non-material claims by 31 December 2013;**

(b) **Continue to follow up on the findings of the Development Fund for Iraq audit and successor audits;**

(c) **Make a decision on the treatment of the historic shortfall of income, and the Governing Council should either guide the secretariat to actively pursue it as an outstanding obligation or instruct it to relinquish the claim. The Board considers that the Commission should aim to resolve this issue by 31 December 2013.**

Previous recommendations

All three recommendations from the 2008-2009 biennium have been fully implemented.

A. Background

1. The United Nations Compensation Commission was established in accordance with Security Council resolution 692 (1991) to process and pay compensation on claims for damage resulting from the 1991 invasion and occupation by Iraq of Kuwait. Since 2005 it has received no new claims, and makes payments only on outstanding previous awards. Since 2005 it has also operated the Follow-up Programme for Environmental Awards to monitor the progress of projects. As part of the programme, the Commission has withheld a proportion of funds until satisfactory completion.

2. The Compensation Commission is funded almost entirely by Iraqi oil export revenues, including the equivalent value of non-monetary transactions. Funding for the follow-up work on the environmental programme comes from funds earmarked specifically for the administration of the awards.

3. The Compensation Commission is coming to the end of its operational remit, with the settlement of all but a few outstanding claims, and the increasing revenues from rising global oil prices and Iraqi oil production are accelerating the pace of compensation payments. Moreover, after a slow start, the environmental programme became fully operational from 2010. Governing Council decision 269 (S/AC.26/Dec.269 (2011)) established criteria for the satisfactory completion of the programme and the release of the withheld funds in the near future.

B. Mandate, scope and methodology

4. The Board of Auditors has audited the financial statements of the Compensation Commission and has reviewed its operations for the biennium ended 31 December 2011 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing. The latter 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.

5. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the Compensation Commission as at 31 December 2011 and the results of its operations and cash flows for the financial period, 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 expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

6. The Board also considered Compensation Commission operations under financial regulation 7.5, which provides that the Board may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of Compensation Commission operations.

7. During the course of the audit, the Board visited Compensation Commission headquarters in Geneva. The Board coordinated with the Office of Internal Oversight Services (OIOS) to determine the extent of reliance that could be placed on its work, particularly as OIOS is mandated by the General Assembly to audit the Commission's payment of compensation claims on an annual basis. During the biennium ended 31 December 2011, OIOS produced two reports on the Commission's operations. The Board used its findings to inform its own strategy and testing. The Board obtained the assistance and support of OIOS, which also provided access to its audit files.

8. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council, including specific requests of the General Assembly and the Advisory Committee on Administrative and Budgetary Questions.

9. The Board's observations and conclusions were discussed with the management of the Compensation Commission, whose views have been appropriately reflected herein.

C. Findings and recommendations

1. Follow-up of previous recommendations

10. Of the three recommendations made for the biennium 2008-2009, all were fully implemented. Details of the status of implementation of those recommendations are shown in the annex. Discussions of the recommendations on the historical shortfall of oil income and efforts to obtain outstanding distribution reports are covered below.

11. The other recommendation, in which the Board had indicated a need for the Compensation Commission to disclose the reasons for any prior-year restatements in a note to the financial statements, is considered to have been implemented; the Board notes that no restatements were necessary in the biennium, and so no note was required.

2. Financial overview

Overall financial position

12. The biennium ended 31 December 2011 was a period of change for the Compensation Commission, with the end of its mandate approaching following an increased pace of compensation payments and its operational activity shifting with the full implementation of the environmental programme. Revenues have increased as global oil prices and Iraqi oil production have risen, and it has been able to settle claims at a faster pace. During the biennium, the Commission paid almost $6.2 billion (2008-2009: $4.7 billion) in compensation and received income of $6.6 billion (2008-2009: $5.0 billion), almost exclusively comprising proceeds from the Oil Proceeds Receipts Account. This $1.6 billion (32 per cent) increase over 2008-2009 indicates a significant increase in oil proceeds from Iraq.

Financial position

13. At 31 December 2011, the Compensation Commission reported a surplus of $1.1 billion (2008-2009: $0.7 billion), due largely to the last three months of oil

revenues received prior to the end of the period, and compensation was subsequently paid out in January 2012 in accordance with the Commission's quarterly compensation payment schedule. It also reported cash and term deposits and a share of the United Nations Headquarters cash pool amounting to $2.1 billion, equivalent to two months of oil revenues and the balances withheld for the environmental programme.

Status of compensation awards

14. At 31 December 2011, $18.1 billion in compensation awards remained payable on eight claims. Six claims were under active payment, and the Board noted that the other two outstanding non-material awards totalling $1.9 million had not been pursued during the biennium. These long-standing claims (originally awarded in 2003 and payable in 2005 or 2006) relating to claimants from the Bahamas and the United States of America, have not yet been paid as, despite efforts, the Commission does not have adequate payee information concerning their bank and corporation registration details necessary to effect payments. With current projected monthly revenue of almost $500 million, the balance awarded on the eight claims could be settled in 2015. However, it is possible that without active management these non-material claims could remain an outstanding complication when other claims have been settled.

15. **The Compensation Commission accepted the Board's recommendation that the Commission work to actively resolve and settle, where appropriate, the non-material claims by 31 December 2013.**

Outstanding distribution reports and audit certificates

16. In its report on the 2008-2009 financial statements, the Board highlighted the importance of audit certificates and distribution reports as a key management control over the regularity of compensation payments. The Board recommended that the Commission intensify its efforts with Member States to receive the outstanding distribution reports and audit certificates necessary to confirm the regularity of previous compensation payments.

17. During the biennium ended 31 December 2011, the Compensation Commission made a significant effort to clear the outstanding distribution reports and audit certificates. As at 31 December 2011, only $18,000 of historic distribution reports and audit certificates covering some $3.3 million remained outstanding. While the Commission's efforts to fully resolve them remain ongoing, in all material respects the Board considers this recommendation to have been implemented.

3. Reporting of Iraqi oil sales

Transfer of authority to the Committee of Financial Experts

18. On 30 June 2011, the mandate of the International Advisory and Monitoring Board concluded, and oversight of the control, reporting and use of oil export revenues through the Development Fund for Iraq was transferred from the Board to the Iraqi Committee of Financial Experts. The Committee undertook to maintain the banking and audit systems that had been operated by the Board, and committed to ensuring the regular supply of funds to the Compensation Fund under Security Council resolution 1956 (2010). The Commission has worked with the Committee to

ensure a smooth transition and continues to address the concerns highlighted by previous auditors of the Development Fund for Iraq.

19. The Board welcomes the Commission's improved monitoring of the audit reports provided by the external auditor of the Development Fund for Iraq and its successor and its follow-up of its responsibilities to ensure the completeness of transfers to the Compensation Fund. The Board notes that the Committee has begun attending meetings of the Compensation Commission Governing Council and that since early 2011 it has been in regular contact with the Commission over the successor mechanisms and the completeness of remittances to the Fund.

20. **The Compensation Commission accepted the Board's recommendation that it continue to follow up on the findings of the Development Fund for Iraq and successor audits.**

Historical shortfall of income

21. In the Board's report on the previous biennium (S/2010/626), it noted that in 2009 the external auditor of the Development Fund for Iraq reported a historical shortfall in the payments made to the Compensation Fund of some $211.6 million (later confirmed to be $224.2 million) from non-monetary transactions from barter sales of petrol and petroleum products and income from exports being deposited into accounts controlled by the Iraq Oil Marketing Company accounts rather than the Oil Proceeds Receipts Account. The Board recommended that the Compensation Commission obtain further information on this shortfall.

22. In its discussions with the Committee of Financial Experts, the Compensation Commission has established that $224.2 million is the full extent of the historic shortfall and has further clarified the obligation of Iraq to remit the cash equivalent of non-monetary transactions in accordance with Security Council resolution 1956 (2010). Thus the Board is of the view that the Commission has fully addressed the Board's recommendation.

23. While the shortfall formally remains an obligation due from Iraq, the Compensation Commission has not reported it as a receivable in the financial statements for the biennium ended 31 December 2011 in line with its oil income recognition policy. Furthermore, the Board notes that the status of the shortfall is ambiguous. The Commission is not aggressively pursuing the shortfall, as it considers that it would be detrimental to the overall operation of the Fund and because of the relatively short period of time remaining until all claims are settled. The Governing Council has not chosen, however, to close this issue. This ambiguity should be resolved in the light of the near-term culmination of the Commission.

24. **The Compensation Commission accepted the Board's recommendation that it make a decision on the treatment of the historical shortfall such that the issue is resolved by 31 December 2013.**

4. Follow-up Programme for Environmental Awards

25. The Compensation Commission established the Follow-up Programme for Environmental Awards to monitor the implementation of the 26 environmental projects under Governing Council decision 258 (S/AC.26/Dec.258 (2005)). The mandate of the programme is to ensure that subject award funds are spent in a transparent and appropriate manner on environmental projects and that funded

projects remain reasonable activities. As part of decision 258, the last 15 per cent of environmental awards is held back (25 per cent in the case of the largest phased projects following Council decision 266 (S/AC.26/Dec.266 (2009))) as a performance bond until the satisfactory completion of the projects and accounting for expenditure. These withheld balances, amounting to $1.1 billion as at 31 December 2011, are recognized as amounts payable in the Compensation Commission's financial statements.

26. The Board noted that the programme had become fully operational in 2010. It also noted the progress made by the secretariat in coordinating with the national focal points and moving the environmental projects forward as well as the Governing Council's drive for completion, as set out in decision 269, and notes the improved progress over the past two years.

Monitoring of phased project completion

27. The Compensation Commission monitors 12 long-term projects, including the 5 largest phased projects and 7 non-phased projects, through reports and country visits. The Governing Council authorizes the release of funds for the phased projects from the project "special accounts" owned by the participating countries in six-month instalments. For those five projects, of the $3.1 billion paid over to the special accounts since 2005, a total of $575 million had been released as at 31 December 2011. Thus from total awards in excess of $4 billion, the average proportion of awards released from the special accounts was 14.4 per cent.

28. The Board noted, however, that the amounts released varied considerably between participants. For more advanced projects, almost 70 per cent had been released, whereas for others in a much earlier stage of development, such as the two environmental projects awarded to the largest claimant, Kuwait, only 1.1 per cent and 1.3 per cent of the total awards had been approved for release by the Governing Council as at 31 December 2011.

29. In its decision 269, the Governing Council set a target for the establishment of structural systems and controls and directed the secretariat to continue consultations with the participating Governments with a view to agreeing on assurances for their maintenance at the seventy-fourth session, in November 2012. The Council has established a set of criteria for determining when projects have been satisfactorily completed. They include a strong management and administrative infrastructure; reasonable project plans and related budgets; accounting and treasury systems and procedures; adequate and coherent audit processes to ensure that appropriate financial controls are in place; and transparent procurement processes. It encouraged participating Governments to develop action plans and timetables to establish such systems and controls and the secretariat to focus its efforts and those of the independent reviewers on capacity-building. The Council decided to assess the adequacy of the systems and controls in November 2012, although it also allowed for alternative arrangements to be considered in the event that the criteria had not been met.

Release of withheld funds

30. As with the compensation payments, the Board highlights the need to avoid neglecting outstanding non-material awards in the drive to complete projects under the environmental programme. The Board noted that the withheld funds relating to

14 of the 26 projects under decision 258 are not explicitly covered by decision 269. Those 14 projects relate to monitoring and assessment and have long been completed; in some cases the final technical reports were submitted as long ago as 2005. A total of $14.3 million in withheld funds related to those projects is awaiting the submission by claimant countries of financial reports and their review by an independent reviewer appointed by the Compensation Commission.

31. **The Compensation Commission accepted the Board's recommendation that it renew its efforts to ensure that the completed projects meet their outstanding reporting requirements so that withheld funds can be returned before 31 December 2013.**

5. Operating reserve

32. An operating reserve of $44.3 million was reported in the financial statements at the end of the biennium, against administrative expenditure of approximately $2.6 million, which equates to a reserve covering more than 15 years of operations. Such a large operating reserve is no longer necessary for the Commission's circumstances.

33. **The Board recommends that the operating reserve be reviewed and any surplus made available for compensation payments.**

6. Progress towards the implementation of the International Public Sector Accounting Standards

34. During the biennium there was limited progress on the implementation of the International Public Sector Accounting Standards (IPSAS) at the Compensation Commission. It has been a low priority, with activity limited largely to the attendance by the chief of the financial function at an IPSAS training seminar.

35. The move to IPSAS will offer the Compensation Commission the opportunity to reconsider the presentation of its financial statements, notes and disclosures to ensure that they reflect the Governing Council's and secretariat's judgement of what is relevant for the collective users of the statements. It also provides an occasion to review its accounting policies for the recognition of revenue and expenditure and whether separate financial statements are desirable for the secretariat and the Compensation Fund.

36. Given the possible completion of the Compensation Commission's mandate in 2015, the Commission should consider the impact this may have on the presentation of IPSAS-based financial statements. In particular, the Commission needs to consider the ramifications of preparing financial statements where the going concern basis does not apply.

37. **The Board recommends that the Compensation Commission actively engage with the United Nations IPSAS Task Force to identify the impact of IPSAS on the Commission, and develop IPSAS-compliant accounting policies, pro forma financial statements and notes relevant to the Commission's circumstances by 31 December 2012. The Board also recommends that the Commission produce shadow IPSAS-compliant financial statements for 2013.**

D. Disclosures by management

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

38. The Compensation Commission reported no write-offs of cash, receivables or property in the biennium ended 31 December 2011.

2. Ex gratia payments

39. The Compensation Commission informed the Board that it had made no ex gratia payments during the biennium ended 31 December 2011. This is consistent with the Board's review of the Commission's financial and management records, which did not identify any such payments during the biennium.

3. Cases of fraud and presumptive fraud

40. The Compensation Commission reported no cases of fraud or presumptive fraud to the Board for the biennium ended 31 December 2011.

E. Acknowledgement

41. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head, the Chief of Finance and Administration and other staff at the Commission, and those who support them in Geneva and New York.

(*Signed*) **Liu** Jiayi
Auditor-General of China
Chair of the Board of Auditors

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

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

30 June 2012

Annex
Analysis of the status of implementation of the recommendations of the Board of Auditors for the biennium ended 31 December 2009[a]

Summary of 2008-2009 recommendation	*Paragraph reference*	*Financial period first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
Disclose in a note to the financial statements the reasons for the reclassification and restatement of any comparatives	27	2008-2009	X			
Obtain up-to-date information on the estimated shortfall in the oil income account	36	2008-2009	X			
Intensify its efforts to obtain all outstanding distribution reports relating to the payment of claims	44	2008-2009	X			
Total			**3**	**–**	**–**	**–**
Percentage share of total			**100**	**0**	**0**	**0**

[a] See S/2010/626.

III. Certification of the financial statements

The financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991) for the biennium ended 31 December 2011 have been prepared in accordance with financial rule 106.10.

A summary of the significant accounting policies applied in the preparation of the financial statements is included in notes to the statements. The notes provide additional information on and clarifications of the financial activities undertaken by the Commission during the period covered by the statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991), numbered I to III, are correct.

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

28 March 2012

IV. Financial report for the biennium ended 31 December 2011

Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the biennium ended 31 December 2011. The accounts consist of three statements and the notes thereto.

2. The present financial report is designed to be read in conjunction with the financial statements. Attached hereto is an annex containing supplementary information that is required by the Financial Regulations and Rules to be reported to the Board of Auditors.

Background

3. The Compensation Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990-2 March 1991).

4. The Compensation Commission is currently composed of the Governing Council and the secretariat. The Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

Operations

5. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has been set at 5 per cent since its reduction from 25 per cent under Security Council resolution 1483 (2003). In its resolution 1956 (2010), the Council reaffirmed the 5 per cent and also decided to apply it to non-monetary payments.

6. From its inception until the completion of claims processing in early 2005, more than 2.6 million claims were received by the Commission within the filing deadlines. The Commission has resolved all of the claims submitted, consisting of the claims of individuals relating to their departure from Kuwait or Iraq (category “A”), the claims of individuals in cases of serious personal injury or death (category “B”), the claims of individuals for losses up to $100,000 (category “C”), the claims of individuals for losses over $100,000 (category “D”), the claims of corporations, other private legal entities and public sector enterprises (category “E”) and the claims of Governments and international organizations (category “F”). In total, approximately $52.3 billion has been awarded in respect of successful claims. As at 31 December 2011, the Commission had made available to Governments and international organizations approximately $34.3 billion for distribution to successful claimants in all categories.

7. The Governing Council has adopted various mechanisms concerning the prioritization of the payment of claims. The current mechanism was adopted at the

Council's sixty-eighth session, in November 2009. Pursuant to decision 267 (S/AC.26/Dec.267 (2009)), the remaining claims, all payable to Kuwait, are paid in instalments of $10 million, or the unpaid balance of the award, if less, in the order in which the claims were approved.

8. In addition to the payment of successful claims, the main ongoing activity of the secretariat includes overseeing the Follow-up Programme for Environmental Awards established in December 2005 by Governing Council decision 258 (S/AC.26/Dec.258 (2005)) to monitor the technical and financial implementation of approximately $4.3 billion of environmental remediation and restoration projects being undertaken with funds awarded in the "F4" (environmental) category of claims. The programme is funded by the participating Governments (namely, the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia) through contributions proportional to the value of their awards.

9. A special account was established in 2009 in order to account for funds withheld pursuant to Governing Council decisions 258 and 266 (S/AC.26/Dec.266 (2009)) in respect of the total "F4" awards that are subject to the Follow-up Programme for Environmental Awards and accrued interest thereon. In accordance with Governing Council decision 268 (S/AC.26/Dec.268 (2009)) of November 2009, interest accrued on the withheld funds is transferred to the respective Governments annually for the implementation of environmental projects.

10. In April 2011, the Governing Council adopted decision 269 (S/AC.26/Dec.269 (2011)), whereby it affirmed that it was not necessary for Compensation Commission monitoring under decision 258 to continue until the end of the environmental projects and that the purpose and goals of the programme could be fulfilled in the near term. The Council identified certain systems and controls to be established by each participating Government, and decided that at its seventy-fourth session, in November 2012, it would assess the adequacy of those systems and controls and decide on the timing for the disengagement of the Commission under the Programme.

Overview

11. The Compensation Fund is operated in accordance with the Financial Regulations and Rules of the United Nations. It finances the payments of compensation awards decided by the Commission as well as the administrative costs (with the exception of the Follow-up Programme for Environmental Awards). The income to the Fund for the biennium 2010-2011 increased by 29.4 per cent, from $5,103.6 million in the previous biennium to $6,603.9 million, as a result of increases in oil prices and production.

12. Expenditure in 2010-2011 amounted to $6,167.8 million, comprising compensation awards of $6,161.6 million, which represents 99.9 per cent of total expenditure, administrative expenditure of $2.7 million in respect of the Commission's activities funded by the Compensation Fund and $3.5 million in respect of the activities under the Follow-up Programme for Environmental Awards, which is funded by the participating Governments. This compares with total expenditure of $4,739.9 million in the previous biennium, comprising compensation awards of $4,735.2 million and administrative expenditure of $3.3 million and $1.4 million, respectively, for the above-mentioned activities. The increase of 30.1 per cent in compensation award payments is due to the increased revenue referred to in

paragraph 11. Administrative expenditure continued to decrease because of the scaling-down of the operation of the secretariat of the Commission.

13. Pursuant to its decision 252 (S/AC.26/Dec.252 (2005)), the Governing Council decided that any unrecovered overpayments awarded in respect of competing business claims would be recovered from the final payments to the concerned Governments. Furthermore, at its sixty-first session, in 2006, the Governing Council decided, inter alia, that the remaining balance in respect of duplicate awards from Kuwait should be recovered through an offset from the final compensation award payment. Overall, as at 31 December 2011, there remained a receivable amount of $5.0 million, which is expected to be recovered from the final compensation award payments to Kuwait.

14. As at 31 December 2011, the total funds withheld from the environmental awards pursuant to the applicable provisions of decisions 258 and 266, together with the accrued interest to be paid to the participating Governments, amounted to $1,071.8 million, comprising $0.1 million for the Islamic Republic of Iran, $40.8 million for Jordan, $747.1 for Kuwait and $283.8 million for Saudi Arabia.

15. The end-of-service liability for after-service health insurance, repatriation benefits and unused vacation days were all determined on an actuarial basis, as described in note 7 to the financial statements. Total accrued liabilities for end-of-service and post-retirement benefits increased from $3.8 million at the end of the previous biennium to $6.0 million as at 31 December 2011, comprising accrued liabilities for after-service health insurance of $5.4 million, for unused vacation days of $0.1 million, for repatriation benefits of $0.2 million and for termination indemnity of $0.3 million. The increase is attributable primarily to the use of a lower discount rate by the actuary, from 6.0 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011.

Annex
Supplementary information

1. The present annex provides supplementary information that the Secretary-General is required to provide.

Write-off of losses of cash and receivables

2. In accordance with financial rule 106.8, a receivable amounting to $48 was written off during the biennium 2010-2011.

Write-off of losses of property

3. In accordance with financial rule 106.9, there was no write-off of losses of non-expendable property during the biennium 2010-2011.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2010-2011.

V. Financial statements for the biennium ended 31 December 2011

A. Financial statements

Statement I
United Nations Compensation Commission[a]

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

(Thousands of United States dollars)

	Compensation Fund	*Support for Follow-up Programme for Environmental Awards*[b]	*Funds withheld from environmental awards*[c]	*Total 2011*	*Total 2009*
Income					
Allocations from other organizations[d]	6 539 008	–	–	6 539 008	5 042 421
Contributions from claimant Governments	–	4 134	–	4 134	2 207
Interest income	22 537	139	37 424	60 100	51 835
Other/miscellaneous income	616	8	–	624	7 092
Total income	**6 562 161**	**4 281**	**37 424**	**6 603 866**	**5 103 555**
Expenditure					
Staff and other personnel costs	2 105[e]	2 251	–	4 356	3 470
Travel	11[e]	146	–	157	58
Contractual services	102[e]	–	–	102	135
Operating expenses	429[e]	1 145	–	1 574	1 038
Acquisitions	15[e]	–	–	15	6
Compensation awards	6 161 630	–	–	6 161 630	4 735 203
Total expenditure	**6 164 292**	**3 542**	**–**	**6 167 834**	**4 739 910**
Excess (shortfall) of income over expenditure	**397 869**	**739**	**37 424**	**436 032**	**363 645**
Non-budgeted accrued (expense) for after-service health insurance[f]	(2 009)	(37)	–	(2 046)	1 101
Prior-period adjustments	(2 273)[g]	(52)	–	(2 325)	(33 263)
Net excess (shortfall) of income over expenditure	**393 587**	**650**	**37 424**	**431 661**	**331 483**
Cancellation of prior-period obligations	14	16	–	30	92
Transfer to other funds	–	–	–	–	(27)
Other adjustments to reserve and fund balances	–	–	(37 424)[h]	(37 424)	(15 370)

	Compensation Fund	Support for Follow-up Programme for Environmental Awards[b]	Funds withheld from environmental awards[c]	Total	
				2011	2009
Reserves and fund balances, beginning of period	676 072	1 617	–	677 689	361 511
Reserves and fund balances, end of period	**1 069 673**	**2 283**	**–**	**1 071 956**	**677 689**

[a] See note 1.
[b] See note 4.
[c] See note 5.
[d] Represents 5 per cent of the proceeds from Iraqi oil sales deposited into the Oil Proceeds Receipt Account pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). See note 1 (c).
[e] Administrative expenses are financed from the operating reserve.
[f] Represents net increase in after-service health insurance liabilities during 2010-2011.
[g] Represents an adjustment of $527,000 for interest income pertaining to funds withheld from environmental awards and adjustments of $1,746,000 for undistributed funds previously taken to miscellaneous income.
[h] Interest earned is payable to “F4” claimant Governments and shown in the “Other accounts payable” line in statement II. See note 5.

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

Statement II

United Nations Compensation Commission[a]

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

(Thousands of United States dollars)

	Compensation Fund	*Support for Follow-up Programme for Environmental Awards*[b]	*Funds withheld from environmental awards*[c]	*Total*	
				2011	*2009*
Assets					
Cash and term deposits	5 684	–	2	5 686	20 770
Headquarters cash pool[d]	1 062 298	–	1 071 795	2 134 093	1 393 013
Offices away from Headquarters cash pool[e]	–	2 597	–	2 597	5 937
Inter-fund balances receivable	2 731	28	3	2 762	1
Other accounts receivable	4 991[f]	9	–	5 000	115 433
Deferred charges	29	–	–	29	13
Total assets	**1 075 733**	**2 634**	**1 071 800**	**2 150 167**	**1 535 167**
Liabilities					
Unliquidated obligations — current period	157	41	–	198	440
Other accounts payable	159	33	1 071 800[g]	1 071 992	849 135
Deferred income	–	–		–	4 134
End-of-service and post-retirement liabilities	5 744[h]	277[i]	–	6 021	3 769
Total liabilities	**6 060**	**351**	**1 071 800**	**1 078 211**	**857 478**
Reserves and fund balances					
Operating reserve	44 301[j]	2 283	–	46 584	47 327
Cumulative surplus	1 025 372	–	–	1 025 372	630 362
Total reserves and fund balances	**1 069 673**	**2 283**	**–**	**1 071 956**	**677 689**
Total liabilities and reserves and fund balances	**1 075 733**	**2 634**	**1 071 800**	**2 150 167**	**1 535 167**

(Footnotes on following page)

(Footnotes to statement II)

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[a] See note 1.

[b] See note 4.

[c] See note 5.

[d] Represents share of the United Nations Headquarters cash pool and comprises cash and term deposits of $422,705,616, short-term investments of $499,274,661 (market value $500,142,838), long-term investments of $1,208,616,994 (market value $1,206,732,314) and accrued interest receivable of $3,495,668. See note 6.

[e] Represents share of the United Nations offices away from Headquarters cash pool and comprises cash and term deposits of $295,209, short-term investments of $741,869 (market value $743,241), long-term investment of $1,554,027 (market value $1,556,660) and accrued interest receivable of $6,350. See note 6.

[f] Includes $4,965,000 relating to duplicate and other claims to be recovered from future payments of compensation awards.

[g] Represents funds withheld to be payable to the "F4" claimant Governments upon satisfactory completion of environmental projects. See note 5.

[h] Represents accrued liabilities for after-service health insurance costs of $5,241,000, for repatriation benefits of $140,000, for unused vacation days of $71,000 and for termination indemnity of $292,000. See note 2 (m) (vi) and note 7.

[i] Represents accrued liabilities for after-service health insurance costs of $143,000, for repatriation benefits of $114,000 and for unused vacation days of $20,000.

[j] During the biennium 2010-2011, $1,408,200 was transferred from the operating reserve to supplement financing for the Commission's 2010-2011 administrative budget, resulting in an operating reserve of $44,301,431 as at 31 December 2011.

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

Statement III

United Nations Compensation Commission[a]

Statement of cash flows for the biennium ended 31 December 2011

(Thousands of United States dollars)

	Compensation Fund	*Support for Follow-up Programme for Environmental Awards*[b]	*Funds withheld from environmental awards*[c]	*Eliminations*[d]	*Total*	
					2011	*2009*
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	393 587	650	37 424	–	431 661	331 483
(Increase) decrease in inter-fund balances receivable	(2 731)	13	740 745	(740 788)	(2 761)	(1)
(Increase) decrease in other accounts receivable	2 208	(4)	108 229		110 433	(51 594)
(Increase) decrease in deferred charges	(16)	–	–		(16)	42
Increase (decrease) in unliquidated obligations	(183)	(59)	–		(242)	(91 774)
Increase (decrease) in inter-fund balances payable	(740 788)	–	–	740 788	–	(11)
Increase (decrease) in other accounts payable	7	27	222 823		222 857	831 236
Increase (decrease) in deferred income	–	(4 134)	–	–	(4 134)	1 927
Increase (decrease) in end-of-service and post-retirement liabilities	2 101	151	–	–	2 252	(2 259)
Less: interest income	(22 537)	(139)	(37 424)	–	(60 100)	(51 835)
Net cash flows from operating activities	**(368 352)**	**(3 495)**	**1 071 797**	**–**	**699 950**	**967 214**
Cash flows from investing activities						
Interest income	22 537	139	37 424	–	60 100	51 835
Net cash flows from investing activities	**22 537**	**139**	**37 424**	**–**	**60 100**	**51 835**
Cash flows from financing activities						
Cancellation of prior-period obligations	14	16	–	–	30	92
Transfer to other funds	–	–	–	–	–	(27)

	Compensation Fund	*Support for Follow-up Programme for Environmental Awards*[b]	*Funds withheld from environmental awards*[c]	*Eliminations*[d]	*Total*	
					2011	*2009*
Other adjustments to reserves and fund balances	–	–	(37 424)	–	(37 424)	(15 370)
Net cash flows from financing activities	**14**	**16**	**(37 424)**	**–**	**(37 394)**	**(15 305)**
Net increase (decrease) in cash and term deposits and cash pools	**(345 801)**	**(3 340)**	**1 071 797**	**–**	**722 656**	**1 003 744**
Cash and term deposits and cash pools, beginning of period	1 413 783	5 937	–	–	1 419 720	415 976
Cash and term deposits and cash pools, end of period	**1 067 982**	**2 597**	**1 071 797**	**–**	**2 142 376**	**1 419 720**

[a] See note 1.
[b] See note 4.
[c] See note 5.
[d] Upon combination of the columns, transactions between the columns are eliminated in order to ensure a fair presentation of the "Total" column.

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

B. Notes to the financial statements

Note 1
United Nations Compensation Commission

(a) The United Nations Compensation Commission was established in 1991 in accordance with Security Council resolutions 692 (1991) and 687 (1991) to process and pay claims for direct loss, damage or injury arising from the invasion and occupation of Kuwait by Iraq;

(b) By its resolution 705 (1991), the Security Council accepted the Secretary-General's recommendation that the level of Iraq's contribution to the Compensation Fund would not exceed 30 per cent of the value of its exports of petroleum and petroleum products. By its resolution 986 (1995), the Council approved the allocation of 30 per cent of the proceeds from the sale of Iraqi oil to the Fund. Following the adoption of Council resolution 1330 (2000), the allocation to the Fund was decreased from 30 per cent to 25 per cent, effective 6 December 2000;

(c) By its resolution 1483 (2003), the Security Council reduced the level of Iraq's contribution to the Compensation Fund, effective 22 May 2003, to 5 per cent;

(d) By its resolution 1956 (2010), the Security Council reaffirmed the level of 5 per cent established in its resolution 1483 (2003). By the same resolution, the Council decided that after 30 June 2011, 5 per cent of the value of any non-monetary payments to service providers should be deposited into the Compensation Fund. These are binding on the Government of Iraq unless the Government and the Governing Council of the Compensation Commission decide otherwise.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations Compensation Commission

(a) The accounts of the Compensation Commission are maintained in accordance with the financial regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The Commission follows International Accounting Standard 1, Presentation of Financial Statements, on the disclosure of accounting policies, as modified and adopted by CEB as follows:

(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 Commission's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Financial statements reflect the activities of each fund or a group of funds of the same nature;

(c) The financial period of the Commission is a biennium consisting of two consecutive calendar years;

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;

(e) The accounts of the Commission 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 reflect the cash, investments 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 as at the date of the statements. In the event that the application of actual exchange rates as at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote is provided quantifying the difference;

(f) The Commission'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 flow as referred to in the United Nations system accounting standards;

(h) The Commission'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;

(i) The results of the Commission's operations presented in statements I, II and III are shown by general type of activity as well as on a combined basis for all funds. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since normally resources may not be utilized between funds;

(j) Income:

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

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Commission to administer projects or programmes on their behalf;

(iii) Interest income includes all interest earned on deposits in various bank accounts and investment income earned in the United Nations 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 the Commission;

(iv) Miscellaneous income includes awards no longer payable to claimants because of the expiration of the deadline established by the Governing Council at its fifty-sixth session, income from the sale of used or surplus property, refunds of expenditure charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified and other sundry income;

(v) Income for future financial periods is not recognized in the current financial period and is recorded as deferred income (see also note 2 (m) (iii));

(k) Expenditures:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(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 note 2 (l) (v);

(l) Assets:

(i) Cash and term deposits represent funds held in demand-deposit accounts and interest-bearing bank deposits;

(ii) Cash pools comprise the Commission's share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the United Nations cash pools. 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 market value of investments is disclosed in the footnotes to the financial statements. Currently, the Commission participates in both the Headquarters cash pool and the offices away from Headquarters cash pool (see also note 6);

(iii) 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 the general fund. Inter-fund balances are settled periodically depending on the availability of cash resources;

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

(v) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. 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;

(vi) 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;

(vii) 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 Commission. 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 (see note 8);

(m) Liabilities and reserves and fund balances:

(i) 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) Current-period obligations remain valid for 12 months following the end of the biennium to which they relate, after which the remaining balances are cancelled and returned to the Compensation Fund as savings on or cancellation of prior-period obligations;

(v) Other accounts payable include amounts withheld with respect to environmental projects pursuant to the Governing Council decisions 258 and 266, which shall be released in phases upon the successful completion of the related projects;

(vi) Accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits, unused vacation days and termination indemnity. The liabilities for after-service health insurance, repatriation benefits and unused vacation days are determined on an actuarial basis. The liability for termination benefits is based on current costs, without discounting or other adjustments;

(vii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(viii) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the General Assembly to provide retirement, death, disability and related benefits. UNJSPF is a funded, multi-employer defined-benefit plan.

An actuarial valuation of the UNJSPF 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 UNJSPF is not reflected in the financial statements.

The Organization's contribution to UNJSPF consists of its mandated contribution at the rate established by the General Assembly, 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 Assembly has invoked article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the reporting date, the Assembly had not invoked that provision.

Note 3
Statements I, II and III

(a) Income from 5 per cent of proceeds from all export sales of Iraqi oil. Further to Security Council resolution 1483 (2003), in which the Council called for the deposit of 5 per cent of proceeds from all export sales of Iraqi petroleum, petroleum products and natural gases into the Compensation Fund, and resolution 1956 (2010), in which the Council called for a deposit of 5 per cent of the value of any non-monetary payments from those sales, income is recognized when the deposit is actually received by the Fund. The cash basis for recognition of this income is appropriate, considering the lack of reliable information for determining 5 per cent of proceeds that may have accrued but not yet been received as at the reporting date, and also considering that such amount is neither under the control of nor utilizable by the Fund. Cash received is shown in the "Allocations from other organizations" line of the income section in statement I.

(b) Compensation awards. As of 31 December 2011, compensation awards that have been approved by the Governing Council but not yet paid or obligated pending the receipt of funds from the sale of oil proceeds further to Security Council resolution 1483 (2003) and 1956 (2010) stand at $18,053,758,778.

(c) Awards of interest. With respect to awards of interest, on 10 March 2005, the Governing Council adopted decision 243 (S/AC.26/Dec.243 (2005)), which provided that the Council would take no further action with respect to the issue of awards of interest. This effectively meant that no interest would be paid on compensation awards. The decision was communicated to all claimant Governments in 2005.

(d) Duplicate and other claims. By its decision 252 of 29 September 2005, the Governing Council decided that any unrecovered overpayments in respect of competing business claims would be recovered from the final payments to the concerned Governments. In this regard, of the amount of $3,550,486 that was outstanding from Kuwait as at 31 December 2009, an amount of $398,893 has been recovered and returned to the Commission, leaving a balance of $3,151,593 outstanding as at 31 December 2011. Furthermore, at its sixty-first session, in October and November 2006, the Governing Council decided that the remaining balance of $1,813,756 in respect of duplicate awards from Kuwait should be recovered through an offset from the final payments of compensation awards to Kuwait. Overall, as at 31 December 2011, the remaining amount expected to be recovered from the final payments of compensation awards to Kuwait is $4,965,349.

(e) Sale of Iraqi oil: cash and barter transactions; deficiencies in metering systems:

(i) Security Council resolution 1483 (2003) provides for 5 per cent of all proceeds from export sales of Iraqi oil to be transferred to the Compensation Fund. From 2003 to 2010, in accordance with resolution 1483 (2003), export sales have been audited by independent firms of public accountants appointed by the International Advisory and Monitoring Board. The audits have identified shortfalls in income to the Fund as a result of cash sales of petroleum and petroleum products being deposited into accounts controlled by the Iraq Oil Marketing Company rather than into the Oil Proceeds Receipt Account and barter transactions of fuel oil and petroleum in exchange for electricity and light petroleum products. The audits indicate that as at 31 December 2010, the shortfall to the Fund was $224.2 million in respect of such cash and barter transactions. The audits also identified the lack of a full operational loading and metering system for export sales; it is therefore not possible to reliably determine the volumes of petroleum and petroleum products for export. The Iraqi Committee of Financial Experts, which assumed responsibility from the International Advisory and Monitoring Board effective 1 July 2011, has appointed an independent firm of public accountants to undertake the audit for 2011. The audit report has not yet been finalized;

(ii) In its authority over the arrangements for ensuring that payments are made to the Compensation Fund, the Governing Council continues to monitor payments to the Fund following the expiration of the mandate of the International Advisory and Monitoring Board on 30 June 2011 and the transfer of the oversight over Iraqi oil revenues to the Committee of Financial Experts. At its seventy-second session, in October 2011, the Council noted that since the transfer, there had been no change in the mechanism and payments continued to be transferred to the Fund through the Federal Reserve Bank of New York. With respect to non-monetary payments, the Council requested that the Committee put a proper mechanism in place as soon as possible to value such transactions and transfer the value of 5 per cent of any such transactions to the Fund pursuant to Security Council resolution 1956 (2010). Accordingly, the Secretariat of the Compensation Commission regularly engages with the Committee of Financial Experts regarding payments to the Fund.

Note 4
United Nations Compensation Commission support for the Follow-up Programme for Environmental Awards

The Governing Council created the programme by its decision 258 in December 2005 in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia as a mechanism for monitoring the financial and technical aspects of various environmental projects being undertaken by the claimant Governments with funds awarded by the Commission. The programme is financed by the claimant Governments through deductions from their respective shares of specified awards.

Note 5
Funds withheld from environmental awards

A special account was established in April 2009 in order to account for funds withheld pursuant to Governing Council decisions 258 and 266 and interest thereon. The Council, in its decision 258 of December 2005, decided to withhold 15 per cent of the total “F4” environmental awards that were subject to the Follow-up Programme for Environmental Awards from the last payment to each of the participating Governments, the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, and to release the withheld amounts upon the satisfactory completion of the environmental projects. In April 2009, the Council decided further, in its decision 266, that an additional amount equivalent to 10 per cent of the value of each of the five phased environmental projects with awards greater than $50 million should be retained pending further decisions of the Council. The funds withheld by the Compensation Commission under Governing Council decisions 258 and 266 are retained in a special account in the United Nations. Furthermore, in accordance with Governing Council decision 268 of November 2009, interest accrued on the funds withheld under decisions 258 and 266 is transferred to the respective Governments annually to be used for the implementation of the environmental projects.

Note 6
Cash pool

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the United Nations Secretariat, including the Commission. 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 the ability to spread yield curve exposures across a range of maturities;

(ii) Investment activities of all the cash pools 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, the investment objectives of all the cash pools, in order of priority, are:

(i) Safety: ensuring the preservation of capital;

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

(iii) Return on investment: attaining 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) Cash pools:

(i) The Commission participates in the following cash pools:

a. Headquarters pool, which has investments only in United States dollars and is for use by funds whose main books of accounts are maintained at United Nations Headquarters in New York;

b. Offices away from Headquarters pool, which has investments only in United States dollars and is for use by funds whose main books of accounts are maintained in one of the offices away from Headquarters;

(ii) The cash pools invest 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. The cash pools do not invest in derivative instruments or asset-backed, mortgage-backed or equity products;

(iii) 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 cash pools are expensed as incurred in the cash pools, and the net income is distributed proportionately to the funds participating in the cash pools;

(iv) 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 cash pool participants.

(d) Financial information pertaining to the Headquarters and offices away from Headquarters cash pools:

(i) As at 31 December 2011, the Headquarters and offices away from Headquarters cash pools held total assets of $10,425.5 million; of that amount $2,136.7 million was due to the Commission, as reflected in the cash pool lines of statement II;

(ii) Financial information relating to the cash pools as at 31 December 2011 is summarized in table 1.

Table 1
Summary of assets and liabilities of the cash pools as at 31 December 2011
(Thousands of United States dollars)

	Headquarters pool	*Offices away from Headquarters pool*	*Total*
Assets			
Short-term investments[a]	3 825 106	627 484	4 452 590
Long-term investments[b]	5 014 303	940 267	5 954 570
Total investments	8 839 409	1 567 751	10 407 160
Cash	1	2	3
Accrued investment income	14 503	3 842	18 345
Total assets	**8 853 913**	**1 571 595**	**10 425 508**
Liabilities			
Payable to the Commission	2 134 093	2 597	2 136 690
Payable to other funds participating in the cash pools	6 719 820	1 568 998	8 288 818
Total liabilities	**8 853 913**	**1 571 595**	**10 425 508**
Net assets	**–**	**–**	**–**

Summary of net income of the cash pools for the biennium ended 31 December 2011
(Thousands of United States dollars)

	Headquarters pool	*Offices away from Headquarters pool*	*Total*
Net income			
Interest income	190 622	40 714	231 336
Realized gains on sales of securities	103 405	10 080	113 485
Securities lending income[c]	4 388	559	4 947
Net income from operations	**298 415**	**51 353**	**349 768**

[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 that of the loaned security.

(e) Composition of the Headquarters and offices away from Headquarters cash pools: table 2 shows a breakdown of investments held in the Headquarters and offices away from Headquarters cash pools by type of instrument.

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

Headquarters pool	*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
United States Treasury notes	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**

Offices away from Headquarters pool	*Book value*	*Fair value*[a]
Bonds		
Government agencies	989 127	990 001
Non-United States sovereigns and supranationals	325 031	326 577
Subtotal	**1 314 158**	**1 316 578**
Discounted instruments[b]	74 978	74 981
Term deposits	178 615	178 615
Total investments	**1 567 751**	**1 570 174**

Total of Headquarters and offices away from Headquarters cash pools	*Book value*	*Fair value*[a]
Bonds		
Government agencies	4 060 841	4 063 670
Non-United States sovereigns and supranationals	1 835 353	1 830 677
United States Treasury notes	1 603 813	1 603 796
Subtotal	**7 500 007**	**7 498 143**
Discounted instruments[b]	974 820	974 890
Term deposits	1 932 333	1 932 333
Total investments	**10 407 160**	**10 405 366**

[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.

(f) Financial risk management: the Headquarters and offices away from Headquarters cash pools are 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 require that the United Nations not invest in issuers whose credit ratings are below specifications and provide for maximum concentrations with given issuers. Those requirements were met at the time of investment. 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 and offices away from Headquarters cash pools are shown in table 3.

Table 3

Investments of the cash pools, by credit rating, as at 31 December 2011

(Thousands of United States dollars)

Headquarters pool	*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**	

Offices away from Headquarters pool	*Total*[a]	*Ratings*
Bonds	1 314 158	S&P: 41.4% AAA and 58.6% AA+/AA-; Moody's: 94.7% Aaa and 5.3% Aa1/Aa3
Discounted instruments[b]	74 978	S&P: A-1+; Moody's: P-1
Term deposits	178 615	Fitch: 60.8% A/B and 39.2% B
Total investments	**1 567 751**	

[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 and offices away from Headquarters cash pools are 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 commitments as and when they fall due. The major portion of the pools' cash and cash equivalents and investments are available within one day's notice to support operational requirements. Hence, the pools are 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 owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed rate security falls and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The Headquarters and the offices away from Headquarters cash pools are exposed to interest rate risk as their holdings comprise interest-bearing securities. As at 31 December 2011, the cash pool was 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 and the offices away from Headquarters pool were 1.12 years and 0.89 years, respectively, which are considered to be indicators of low interest rate risk. Table 4 shows how the fair value of the Headquarters and offices away from Headquarters cash pools as at 31 December 2011 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 illustrative;

Table 4
Sensitivity of the cash pools to interest rates as at 31 December 2011

	Change in fair value (millions of United States dollars)		
Shift in yield curve (basis points)	*Headquarters pool*	*Offices away from Headquarters pool*	*Total*
-200	197	28	225
-150	148	21	169
-100	99	14	113
-50	49	7	56
0	0	0	0
50	-49	-7	-56
100	-99	-14	-113
150	-148	-21	-169
200	-197	-28	-225

(iv) Other price risk: the Headquarters and offices away from Headquarters cash pools are not exposed to significant other price risk, as they do not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Note 7
Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits, commutation of unused vacation days and termination indemnity. As disclosed in note 2 (m) (vi), the liabilities for after-service health insurance, repatriation benefits and unused vacation days are determined on an actuarial basis by an independent, qualified actuarial firm. The liability for termination benefits is based on current costs, without discounting or other adjustments.

(b) After-service health insurance:

(i) Upon termination of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. This benefit is referred to as after-service health insurance;

(ii) The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2011 was a discount rate of 4.5 per cent; health-care escalation rates of 8.0 per cent in 2012, grading down to 4.5 per cent in 2027 and later years; and retirement, withdrawal and mortality assumptions consistent with those used by UNJSPF in making its own actuarial valuation of pension benefits. The main changes as compared with the 31 December 2009 valuation were a decline in the assumption for the discount rate from 6.0 per cent to 4.5 per cent, reflecting a broad decline in interest rates of the benchmark, which is based on rates for high-quality corporate bonds, and an assumption for higher health-care escalation rates for plans outside of the United States of America;

(iii) In determining the after-service health insurance valuation, contributions by all plan participants should also be considered in determining the Commission's residual liability. Thus, contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff are also deducted to arrive at the Commission's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. The ratios require that the Commission's share not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the Medical Insurance Plan;

(iv) On the basis outlined in subparagraphs (ii) and (iii) above, the present value of the accrued liability as at 31 December 2011 was estimated at $5,384,000, net of contributions from plan participants (see table 5). That net liability compares to an estimate of $3,338,000 as of 31 December 2009. The increase of $2,046,000 is due mainly to an actuarial loss of $1,790,000, which is due primarily to the change in the assumption for discount rates, from 6.0 per cent as at 31 December 2009 to 4.5 per cent as at 31 December 2011;

Table 5
After-service health insurance liabilities
(Thousands of United States dollars)

Gross liability	10 768
Offset by contributions from plan participants	(5 384)
Net liability	**5 384**

(v) Further to the assumptions in subparagraph (ii) above, it is estimated that the present value of the liability would increase by 21 per cent and decrease by 16 per cent if the medical cost trend increased or decreased by 1 per cent, respectively, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 22 per cent and decrease by 17 per cent if the discount rate decreased or increased by 1 per cent, respectively, all other assumptions remaining constant.

(c) Repatriation benefits:

(i) Upon termination of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant that is based on length of service and travel and removal expenses. Those benefits are collectively referred to as repatriation benefits;

(ii) A consulting actuary was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2011 (see also note 2 (m) (vi)). The major assumptions used by the actuary were a discount rate of 4.5 per cent, annual salary increases ranging from 4 to 9.1 per cent based on the age and employment category of the staff member, and travel cost increases of 2.5 per cent per annum;

(iii) On the basis of those assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2011 values is estimated at $254,000.

(d) Unused vacation days:

(i) Upon termination of service, staff members holding fixed-term or continuing appointments may commute up to a maximum of 60 unused vacation days;

(ii) A consulting actuary was engaged to carry out an actuarial valuation of unused vacation days as at 31 December 2011. The major assumptions used by the actuary were a discount rate of 4.5 per cent and an annual rate of increase in accumulated annual leave balances of 12.5 days in each of the first three years, 3.0 days per year in the fourth to sixth years, and 0.1 days annually thereafter, capping at an accumulation of 60 days (see also note 2 (m) (vi)). Salary is assumed to increase annually at rates ranging from 4.0 to 9.1 per cent based on the age and employment category of the staff member;

(iii) On the basis of those assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2011 was estimated at $91,000.

(e) Termination indemnity: some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission's liability for such costs as at 31 December 2011 is estimated to be $292,000.

Note 8
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Commission but is charged against the current allotment in the year of purchase. The Commission's non-expendable property, valued at historical cost as at 31 December 2011 and 2009, is set out in table 6.

Table 6
Non-expendable property value
(Thousands of United States dollars)

	2011	*2009*
Balance at 1 January	263	993
Add: acquisitions	22	16
Less: dispositions	(40)	(747)
Other adjustments	–	1
Balance as at 31 December	**245**	**263**

Note 9
Future operations

Following the completion of claims processing, the Governing Council decided at its fifty-eighth session to retain a residual Commission in Geneva comprising two components: the Governing Council and a reduced-scale secretariat.

The secretariat's principal areas of activity relate to servicing the Governing Council, making arrangements to ensure that complete and timely payments are made to the Compensation Fund, paying the remaining outstanding awards, which, as at 31 December 2011, totalled approximately $18 billion, and managing the Follow-up Programme for Environmental Awards, established by the Governing Council in December 2005, including administering funds withheld under the programme.

With respect to the environmental programme, at its seventy-first session, in April 2011, the Governing Council adopted decision 269, which seeks to fulfil the mandate of the programme in the near term. To accomplish this, the Council enumerated five structural systems and controls to be established by the participating Governments, and the Compensation Commission secretariat is focused on capacity-building to assist the Governments in achieving that goal. At its seventy-fourth session, in November 2012, the Governing Council is scheduled to assess the adequacy of the systems and controls established to decide whether, in respect of each participating Government, the mandate of the programme has been fulfilled and when the programme can be closed.

Payments of the outstanding compensation awards continue to be made pursuant to Governing Council decision 267. Given the current income to the Compensation Fund, it is estimated that it would take approximately four and a half years to pay the outstanding $18 billion in compensation awards that remains owing to Kuwait.