



United Nations

**United Nations Relief and Works Agency for
Palestine Refugees in the Near East**

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-fourth Session

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**United Nations Relief and Works Agency for
Palestine Refugees in the Near East**

**Financial report and audited
financial statements**

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Report of the Board of Auditors



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Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letter of transmittal

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2018.

(Signed) Kay Scheller
President of the German Federal Court of Auditors
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which comprise the statement of financial position (statement I) as at 31 December 2018 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2018 and its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled “Auditor’s responsibilities for the audit of the financial statements”. We are independent of UNRWA, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor’s report thereon

The Commissioner-General of UNRWA is responsible for the other information, which comprises the financial report for the year ended 31 December 2018 contained in chapter IV below, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Commissioner-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation

of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting, unless the management intends either to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement where one exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Draw conclusions as to the appropriateness of the management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNRWA to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Agency to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNRWA that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations of UNRWA and legislative authority.

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

(Signed) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
(Lead Auditor)

(Signed) Rajiv **Mehrishi**
Comptroller and Auditor General of India

24 July 2019

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to more than 5 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 29,628 area staff and 189 international staff at its 5 fields of operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

UNRWA is primarily funded through voluntary contributions. In 2018, total contributions were \$1,261.08 million, of which voluntary contributions were \$1,195.34 million (95 per cent), and total expenses amounted to \$1,190.22 million.

The Board of Auditors audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2018 in accordance with General Assembly resolution 74 (I) and in conformity with the International Standards on Auditing. The audit was carried out through the examination of financial transactions and operations at UNRWA headquarters in Amman and at its field offices in Jordan, Lebanon and West Bank.

Scope of the report

The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly; it has been discussed with UNRWA management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNRWA operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The report also includes a brief commentary on the status of implementation of the recommendations made in previous years.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material aspects, the financial position of UNRWA as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2018, which were prepared in accordance with the International Financial Reporting Standards. In addition, the Board performed an annual audit of the Microfinance Department and issued an unqualified opinion on its financial statements for the year ended 31 December 2018.

Overall conclusion

UNRWA reported a surplus of \$105.01 million for 2018, compared with the deficit of \$71.55 million reported for the previous year. The surplus was due to efforts made by the Agency to mobilize resources from various donors, which resulted in an increase of \$53.64 million in donor support action, and in the implementation of austerity measures aimed at substantially reducing non-core operations costs as a serving strategy, which resulted in a reduction of \$120.22 million in such costs as at the end of 2018. This was unlike previous years, in which UNRWA reported a deficit in its results.

The programme budget, which finances the core activities of the Agency, recorded a surplus of \$100.38 million in 2018. The surplus was due to an increase in revenue, mainly for cash contributions. Emergency appeals recorded a deficit of \$10.64 million, due to a decrease in cash contributions; however, that amount is less than the deficit recorded in 2017. The projects funds recorded a surplus of \$10.98 million, due primarily to revenue recognized for future periods under the same earmarked activities (projects). The Microfinance Department recorded a surplus of \$4.35 million.

The Board identified the following areas as needing improvement with regard to operations and financial management: treasury and cash management, asset management, human resources management, procurement and contract management and budget reporting. Deficiencies in those areas need to be addressed in order to ensure the efficient and effective delivery of the Agency's mandate.

Key findings

The Board has identified some issues that need to be considered by management in order to enhance the effectiveness of UNRWA operations. In particular, the Board highlights the key findings set out below.

Treasury and cash management

Cash count and late corrections on balance amounts

During the imprest fund cash count procedure performed by the Department of Finance at the West Bank field office on 23 January 2019, differences were observed between the amount of the trial balance as at 31 December 2018 and the cash count conducted by the Board, amounting to a total of \$3,897. The Head of the Finance Department of the field office indicated that the differences had been carried forward since 2013 and that a write-off had been proposed to headquarters by the field office, but no adjustments had been made as at 1 February 2019.

Asset management

Inaccurate record of inventory quantities in the REACH system

The Board performed an assessment of inventory at the Jordan field office warehouse and observed that a transaction recorded in REACH as two items listed as "textbook", under the material identification code 55101509.0001, using "book" as the unit of measure, correlated with an in-kind donation of textbooks. Consequently, the information recorded in the system does not represent the physical stock of inventory in the warehouse, which reflects a weakness in the integrity and accuracy of economic events, contrary to the stipulations of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

Human resources management

Attendance recording and schedule control

The Board determined that the attendance form that staff members were supposed to use to record their daily attendance was not available in all UNRWA departments. Furthermore, the Department of Human Resources at headquarters informed the Board that recording attendance at the Agency was not mandatory. In addition, while the Lebanon field office had a register of its staff's monthly attendance, prepared by a senior officer, that was not the case for the Jordan and West Bank field offices, which only kept the signed spreadsheets as a backup for staff attendance. The West Bank field office, for example, stated that each of its departments determined its own method for recording attendance, if it had one. This situation is contrary to the stipulations of personnel directive No. A/1/Rev.1/Amend.1, which establishes the way in which attendance is to be recorded. The Board considers that the lack of a reliable and consistent control mechanism that enables the verification of compliance with established working hours may hinder the completion of the work hours established under area staff rule 101.1. Conversely, having a mechanism that objectively registers daily attendance makes it possible to verify compliance with working hours and schedules and keep a record of absences in accordance with those registered in REACH.

Restriction of overtime due to austerity measures

The Board observed that, in January 2018, the Agency decided to implement a 100 per cent reduction on overtime expenditure. That measure, along with several others, was communicated by email from the Amman headquarters to the different field offices on 28 January. The Board noted, however, that the quarterly expenditure reports showed expenses for overtime in 2018 at the different field offices; those expenses were also reported in the Excel sheets presented by the field offices. The overtime payments observed referred to certain occupations that cannot be interrupted owing to their nature, such as security guards, garbage collectors and health professionals. Nevertheless, those situations had not been addressed in the initial decision, nor were they addressed in later communications. The Board considers that the lack of clarity in establishing the positions for which overtime expenditure would be allowed could complicate the proper application of, and compliance with, the austerity measures.

Procurement and contract management

Selection of ineligible supplier

After checking the list of vendors identified as being ineligible for participation in the United Nations Global Marketplace and the list of vendors identified as having been removed from the UNRWA vendor roster on the basis of their poor performance and comparing those lists with the list of suppliers that were awarded contracts by the Agency between January and October 2018, it was observed that an ineligible vendor, "United Electronic Co.", had been selected by the Agency in contravention of its procurement manual. The vendor had been declared ineligible by the United Nations Global Marketplace since 20 May 2008, and its status under "vendor's master data" in the REACH system had been listed as "blocked" since 30 October 2017, on the basis of its being included on the sanctions list issued in September 2017. As a result, when UNRWA generated micropurchase order No. 5518000683 for the vendor on 24 May 2018, it was held by the system; regardless of that, the Agency created a new micropurchase order, No. 5518000693, for the vendor on 28 May.

Budget reporting

Quarterly expenditure review

The Board noted that UNRWA did not issue its quarterly expenditure reviews in a timely and complete manner so as to ensure that the planning and execution of the budget programme were fully in line with the Agency's regulations and guidelines, which contribute to its focus on lessons learned, strategic developments and key issues arising for consideration in the subsequent annual budget preparation process.

Main recommendations

The Board has made several recommendations based on its audit that are contained in the body of the report. The main recommendations are that UNRWA:

Treasury and cash management

Cash count and late corrections on balance amounts

(a) **Adjust the cash accounts in a timely manner and verify that they tally with the physical cash balances, in order to disclose accurate balances in the financial statements;**

Asset management

Inaccurate record of inventory quantities in the REACH system

(b) **Take measures to record the precise quantity of each item in the inventory in REACH, which would allow UNRWA to manage its physical inventory in an appropriate manner and to report the information accurately and with integrity. In addition, the Board recommends that the entity review the items entered under material identification code 55101509.0001 and make the appropriate corrections;**

Human resources management

Attendance recording and schedule control

(c) **Implement an objective, accurate, reliable and consistent attendance control mechanism, which considers the entry and exit record, in order to guarantee correct registration of and compliance with the working hours established in area staff rule 101.1. In addition, the Board recommends that UNRWA headquarters and field offices issue and publish circulars indicating their respective schedule of hours of work, in accordance with personnel directive No. A/1/Rev.1/Amend.1;**

Restriction of overtime due to austerity measures

(d) **In the event that UNRWA reissues instructions related to austerity measures, especially overtime restrictions, ensure that the types of overtime to be reduced are clearly specified, as doing so would make it possible to evaluate and quantify the net savings of employee austerity measures at all levels of operations and assess their effectiveness;**

Procurement and contract management

Selection of ineligible supplier

(e) **Increase internal control measures during the initial stage of the procurement process in order to avoid the use of vendors and suppliers that have**

been sanctioned or identified as ineligible, whether internally or externally by United Nations organizations;

Budget reporting

Quarterly expenditure review

(f) **Comply with regulations during budget execution and develop complete and specific quarterly expenditure reviews on a timely basis.**

Key facts

5.4 million	Population of Palestinians refugee served by UNRWA in 2018
\$673.82 million	Wages, salaries and employee benefits in 2018
29,628	UNRWA area staff (local staff)
189 (158 regular budget and 31 extrabudgetary)	UNRWA international staff
\$224.88 million	Procurement cost in 2018
\$1.11 billion	UNRWA final budget 2018

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Middle East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more than 5 million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 29,628 staff, most of whom are Palestinian refugees.

2. The Board of Auditors has audited the financial statements of UNRWA and has reviewed its operations for the year ended 31 December 2018, in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA and 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.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency. 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 it necessary in order to form an opinion on the financial statements.

4. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations at UNRWA headquarters in Amman and at the Jordan, Lebanon and West Bank field offices, in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during the audit include treasury and cash management, budget management, procurement and contract management, property management, relief and social services programme management, human resources management, assets management and information and communications technology (ICT).

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

5. Of the 54 outstanding recommendations up to the year ended 31 December 2017, 32 (59 per cent) were fully implemented, 20 (37 per cent) are under implementation, and 2 (4 per cent) were not implemented. While the Board acknowledges the efforts made by the Agency in increasing the implementation status of previous recommendations, the percentage has dropped as compared with 2017. In this context, we encourage the Agency to keep working on implementing the remaining recommendations. Details of the status of implementation of these recommendations are shown in annex I.

2. Financial overview

Financial performance

6. In 2018, UNRWA increased its revenues by \$56.35 million, from \$1,238.89 million in 2017 to \$1,295.24 million in 2018. The increase is explained mainly by the increase in cash contributions by governments (\$28.41 million), intergovernmental organizations (\$10.82 million) and United Nations organizations (\$15.00 million).

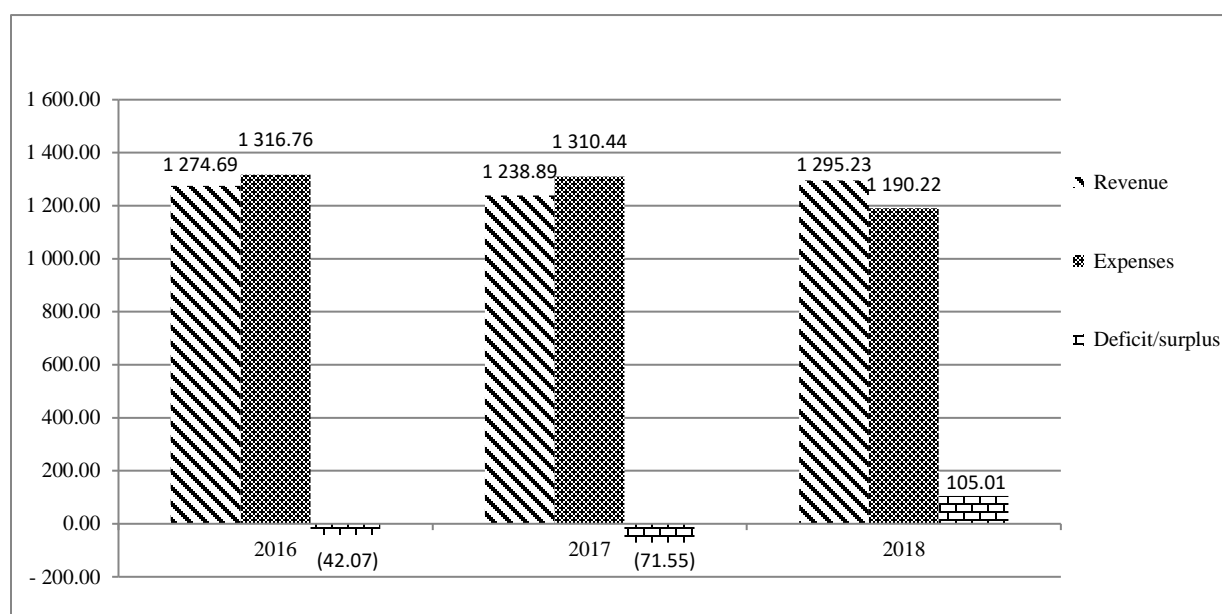
7. UNRWA reported a surplus of \$105.01 million for the year ended 31 December 2018 (2017: \$71.55 million deficit). The surplus reported represents an increase of 247 per cent as compared with the deficit of \$71.55 million reported for the previous year. The surplus was due to an increase of \$53.64 million in donor support action and a strict regime of cost reductions adopted by UNRWA in the light of financial restrictions, leading to a decrease of \$120.22 million in costs, unlike in previous years when UNRWA reported deficits in its results.

8. The comparative revenue and expenses trend for three years is shown in figure I.I.

Figure I.I

Comparative revenue and expenses trend for three years

(Millions of United States dollars)



Source: UNRWA financial statements for 2018.

9. The programme budget, which finances the core activities of the Agency, reflected a significant variation in its financial results, from a deficit of \$83.05 million reported in 2017 to a surplus of \$100.38 million in 2018. The surplus in the programme budget was due to an increase in revenue of 25 per cent, mainly for cash contributions, while emergency appeals recorded a deficit, as presented in table II.1 below.

Table II.1
Financial performance by fund

(Millions of United States dollars)

Description	Unearmarked activities	Earmarked activities					Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	864.34	23.02	12.84	266.23	164.95	(36.14)	1 295.24
Expenses	763.56	22.47	8.49	276.87	153.96	(35.52)	1 190.22
Surplus/(deficit)	100.38	0.55	4.36	(10.64)	10.99	(0.62)	105.01

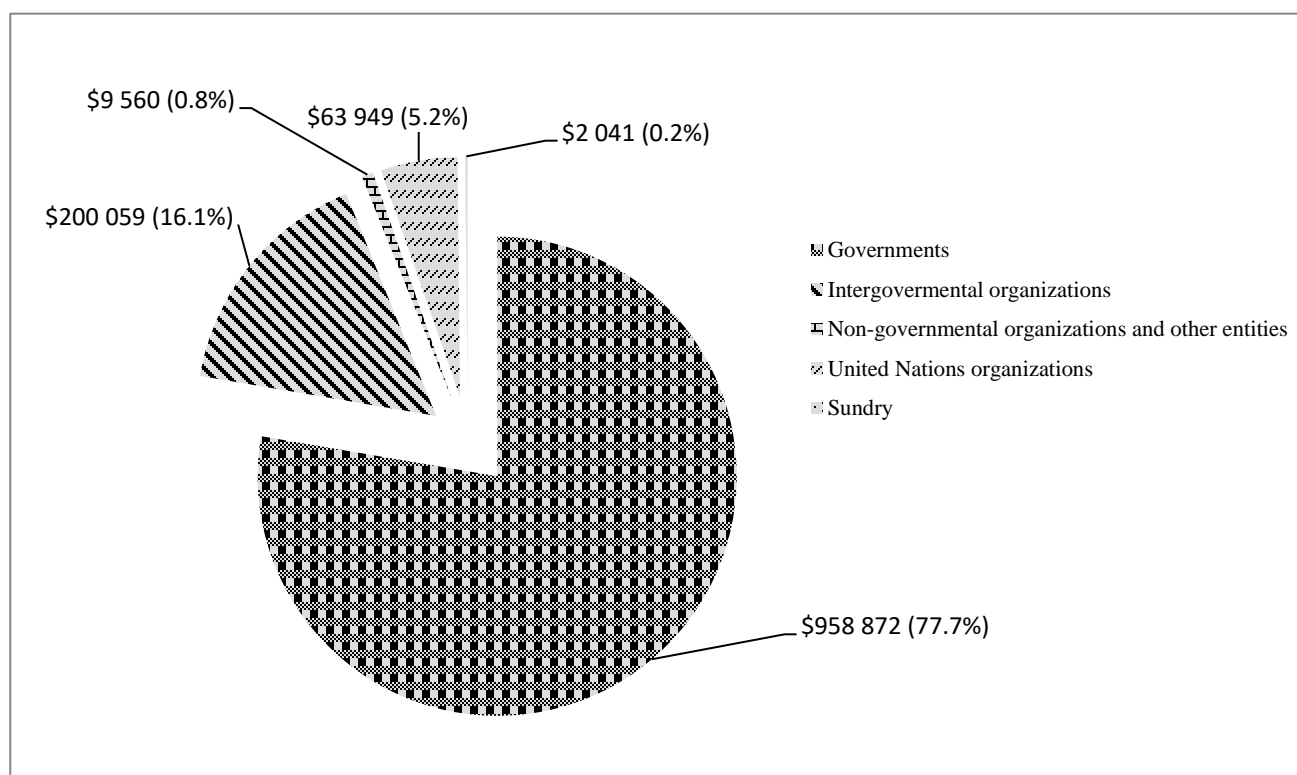
Source: UNRWA financial statements for 2018 (see note 33).

Composition of contributions revenue

10. Of the total contributions of \$1,261.08 million reported during 2018, \$1,195.34 million (94.79 per cent) represents voluntary contributions from governments, intergovernmental organizations, non-governmental entities and sundry donors, while the remaining balance of \$65.73 million (2017: \$50.99 million), equivalent to 5.21 per cent, was received from the United Nations regular budget and other United Nations agencies (see figure II.II).

Figure II.II
Contributions revenue by source

(Thousands of United States dollars)



Source: UNRWA financial statements 2018.

Financial position

11. The Board's analysis of the financial statements for the year 2018 indicates that the financial position of UNRWA remained sound as at the year-end, on the basis of the key financial indicators. Table II.2 contains key financial ratios computed from the statement of financial position and the statement of financial performance. The ratio analysis indicates that UNRWA remains in a strong financial position, with high levels of liquid assets. In that sense, net assets increased from \$41.85 million in 2017 to \$239.27 million in 2018, while the accumulated surplus rose from \$77.74 million in 2017 to \$182.76 million in 2018. The significant increase in accumulated surplus is attributed to the reduction in employee benefit payments and an increasing availability of cash and cash equivalents.

12. That analysis is consistent with the ratio of current assets to current liabilities, which increased from 2.27 in 2017 to 3.06 in 2018. In addition, UNRWA had a quick ratio value of \$2.52 (2017: \$1.78) to cover each dollar of immediate current liabilities when they fall due. Furthermore, the total assets at the year-end were 1.29 times the total liabilities; this is indicative of the generally sound position and high liquidity of the Agency. All ratios indicate an increase in liquidity and solvency compared with the year 2017.

13. While the overall position of the Agency remains strong, the programme budget, which finances the Agency's core activities, continues to experience a liquidity pressure whereby its current liabilities continue to exceed current assets. As at the year-end, the programme budget had a current ratio and a quick ratio of 0.64 and 0.38, respectively, to cover each dollar of current liabilities. Those ratios are below the recommended ratio of at least 1 dollar of assets for each dollar of liabilities.

Table II.2
Ratio analysis

Ratio	31 December 2018 (all funds)	Programme budget 2018	31 December 2017 (all funds)	Programme budget 2017
Current ratio^a				
Current assets: current liabilities	3.06	0.64	2.27	0.42
Quick ratio^b				
(Cash + short-term investments + accounts receivable): current liabilities	2.52	0.49	1.78 ^c	0.28
Cash ratio^d				
(Cash + short-term investments): current liabilities	2.00	0.20	1.34	0.06
Total assets: total liabilities^e				
Assets: liabilities	1.29	0.73	1.04	0.63

Source: UNRWA 2018 and 2017 financial statements.

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

^b The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

^c The 2017 ratio was restated to include all factors in the defined formula.

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

^e A high ratio indicates an entity's ability to meet its overall obligations.

14. Total liabilities of UNRWA stood at \$823.18 million as at 31 December 2018, with post-employment and other long-term employee benefits of \$725.85 million representing 88.17 per cent of the total liabilities. Long-term employee benefits liabilities were \$641.71 million, compared with \$731.03 million reported in the

previous year, a reduction of \$89.32 million. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The decrease during the year is due to the change in the discount rate from 3.51 per cent to 4.14 per cent, owing to the continuing low interest rate environment of \$43.73 million, payments of \$75.71 million and actuarial gain of \$38.72 million, offset by interest of \$27.13 million and service costs of \$50.57 million incurred during the year.

15. The Board noted an increase in cash balances maintained by UNRWA. As at 31 December 2018, UNRWA had cash balances amounting to \$362.63 million, compared with \$271.42 million reported in 2017. Of the \$362.63 million, \$27.68 million (8 per cent) was available for programme budget (unearmarked) activities, while \$334.94 million (92.6 per cent) was available for earmarked activities.

Budget performance

16. The 2018 programme budget, as reflected in the programme budget (Blue Book) for 2018–2019, was \$1,177.1 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. On a modified cash basis, the final 2018 budget was \$1,111.8 million, representing a decrease of \$65.3 million, or 5.5 per cent. This is disclosed in financial statement V as “final” budget. This is explained mainly as a reflection of the decrease in the final budget, due primarily to a decrease in the final programme budget from \$825.7 million to \$772.1 million (including in-kind) and a decrease in the final projects budget from \$351.4 million to \$338.9 million, including restricted funds (earmarked projects).

3. Treasury and cash management

Cash count and late corrections on balance amounts

17. In order to verify the balance amounts as at 31 December 2018 of 3 of the 14 cash imprest funds, namely account Nos. 1105260001 (ILS), 1105260002 (USD) and 1105260003 (JOD), a cash count was performed on those accounts on 23 January 2019 and monthly reconciliations of cash were carried out in accordance with the Agency’s financial technical instructions (20 March 2018 version).

18. As a result of the imprest fund cash count procedure performed by the Department of Finance at the West Bank field office on 23 January 2019, differences were observed between the amount of the trial balance as at 31 December 2018 and the cash count conducted by the Board, amounting to a total of \$3,897.

19. In that regard, the Head of the Finance Department of the West Bank field office indicated that those differences had been carried forward since 2013 and that a write-off had been proposed to headquarters by the field office on September 2015, and provided electronic communications as evidence. However, no adjustments had been made as at 1 February 2019.

20. It is therefore the Board’s opinion that UNRWA should make the accounting adjustments in the proper year, in order to disclose accurate balances in the financial statements.

21. The Board recommends that UNRWA adjust the cash accounts in a timely manner and verify that they tally with the physical cash balances, in order to disclose accurate balances in the financial statements.

22. UNRWA agreed with the recommendation and informed the Board that all parties involved recognized the above-mentioned differences and acknowledged the

delay in recording the appropriate adjustments, which was due mainly to pending reviews and approvals.

Canteen revenue imprest fund accounting

23. In section B.1 of the Agency's financial technical instructions, an imprest fund is defined as a form of petty cash maintained to allow the purchase of or payments for emergency items needed to facilitate operations, mostly through small invoices and ad hoc payments. Such payments are to be entrusted to a custodian.

24. Furthermore, according to the list of main accounts in appendix I of the Agency's finance manual, canteen revenue transactions are to be recorded under accounts receivable and accounts payable in the statement of financial position. However, the Board observed that the income had been recognized directly as an imprest fund (cash and cash equivalents) and recorded as a revenue account (income statement), not as accounts receivable or payable, as applicable.

25. When examining the balance of \$423,419 as at 31 December 2018 for account No. 1105260064 (USD), used for schools in the West Bank, it was observed that the Department of Education recorded the transactions, then prepared a report that was subsequently submitted to the Finance Department.

26. Following a review of the account, it was observed that:

(a) The report described a variety of transactions, including income from contributions, canteen revenue and bank interest;

(b) Various expenses were recorded, such as those incurred for school maintenance;

(c) The balance of the account corresponded to the result obtained from the sum of income and expenses of the period, subsequent to which the journal entry was prepared, a procedure that does not comply with the nature of an imprest fund as defined in the entity's finance manual.

27. In addition, the imprest fund in question receives monetary resources that must be deposited in the current account of the area office (a subunit of the field office) that corresponds to the geographical location of its Education Department. Pursuant to section E.1, on cash management, subsection 1.3.6, on imprest funds and cash security, paragraph 172, imprest funds are to be replenished once a month, or more often if necessary, to avoid a situation in which the balances held are unduly high and also to avoid running out of funds. In accordance with the journal entries reviewed, that process was not observed, given that it was not reflected in the accounting records.

28. In turn, the accounting treatment of voluntary school and training centre contributions and canteen revenue accounting actions do not conform to the aforementioned accounting policy. This situation is reflected in all journal entries of the 2018 period reviewed by the Board with regard to the aforementioned account. It is therefore important that the entity review the management of the imprest fund in question, that it regularize the relevant accounts in accordance with canteen revenue accounting norms and that it implement those norms at the West Bank field office, so as to ensure the reliability of controls and accounting for such transactions in an appropriate manner.

29. The Board recommends that the Finance Department of the UNRWA West Bank field office ensure proper accounting recognition of canteen revenue transactions and that it enhance communication with the Department of Education to reflect all information in its accounting records.

30. The Agency is in agreement with the recommendation and will review the relationship and communications between the departments of finance and education.

4. Asset management

Inaccurate record of inventory quantities in the REACH system

31. The accounting principle of the reliability of information, as a high-level concept, is mentioned in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, which provides the IPSAS Board with the concepts that underpin the development of its accounting standards. In addition, the Agency's standard operating procedures of 2016 on the treatment and recording of in-kind donations of goods to UNRWA indicate that the Agency must record in its enterprise resource planning system (REACH) the full quantity indicated in the donor agreement.

32. At the same time, according to the Supply Division's technical instruction No. 3, on the procurement of textbooks, with regard to the determination of quantities, the Field Supply and Transport Officer is to reduce the quantities on the bill of material by the amount of any stocks held in the warehouse.

33. Moreover, UNRWA has introduced enterprise risk management as a leading management principle throughout the organization. The principle was developed following the earlier integrated approach to internal controls developed by the Committee of Sponsoring Organizations of the Treadway Commission. Enterprise risk management is normally defined as a process, carried out by management and applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity and to manage risk so as to ensure that it remains within its risk appetite, in order to provide reasonable assurance regarding the achievement of entity objectives. One of the components of enterprise risk management is the application of controls and procedures designed to ensure the integrity of the accounting records. In this way, the Assurance and Advisory Services Division of UNRWA endeavours to achieve effective risk management, internal control and governance processes aligned with enterprise risk management principles.

34. On 28 January 2019, the Board visited the Jordan field office and performed a comparison between the physical stock observed in the warehouses and the information available in REACH system, where a quantity of two items listed as "textbook" were recorded under the material identification code 55101509.0001, using "book" as the unit of measure. During the field visit to the warehouse, and according to the document attached to the entry and supporting the transaction in the system, it was verified that the purchase document corresponded to an in-kind donation of textbooks for the school year 2017/18, for a total value of \$2.02 million.

35. Consequently, the information recorded in the system does not represent the actual physical stock of inventory in the warehouses. This situation reflects a weakness in the integrity and accuracy of economic events and does not comply with the above-mentioned standard operating procedure, according to which the Agency must record the full quantity indicated in the donor agreement.

36. Despite the fact the agency stated that school books are treated by the Agency as direct supply items that are not managed as inventory in stock, an absence of compliance with the standard operating procedure for in-kind donations was detected, whereby a workflow and controls had been established in the Agency's enterprise resource planning system (REACH) to record all in-kind donations received from donors and the quantity of such donations must be recorded. In addition, we consider that control weaknesses exist concerning the record of stock inventory, whereby the data recorded does not comply with the integrity, accuracy, validity and reliability

required for the reporting of accounting information, given that the actual quantity verified in the warehouses does not match the quantity recorded in REACH. This situation implies a higher risk for the entity to lose physical control of inventory. For example, the Agency might recognize a higher cost for freight because, with no control over quantity, it would be difficult to predict the true cost of freight, as the delivery cost of in-kind contributions to beneficiaries often exceeds the value of the contribution itself.

37. The Board recommends that UNRWA take measures to record the precise quantity of each item in the inventory in REACH, which would allow it to manage the physical inventory in an appropriate manner and to report the information accurately and with integrity.

38. In addition, the Board recommends that the entity review the items entered under material identification code 55101509.0001 and make the appropriate corrections.

39. The Agency informed the Board that schoolbooks were treated as direct supply items that were not managed as inventory in stock, as they were intended to be distributed to schools shortly after receipt. The reason noted for exceptionally holding the inventory was that the donating government was uncertain as to the payment of its invoice by UNRWA. In the end, the donating government decided to allow UNRWA to receive the inventory as an in-kind donation. The delay in decision-making caused the issue noted by the Board, which has since been rectified. Furthermore, the Agency reported that, as it neither managed nor tracked textbook inventory in a detailed manner, there was no reason for it to change its REACH inventory tracking method in that regard.

40. Despite the fact that electronic documents detailing the donated items were attached to the transactions recorded in REACH, the Board considers that the accurate quantity should be recorded directly in the system, as indicated in the standard operating procedure on in-kind donations. That way, all users with access to REACH can see the actual stock and the corresponding value in the stock report. In addition, according to the aforementioned standard operating procedure, failure to do so may result in significant costs to the Agency and delays in distribution to beneficiaries.

41. It is also important to mention that, as stated in note 9.2 of the financial statements, the increase in warehouse inventory in 2018 was due mainly to the increase in wheat flour and textbooks received towards the end of 2018 and distributed in 2019.

5. Human resources management

Attendance recording and schedule control

42. In accordance with the first paragraph of rule 101.1, pertaining to hours of work, in chapter I, on duties, obligations and privileges, of the Agency's area staff rules of 2018, the normal working week at headquarters and at the principal field offices of the Agency is to be 37.5 hours, taken as an average throughout the year; however, the normal working week applicable to particular posts, duties or assignments may vary at the Commissioner-General's discretion, taking into account the nature of the duties performed and the surrounding circumstances.

43. Pursuant to paragraphs 2 and 3 of the above-mentioned area staff rule, the daily hours of work at each duty station are to be prescribed in administrative circulars or office instructions and staff members are required to work beyond the normal tour of duty whenever requested to do so.

44. In 1998, for the purpose of providing details on the official hours of work and the recording of daily attendance at work, UNRWA issued personnel directive No. A/1/Rev.1/Amend.1. In accordance with clause 1.1 of the directive, the schedule of hours of work at headquarters are to be determined by the Commissioner-General and published by the Director of Administration and Finance. The schedule of hours of work for Gaza headquarters staff is to be determined by the UNRWA Comptroller and for Amman headquarters staff by the Headquarters Liaison Officer, through headquarters staff circulars. The schedule of hours of work in field offices are to be published by the Field Office Director in field staff circulars.

45. In addition, pursuant to clause 2.1 of the same directive, staff members are to record their daily attendance on two copies of the area staff members attendance record, provided in annex A of personnel directive No. A/1/Rev.1/Amend.1. Entries on the record are to be made daily, in accordance with the instructions printed on the form. Such records are to be checked periodically by a senior official and signed by the same official at the end of the reporting period.

46. Regarding compliance with the established working hours, the Board determined that the attendance form that staff members were supposed to use to record their daily attendance was not available in all UNRWA departments. For example, the West Bank field office stated that each of its departments determined its own method for recording attendance, if it had one. Furthermore, the Department of Human Resources at headquarters informed the Board that recording attendance at the Agency was not mandatory. In addition, while the Lebanon field office had a monthly register of its staff's monthly attendance, prepared by a senior officer, that was not the case for the Jordan and West Bank field offices, which only kept the signed spreadsheets as a backup for staff attendance.

47. This situation is contrary to the stipulations of personnel directive No. A/1/Rev.1/Amend.1, which establishes the way in which attendance is to be recorded. Recording attendance without including all the parameters established by the directive, or not recording attendance at all, may affect the integrity of the information contained in the time sheet displayed in the electronic time management system and may hinder compliance with the UNRWA area staff rules regarding working hours.

48. The Board also found no evidence of circulars published in accordance with the aforementioned personnel directive that would indicate the schedule of hours of work. In that regard, West Bank field office indicated that each person had his or her own schedule.

49. In addition, it was observed that UNRWA headquarters in Amman and the Jordan field office had installed a digital fingerprint system, but it was not in use. At the Lebanon field office, the system was available only in its Human Resources Department, and had been used only until July 2018.

50. The Board considers that the lack of a reliable and consistent control mechanism that enables the verification of compliance with established working hours, which are the hours of entry and exit from the workplace, may hinder the completion of the work hours established under area staff rule 101.1. In addition, absences could be altered or not registered, as attendance control is not mandatory.

51. In this context, the Board considers that having a mechanism that objectively registers daily attendance, such as the area staff members attendance record or the electronic monitoring system suggested by UNRWA, would make it possible to verify compliance with working hours and schedules and keep a record of absences in accordance with those registered in REACH, taking into account the particular characteristics and contingencies of each field of operations.

52. In consequence, the Board recommends that UNRWA implement an objective, accurate, reliable and consistent attendance control mechanism, which considers the entry and exit record as established in the relevant personnel directive, in order to guarantee correct registration of and compliance with the working hours established in area staff rule 101.1.

53. In addition, the Board recommends that UNRWA headquarters and field offices issue and publish circulars indicating their respective schedule of hours of work, in accordance with personnel directive No. A/1/Rev.1/Amend.1.

54. UNRWA initially expressed its disagreement with the recommendation, arguing that the current manner of monitoring attendance was sufficient, as it provided flexibility, in addition to being in line with work requirements and field-specific contingencies. Nevertheless, the entity has communicated by email that it was currently in the process of exploring an electronic monitoring system and that, once it was established at one of the field offices, it would serve as a pilot for the other locations, and the relevant rules would be drafted and circulated. Later, the Agency indicated that, although some locations were installing attendance-registering machines, that was not an agency-wide policy and it was at the discretion of the different locations. Varying mechanisms for recording time would therefore continue to exist.

55. The situation that the Board addresses in its recommendation is that, in some departments, attendance is not being monitored, or it is being monitored using informal sheets rather than the formal area staff members attendance record provided in personnel directive No. A/1/Rev.1/Amend.1. The recommendation is not aimed at the establishment of new and unified Agency-wide electronic attendance-registering machines, as the Board takes into consideration the particular characteristics of each location.

Restriction of overtime due to austerity measures

56. In accordance with UNRWA area staff rule 101.3 regarding overtime, staff members who are required to work for one half hour or more in excess of a maximum number of hours established by the Commissioner-General in respect of specific posts, duties or duty stations will be deemed to have worked overtime. Overtime will be authorized in advance and duly recorded, in accordance with established procedures.

57. Furthermore, in article 2 of personnel directive A/1/Rev.1/Part III/Amend.3, different types of overtime were established, as follows:

(a) Regularly scheduled overtime: certain jobs or categories of jobs that have regular weekly work schedules that exceed the normal standard work week as established by the Director of Human Resources for headquarters staff or by the Field Office Director for field office staff;

(b) Unscheduled occasional overtime: authorized time actually worked in excess of the staff member's normal standard work week, which does not include periods of: (i) casual overtime of less than one half hour on any given day; (ii) travel time to or from duty; (iii) time in official duty travel status; (iv) time taken to consume meals; (v) regularly scheduled overtime; or (vi) time on call or other non-active duty hours;

(c) Call-in overtime: overtime actually worked by certain employees who are required to be "on call" for work outside their normal duty hours when such an employee has been called in to work;

(d) Special overtime: the authorized time worked in addition to the normal standard work week when special projects or other unusual circumstances require 8 or more hours of overtime for 4 weeks or more;

(e) Night duty: when 50 per cent or more of a staff member's regularly scheduled daily hours of work are between the hours of 6 p.m. and 7 a.m.

58. Owing to the Agency's current funding challenges, however, several austerity measures were implemented during 2018, one of which included a 100 per cent reduction on overtime expenditure.

59. The Board observed that, in January 2018, the Agency decided to implement a 100 per cent reduction on overtime expenditure. That measure, along with several others, was communicated by email from the Amman headquarters to the different field offices on 28 January.

60. It was noted, however, that the quarterly expenditure reports showed expenses for overtime in 2018 at the different field offices; those expenses were also reported in the Excel sheets presented by the field offices. For example, the Jordan field office reported a total overtime expenditure of \$27,555, the West Bank field office reported a total of \$118,003 and the Lebanon field office reported a total of \$32,204. Meanwhile, the Agency-wide overtime expenditure was \$184,083, with the field office in the Syrian Arab Republic being the only one that did not report any overtime expenditure.

61. In that regard, the Board observed that payments had been made for overtime at the West Bank, Jordan and Lebanon field offices, which, owing to the essential nature of some occupations, cannot be interrupted, such as for security guards, garbage collectors and health professionals. Nevertheless, neither in the initial decision, nor in later communications related to it, was mention made of any positions that would need to be maintained without interruption, thus requiring overtime hours to be worked and payments to be made for those hours.

62. The Board considers that the lack of clarity in establishing the positions for which overtime expenditure would be allowed could complicate the proper application of, and compliance with, the austerity measures.

63. In the event that UNRWA reissues instructions related to austerity measures, especially overtime restrictions, the Board recommends that the types of overtime to be reduced be clearly specified, as doing so would make it possible to evaluate and quantify the net savings of employee austerity measures at all levels of operations and assess their effectiveness.

64. The Agency reiterates that the austerity measures were specific to 2018 and are not applicable to 2019. Moreover, during 2018, the cases of overtime paid were reviewed and approved on a case-by-case basis, with exceptions made at the appropriate levels on the basis of merit and with the measures properly applied during the year. Although administratively taxing, the process allowed the Agency to control the costs more tightly. The Agency does not plan to review the policy, which is considered to be effective.

Normative inconsistency regarding injury claims

65. Pursuant to paragraph 3.A (i) of personnel directive No. A/6/Amend.12, part III, regarding compensation for death, injury or illness, on notification and claims procedures, initial reports for injuries, area staff members or manual workers sustaining an injury claimed to be attributable to service, or any person acting on their behalf, should submit written notice thereof to their supervising officer not later than seven days following the injury. Pursuant to clause 3.D, on the submission of claims

for compensation of the aforementioned personnel directive, claims for compensation should be submitted by the staff member or manual worker as early as possible and, in any event, within two months of the accident.

66. An important distinction is therefore made between the two clauses: the initial notice should be submitted within seven days of the injury, while the claim for compensation should be submitted within two months, which does not prevent subsequent expenses resulting from the injury to be considered for compensation.

67. Pursuant to clause 5 of area staff rule 106.4, on compensation for death, injury or illness attributable to service, however, claims for compensation for injuries or death under the rule must be submitted by staff members or their representatives within seven days of the injury or death, although in exceptional circumstances, the Commissioner-General may accept for consideration a claim made at a later date.

68. Maintaining consistency among such norms as regulations, rules, personnel directives, instructions and circulars is important, in order to provide clear procedures and terms. However, the Board found contradictory terms for the submission of claims for compensation between personnel directive No. A/6/Amend.12 and area staff rule 106.4. Specifically, the personnel directive mentions two different acts of communication that must be submitted by the injured area staff: an initial report (with a seven-day term, starting from the date of the injury) and the claim for compensation (with a two-month term, starting from date of the accident). At the same time, the area staff rule requires claims to be submitted within seven days of the date of the injury, which is inconsistent with the two-month term established by the personnel directive.

69. In this context, UNRWA has not set consistent norms regarding the terms for the submission of claims for injury compensations.

70. The Board considers that UNRWA is not maintaining consistency among the different norms that govern the Agency, which may be a source of potential confusion, misunderstanding and unnecessary conflict between the latter and its employees.

71. In addition, we are of the view that maintaining consistency regarding procedures and terms across the different norms enables both the Agency and its personnel to have a clear normative framework through which to adjust their expectations.

72. In particular, area staff rule 106.4 refers to the submission of claims for compensation, an action for which, in the personnel directive, a two-month term is applied but to which the staff rule applies the 7-day term used in the personnel directive for a different action, namely, the initial notice of injury.

73. However, although the difference has not been detrimental to staff members to date, it could create confusion and uncertainty among staff members regarding the applicable rule in the future. In addition, the Board is of the view that, as a general regulatory framework for the governance of the Agency, its norms needs to be aligned.

74. The Board recommends that UNRWA establish unified criteria for the terms regarding the submission of claims for injuries, by reconciling the area staff rule and the personnel directive and maintaining the appropriate distinction between the shorter term needed for the initial notice and the longer term needed for the submission of claims for compensation.

75. In that regard, UNRWA has noted that, while agreeing that an inconsistency exists between the aforementioned instruments, the rule does not constrain staff members by providing only a seven-day window for the submission of claims, as it might take more time for the submission of supporting documents, so the situation is not detrimental to staff members.

Commencement of annual and advance annual leave prior to authorization

76. Pursuant to article 8 of UNRWA area staff rule 105.1, regarding annual leave, annual leave may be taken only when authorized by the Commissioner-General. Nevertheless, according to a delegation of authority dated 9 February 2016, the authorization for annual leave was delegated to the immediate supervisor, while the authorization for advance annual leave was delegated, at headquarters, to the Director of Human Resources and later subdelegated to the Human Resources Officer of the Area Personnel Section and, at field offices, to the Field Office Director and later subdelegated to the Senior Human Resources Officer.

77. Moreover, in part I, article 1.1 of personnel directive No. A/5/Rev.7, it is stated that annual leave and advance annual leave must be applied for in advance in writing, that it cannot be commenced prior to the receipt of official approval and that advance annual leave will not be granted retroactively.

78. The Board noted that most cases of annual and advance annual leave started prior to approval of the leave, which is contrary to the aforementioned norm that establishes that leave may begin only after notification of approval is received.

79. In this context, of a total of 70,124 annual and advance annual leave applications approved during 2018 by staff in the field offices in the West Bank, Gaza and the Syrian Arab Republic, 52,258 (74.5 per cent) were approved once the leave had already started, with delays that ranged from the same day the leave started to 271 days later. Moreover, the auditors observed that, in 610 cases (0.9 per cent), the approval date had not been recorded.

80. That meant that only 24.6 per cent of approved leaves had been appropriately approved before they began, even though the above-mentioned personnel directive indicates that annual and advance annual leaves cannot be commenced prior to the receipt of official approval.

81. In addition, 35,050 (about 50 per cent) of the total annual and advance annual leaves approved during 2018 in the aforementioned field offices were submitted after the leave had already started, with delays that also ranged from the same day the leave started to 271 days after. Table II.3 below shows the details of cases for each field office.

Table II.3
Approved leave applications by field office

<i>Field office</i>	<i>Approved leave applications</i>	<i>Leave applications submitted after start</i>	<i>Leave applications approved after start</i>	<i>Approval date not registered</i>
West Bank	21 636	12 117 (56.0%)	16 456 (76.1%)	164 (0.8%)
Gaza	41 122	17 160 (41.7%)	29 120 (70.8%)	423 (1.0%)
Syrian Arab Republic	7 366	5 773 (78.4%)	6 682 (90.7%)	23 (0.3%)
Total	70 124	35 050 (50.0%)	52 258 (74.5%)	610 (0.9%)

Source: Information provided by UNRWA.

82. The Board considers that non-compliance with the terms established in the norms mentioned herein could result in difficulties with regard to the planning and implementation of the Agency's tasks. Furthermore, staff initiating their annual or advance annual leave without the proper approval could cause confusion in cases where the leave should be rejected, whether owing to the needs of the Agency or to insufficient accrual of annual leave by the staff member.

83. Consequently, the Board is of the view that the Agency should improve the timely approval of annual and advance annual leave, which would mean, on the one hand, properly complying with the aforementioned norms and, on the other hand, advising staff in a timely manner of the approval or rejection of their leave application or request.

84. The Board recommends that UNRWA take action to lower the percentage of annual and advance annual leaves starting prior to approval and to allow the situation to occur only in special cases, in order to comply with part I, article 1.1 of personnel directive No. 5/Rev.7, and to issue circulars and/or communications accordingly.

85. On this matter, the Agency's Department of Human Resources stated that UNRWA would take measures to decrease the number of annual leaves taken prior to approval and would issue communications accordingly, applying the necessary flexibility in cases of urgency, for example.

Direct payment with no performance evaluation report or invoice

86. In accordance with rule 105.9, on commitment documents, of the Financial Regulations and Rules of the United Nations, which serve as a guide for the Financial Regulations of UNRWA (see article 1.2 of the latter), a commitment must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the United Nations. All commitments must be supported by an appropriate commitment document.

87. In addition, pursuant to paragraph 52 of complementary personnel directive CPD/1, dated 1 January 2017, on the contracting of individual service providers, final payments for such providers are to be made when an evaluation has been completed and signed by the contracting manager.

88. In the review of the accounts payable process, three individual service providers were verified in REACH in terms of their proposed payments, the description on the individual service provider attestation, funds clearance and approval form and the final payment for the services on the purchase orders.

89. Discrepancies were found between the proposed payment schedule on the aforementioned form and the final payment entered in REACH. In addition, those final payments could not be corroborated with the corresponding complementary documents, such as a performance evaluation report or invoices, as they were not attached.

90. It should be noted that supporting information regarding the above-mentioned payments was requested of UNRWA, but was not provided.

91. The Board considers that the process regarding appropriate documentation to support the commitment is not adequately followed in accordance with rule 105.9. Likewise, the situation reflects a weakness in the internal controls related to the accounts payable process.

92. The Board recommends that UNRWA support its commitments with the appropriate commitment documents, so as to comply with rule 105.9 of the Financial Regulations and Rules of the United Nations.

93. UNRWA agreed with the recommendation and stated that it was performing a comprehensive internal review of the complementary personnel section, with the objective of strengthening individual service provider contract management, policy compliance, monitoring and reporting, and that the required improvements would be made to the attestation fund clearance and approval forms, compliance checklists and monitoring and reporting tools on the basis of that review.

6. Procurement and contract management

Outdated procurement manual

94. The procurement manual establishes the principles and procedures that apply to the procurement of all goods and services for UNRWA and governs the standards of conduct for all UNRWA personnel involved in the procurement process.

95. The Board analysed the third version of the Agency's procurement manual, dated September 2015 and issued in accordance with organizational directive No. 10 (ASD/PLD-OD 10), and the description of changes made in 2018 in the area of procurement with regard to levels of delegated authority and thresholds for procurement review, review requirements and the awarding and redelegation of authority. Following its analysis, the Board observed that the manual needed to be updated.

96. The Board considers that the lack of updates to the procurement manual, which supports the Agency's principles and procedures, could increase the risk of inadequate application of the delegation of authority and review process.

97. The Board recommends that UNRWA issue an official update to the third version of its procurement manual to take into account the changes in the levels of delegated authority, review requirements, the awarding of authority and the redelegation of authority.

98. UNRWA agreed with the recommendation, adding that the observation was already being considered in the process of updating the current version of the procurement manual.

Updates to complementary instructions on bids

99. In accordance with point 7.2.2 of the aforementioned procurement manual, regarding the withdrawal of submissions by vendors, such withdrawals may only be accepted if UNRWA is notified in writing prior to the deadline for the submission of offers. The withdrawn offer should be separated from the other bids or proposals prior to bid opening and should not be opened. The withdrawal of submissions after the announced deadline should, in principle, not be honoured; in such cases, UNRWA should open and evaluate the withdrawn offer, together with the other offers. Where the vendor is able to justify the withdrawal of its submission, such as a lack of capacity to undertake the assignment owing to having been selected for other assignments during the same time period, UNRWA may accept the withdrawal after the submission deadline.

100. Pursuant to point 13, on the withdrawal of bids, of annex C, containing the instructions for invitations to bid, dated September 2013, such requests to withdraw a bid should not be honoured. If the selected vendor withdraws its bid, UNRWA is to duly register the said bid and shall evaluate it alongside all other bids received.

101. In addition, according to the tender receipt and opening guidelines of January 2009, requests to withdraw a submission are not to be honoured. The prospective vendor should be informed accordingly in writing. If the selected vendor withdraws its submission, UNRWA should duly register the said submission and should evaluate it alongside all other received submissions.

102. Complementary instructions on bids are not governed by the procurement manual, and discrepancies were observed between the manual and the bid instructions on the topic of bid withdrawal requests.

103. The Board considers that the absence of updates and the lack of consistency in the complementary instructions could lead to inadequate application of the internal rules of the entity.

104. The Board recommends that UNRWA review all administrative instructions and have them updated and aligned with the procurement manual.

105. UNRWA agreed with the Board's recommendation and mentioned that the situation had already been considered and was being addressed through its current process of updating the procurement manual, with which the various complementary instructions would be aligned.

Selection of ineligible supplier

106. In accordance with point 3.2 of the Agency's procurement manual, on vendor management, all vendor information, including for firms expressing a specific interest in doing business with UNRWA when they register with the United Nations Global Marketplace, are to be reviewed for completeness and relevance by UNRWA for final approval and inclusion in the Agency's vendor database. Nevertheless, it remains the responsibility of the procurement officer to conduct a proper background check and analysis of the vendor's suitability for specific UNRWA procurement opportunities against the Islamic State in Iraq and the Levant (ISIL, also known as Da'esh) and Al-Qaida sanctions list and other vendor sanctions lists shared by United Nations agencies.

107. In addition, according to point 3.4 of the manual, the Agency must reject vendor registration requests and offers from vendors, and may declare ineligible or remove or suspend any registered vendor (including its board of directors, principals and/or individual personnel) from its vendor list, whether indefinitely or for a stated period of time, on the basis of one or more of the justifications defined in that point.

108. During the audit process, the Board requested information on the list of United Nations prohibited vendors and the list of suppliers given inadequate performance evaluations by UNRWA.

109. With regard to the request, the Agency provided an Excel file containing a list of vendors declared ineligible for participation in the United Nations Global Marketplace. For the second requirement, UNRWA presented a file containing a list of vendors who had been removed from the Agency vendor roster on the basis of their poor performance.

110. After checking the above-mentioned lists against the suppliers that were awarded contracts by UNRWA between January and October 2018, the auditors observed that a vendor named "United Electronic Co." had been selected by the Agency without consideration for its ineligible status, which had been accorded after it had been placed on the blocked vendors list of the United Nations Global Marketplace (ineligible vendor No. 115).

111. Despite the above, UNRWA created micropurchase order No. 5518000693, dated 28 May 2018, to pay the vendor "United Electronic Co." the amount of 444.92 Jordanian dinars, for one item listed as "printer head PF3".

112. The Board conducted a detailed review in the REACH system, where it was observed that a previous micropurchase order, No. 5518000683, had been created on 24 May 2018, for the same vendor and product; however, that order had been held by the system, given that the vendor's status was listed as "blocked".

113. At the same time, the auditors reviewed the United Nations Global Marketplace website, where the status of the above-mentioned vendor had been listed as ineligible as from 20 May 2008, and the information under "vendor's master data" in the

REACH system, where it was observed that the central purchasing block indicator for the vendor showed that it had been blocked as from 30 October 2017, on the basis of its being included on the sanctions list issued on 5 September 2017.

114. Consequently, the vendor, “United Electronic Co.”, had been declared ineligible by the United Nations Global Marketplace since 20 May 2008, and its status under “vendor’s master data” in REACH had been listed as “blocked” since 30 October 2017. As a result, when the UNRWA generated micropurchase order No. 5518000683 on 24 May 2018, it was held by the system, but the Agency then created a new micropurchase order, No. 5518000693, for the vendor on 28 May.

115. The Agency stated that, in order to avoid the occurrence of such situations, the Central Support Services Division issued circular No. 64/2018, dated 2 May 2018, to all field offices and headquarters, in which all staff members involved in procurement activities were reminded not to enter into any offline contracts outside REACH, including normal purchase orders and micropurchase orders. As a result of the circular, an internal control system was already in place. Moreover, the Agency indicated that it was no longer doing business with that vendor and that it had previously been unblocked because it had been necessary to use that particular vendor for the supply of spare parts for equipment purchased prior to the ban; otherwise it would have been more costly to the Agency and not in its best interests.

116. However, it was observed in REACH (under “Vendor Change: Overview”) that the status for vendor No. 0044000101, United Electronic Co., had been unblocked on different occasions in order to change its eligibility status after the issuance of the above-mentioned circular, so the document had not resolved the issue.

117. The Board considers that this situation reinforces the fact that, during the initial procurement process, UNRWA needs to make the efforts necessary to comply with its internal control measures over the status and qualifications of vendors and suppliers that have been placed under sanctions or declared ineligible.

118. The Board recommends that UNRWA increase its internal control measures during the initial stage of the procurement process in order to avoid the use of vendors and suppliers that have been sanctioned or identified as ineligible, whether internally or externally by United Nations organizations.

119. The Agency informed the Board that its Central Support Services Division had issued the above-mentioned circular 64/2018, dated 2 May 2018, and that it was no longer doing business with the vendor in question. The Agency reiterated that the activation and deactivation of the vendor concerned were, in themselves, clear evidence of the fact that an effective control system was already in place. Justification of the circumstances leading to the use of the vendor “United Electronic Co.” was also provided, namely that it was due to a specific need and in the best interests of the Agency. The vendor had to be reactivated and deactivated every time, ensuring that it could not be used unintentionally without controls.

120. The Board notes that the circular referred to by the entity had been issued prior to the situation described and therefore insists that, in the future, UNRWA avoid selecting ineligible providers.

Central purchasing block indicator

121. In accordance with point 3.2 of the procurement manual, all vendor information, including for firms expressing a specific interest in doing business with UNRWA when registering with the United Nations Global Marketplace, are to be reviewed for completeness and relevance by UNRWA for final approval and inclusion in the Agency’s vendor database. Nevertheless, it remains the responsibility of the procurement officer to conduct a proper background check and analysis of the vendor.

122. In addition, according to point 3.4 of the manual, the Agency must reject vendor registration requests and offers from vendors, and may declare ineligible or remove or suspend any registered vendor from its vendor list, whether indefinitely or for a stated period of time, on the basis of one or more of the justifications defined in that point.

123. During the audit process, the Board requested the list of purchase orders issued by UNRWA during 2018 and extracted the list of vendors blocked in the REACH system.

124. In the course of reviewing the information under “vendor’s master data” stored in the REACH system, it was observed that, in 2018, the Lebanon field office had issued 17 purchase orders to vendors that were indicated as blocked by means of the central purchasing block indicator.

125. After requesting supporting information on the issue, the Board was informed by the Procurement Department of the Lebanon field office that the case involved a situation whereby a one-time vendor account may be created for less than 15 days in order to settle obligations, for any vendor not supported by legal registration documents or not registered with the United Nations Global Marketplace for any reason; the vendor is subsequently blocked by the vendor registration team at headquarters in Amman.

126. In addition, the management submitted the standard operating policies and procedures for the Vendor Sanctions and Complaints Committee, in order to clarify the above-mentioned vendor blocking process.

127. Following an analysis of the guidelines provided by the Agency, the Board found no evidence, either in the UNRWA procurement manual or in the standard operating policies and procedures for the Vendor Sanctions and Complaints Committee, of rules, conditions, restrictions or justifications governing the one-time vendor modality.

128. In line with the aforementioned considerations, the Board considers that UNRWA should formalize the procedure of blocking one-time vendors in its regulations and guidelines.

129. The Board recommends that UNRWA outline, in a manual or in instructions, the conditions, restrictions and requirements for when a given vendor is to be blocked and unblocked.

130. UNRWA agreed with the recommendation and pointed out that the blocking and unblocking of vendors in REACH is done by headquarters in Amman, on the basis of supporting documents provided by the field offices. UNRWA also indicated that it was in the process of updating the current version of the procurement manual on the basis of a previous recommendation by the Board of Auditors, and many administrative instructions would be aligned with the new version.

7. Budget reporting

Quarterly expenditure review

131. The budgeting technical instructions of January 2012, included as part of the financial technical instructions, establish the procedures that apply to the progress of budget implementation in UNRWA. Specifically, in accordance with section F, point 7.4. paragraph 2, the budget and expenditure review should continue to be conducted on a quarterly basis for the respective operational financial year, to monitor the budget allocations and to ensure that budget holders (programme and department managers) comply with their budget allotments. The review serves to highlight variances in respect of significant overexpenditure and/or underexpenditure, the

revised budget and the expected end-of-year forecasts; it also incorporates recommended remedial action.

132. In addition, according to paragraph 4 of the above-mentioned point, at the end of each quarter, the Head Field Finance Officers, the Field Budget Officers and the Budget Officer of the Budget Division at headquarters would arrange formal meetings with the responsible expending officers to review the programme budget, project budget and emergency appeals budget for each field office against actual expenditure. Significant variances should be explained, and suggestions provided for remedial actions. The outcome of those meetings should be reported by expenditure commitment item, under each work breakdown element, by programme and subprogramme. Separate budget and expenditure review templates would be provided in due course to help with the implementation of such reviews.

133. During the audit process, the Agency did not provide evidence to support the issuance of the quarterly expenditure reviews of March, June, September and December of 2018, the variance analysis for procurement and consumption or the recommended remedial actions, in accordance with point 7.4 of the budgeting technical instructions.

134. With regard to the third quarter of 2018, only a preliminary draft was provided, with no recommendations or guidance for complying with the budget allotments and without incorporating remedial actions into the budget execution process.

135. The Board considers that UNRWA should issue its quarterly expenditure reviews in a timely and complete manner, so as to ensure that the planning and execution of the budget programme are fully in line with the Agency's regulations and guidelines, in order to guarantee that the focus is placed on lessons learned, strategic developments and key issues arising for consideration in the subsequent annual budget preparation process.

136. The Board took note of the management's explanations and observed that the information provided was incomplete. For this situation, the Board considers that UNRWA needs to ensure that the respective quarterly expenditure reviews on budget monitoring are carried out by all field offices.

137. The Board is also of the view that UNRWA needs to provide evidence of the issuance of the quarterly expenditure review for the fourth quarter, specifically the analysis of the variance for procurement and consumption, and the recommended remedial actions, in accordance with the budgeting technical instructions.

138. The Board recommends that UNRWA comply with regulations during budget execution and that it prepare complete and specific quarterly expenditure reviews on a timely basis.

139. UNRWA stated that three quarterly expenditure reviews are prepared in different months, one for each of the first three quarters of the year, to ensure that templates are well prepared and shared with field offices and to allow for discussion among operational staff prior to their being discussed with directors and other authorities. This procedure also allows for feedback from the field offices to be received and analysed, for headquarters to provide comments and for meetings to be arranged accordingly. To achieve those objectives, UNRWA uses the following supporting documents: (a) review template; (b) email; (c) field submission document; (d) analysis; and (e) notes and action points. The fourth quarterly expenditure review, however, is not necessary, as it is provided in the report on the final results of the budget implementation.

140. The Agency also stated that it had provided only a few of the documents, assuming that it was not necessary for the purposes of the audit to submit all of them.

It also reminded the Board of the fact that the second quarter expenditure review for Gaza had not been issued, because of the industrial strike that took place during the second quarter discussion period, and that the annual review constitutes the fourth quarter expenditure review, as the financial statements presented therein reflect the reality of the financial performance of the Agency. Nevertheless, the Agency indicated that it would change point 7.4, paragraph 2 of the financial technical instructions to reflect that the fourth quarter expenditure review would no longer be mandatory and requested that the recommendation be modified to take that change into account.

8. Information and communications technology

Information and Communications Technology Governance Board meetings not held in 2018

141. In accordance with section 4, paragraph 4.1 of its terms of reference, the Information and Communications Technology Governance Board must hold meetings on a quarterly basis at least.

142. In that regard, it is important to note that the purpose of those meetings is to oversee the overall information management strategy of UNRWA, including information and process management, reporting and analysis requirements, physical ICT infrastructure and all software applications required to achieve effective information management. The Governance Board is also responsible for governance processes covering the evaluation, direction and monitoring of ICT for UNRWA.

143. In order to verify the Governance Board's compliance with its terms of reference, the Board of Auditors requested the final version of the minutes of the meetings held during 2018. The Agency was unable to provide the supporting documents, as no meetings had been conducted in 2018. The Agency explained that the meetings had not been held because its ICT department was operating under an acting director. It was confirmed by the Board that the last official Governance Board meeting was held on 5 December 2017.

144. The Board is of the view that UNRWA should have complied with the requirement to hold Governance Board meetings on a quarterly basis at least and that the acting director should have held those meetings as part of the responsibilities associated with the post.

145. The Board recommends that the UNRWA Information and Communications Technology Governance Board hold quarterly meetings, in accordance with its terms of reference, as established by the Agency on 1 December 2015, owing to the importance of oversight for the overall UNRWA information management strategy.

146. The Agency did not agree with the recommendation, given that the ICT Governance Board resumed its meetings in February 2019 and it cannot retroactively hold meetings during 2018. Quarterly meetings are to be scheduled in due time, for which the Agency can provide support in 2019.

147. It is the Board's opinion that the aforementioned terms of reference govern the best practices of the Information Management Department and that holding only one meeting in a year could compromise oversight of the overall information management strategy of UNRWA and related ICT Governance Board responsibilities. The Board will therefore verify the compliance of the meetings held during the corresponding engagement period, in accordance with the aforementioned norms.

Security improvements with regard to access to data centres

148. In accordance with article 5.5.1 of the Agency's information security policy of 2011, appropriate physical security controls must be in place for access to all offices, rooms and storage facilities involved in central information systems and network processing or handling, with access control mechanisms in place to restrict their use to authorized personnel only.

149. In line with the above, in section B.2, on physical entry controls, of technical instruction No. 8 (2017) of the Agency's Information Management Department, it is stipulated that server rooms must be protected by appropriate entry controls to ensure that only authorized personnel are allowed access to them.

150. On 6 November 2018, the Board conducted a physical inspection of all ICT facilities at UNRWA headquarters in Amman, located in the A, B, C, D, E, F, G, H and W buildings. During this inspection, it was observed that room E-223, a switch room in Block E, had no access control available. In addition, a rack switch in Block B was located in the corridor of the floor it was on but did not have any access control implemented, thereby allowing access to any unauthorized person.

151. The main satellite wide area network dish, which enables communication between headquarters in Amman and all the field offices, was located in the parking lot. It was confirmed that the antenna was under no risk of being damaged by vehicles; however, the Board noticed that access was possible by any pedestrian and the dish did not have any protection installed, such as bars or fences. This situation represents a risk, as any unauthorized access could cause damage to the fibre optic links, leaving the premises without communication.

152. The Board did not receive further evidence regarding the switch room access issues, and the Board is of the view that UNRWA should always be in compliance with its own information security policy and with technical instruction No. 8 of the Information Management Department, under which access must be controlled by physical security systems, such as door and window locks, and security personnel or physical authentication devices, such as biometrics and/or smart cards.

153. The Board recommends that UNRWA improve access controls for both its switch rooms and its satellite wide area network dish, in order to comply with its information security policy and with technical instruction No. 8 (2017) of the Information Management Department.

154. The Agency disagreed with the recommendation and informed the audit team that the access issues in the switch rooms had been fixed in 2019. With regard to the issue of access to the satellite dish, UNRWA believes that it is unnecessary to provide additional protection, since the compound itself is subject to controlled access.

155. The evidence provided will be evaluated by the Board at its next visit to the entity.

Disaster recovery exercises not performed during 2018

156. In accordance with point 5.10.2, on business continuity management, of the Agency's information security policy, disaster recovery and business continuity plans for the Agency's electronic information assets must be developed, maintained and tested regularly to ensure their ongoing integrity, availability and confidentiality, so as to enable the Agency to manage interruptions to business activities and protect critical business processes from the effects of interruptions.

157. Furthermore, in section C.2, on the ICT disaster recovery policy, of technical instruction No. 7 (2012) of the Agency's Information Systems Division, it is

stipulated that, in order to ensure continuous improvements to and verify the adequacy of disaster recovery plans for every ICT service and/or infrastructure component, the plans should be tested on an annual basis.

158. The Jordan field office informed the Board that the most recent disaster recovery exercise had been performed on 20 December 2017 and that there had not been any such exercises performed in 2018. The West Bank field office informed the Board that the most recent disaster recovery exercise had been performed in 2016, owing to an absence of resources and to the fact that the systems engineering post had been vacant in 2017 and 2018; it added that the exercise would be performed before the end of 2019. The Lebanon field office also informed the Board that the exercise had not been performed in 2018, owing to the Agency's financial situation.

159. The Board is of the view that UNRWA should carry out disaster recovery exercises on an annual basis, in accordance with the aforementioned regulations.

160. The Board recommends that the Jordan, West Bank and Lebanon field offices of UNRWA conduct a disaster recovery exercise at least once per year, to comply with the tests required by the UNRWA information security policy and with technical instruction No. 7 (2012) of the Information Systems Division.

161. The Agency agreed with the recommendation and indicated that it would work to implement it.

9. Microcredit community support programme

Registration of microcredit loans, interest and late payment fees

162. In accordance with the UNRWA social services policy and guidelines of April 2008, the Department of Relief and Social Services of the Lebanon field office provides different types of microcredit loans, which are granted to people registered with UNRWA under certain conditions, for use according to the purposes outlined in each loan contract.

163. According to the Agency's microcredit community support programme guidelines, such loans are granted with a 7 per cent interest rate and a late payment fee of up to 5 per cent of the instalment.

164. Meanwhile, IPSAS 1: Presentation of financial statements, stipulates that transactions and other events are recognized when they occur, and not only when cash or its equivalent is received or paid.

165. The Department of Relief and Social Services of the Lebanon field office maintains the registration of all new loans granted during the year by that office, as well as outstanding amounts and repayments made by debtors, which are recorded by the Finance Department in the REACH accounting system.

166. In reviewing those microcredit loans, the Board noted that interest on the loans was recorded on a cash basis when the debtor paid an instalment, and not on an accrual basis. Moreover, it was noted that the total amount of the accounts receivable related to those loans as at 31 December 2018, \$2.59 million, only included the outstanding balance of the principal loan amounts, but did not include the interest receivable accrued as at 31 December 2018 and owed under the contracts (loan interest), nor did it include the late payment fees accrued as at that date.

167. Because of this situation, the Board met with the Lebanon field office Account Officer, who mentioned that he was aware of the situation and that the accounting system did not allow the staff to register the transactions completely, since it was not an automated process in REACH.

168. In this context, the Board is of the view that the accounting of interest and late payment fees could be done manually, without the need to create an automatic process, at the time when an event occurs.

169. In summary, in the Financial Department of the Lebanon field office, the interest and late payment fees on loans are not recognized under an accrual basis as stipulated in the relevant IPSAS regulation.

170. The Board recommends that the Lebanon field office record accrued interest and late payment fees on an accrual basis, as the loans are granted with maturity dates and conditions determined by and previously known to UNRWA, in order to comply with IPSAS 1.

171. UNRWA declared that interest and penalties cannot be recorded upon initial recognition, since they do not meet the conditions for doing so, as mentioned in IPSAS 1, namely that transactions and other events are recognized when they occur and not only when cash or its equivalent is received or paid. Moreover, interest and penalties are only due to the Agency once the period has passed. Thus, it would be inaccurate to recognize interest and penalties at the time the loan is made, as this would lead to overrecognition at a time when the event has not yet occurred.

172. The Board agrees with the Agency that interest and penalties cannot be recorded upon initial recognition. However, the recommendation of the Board is oriented towards the recognition of interest and penalties at the moment of maturity of each instalment or when the penalty conditions are met. Our recommendation is aimed at ensuring that UNRWA register all receivables related to the loan on an accrual basis, namely, at the moment in which the recognition criteria are fulfilled, and not when the cash is received.

10. Microfinance Department

173. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs. The activities and balances of the Department for 2018 have been included in the Agency's financial statements for 2018. The Department prepares its own set of financial statements, under the International Financial Reporting Standards, which are audited separately.

Financial performance

174. The Microfinance Department continues to improve its performance by recording positive net income over the past three years. In 2018, the Department reported a net income of \$4.55 million (2017: \$3.01 million), reflecting an increase of \$1.54 million (51 per cent), compared with the net income reported during the previous year. The increase in net income was due mainly to the increase in interest on loans by \$420,424 (3.9 per cent) and to interest on bank and loan collection fees of \$636,872 (2017: gain of \$398,947). The Board has audited the Department's financial statements for 2018 and issued an unqualified opinion.

Lack of a written and formal framework for Risk Management

175. A risk management framework is the structured process used to identify potential threats to an organization, define a strategy for eliminating or minimizing the impact of those risks and establish mechanisms to effectively monitor and evaluate that strategy.

176. Currently, the Department has no formal, written risk management framework in place to guide, monitor and control the risk management process.

177. The Board recognizes the paramount importance of developing a formal, written risk management framework in order to mitigate the risk of not responding appropriately to business risk and, accordingly, not achieving the objectives of the Department.

178. The Board recommends that the management of the UNRWA Microfinance Department establish formal, written procedures and policies to be applied consistently across the Department, supported by training for staff members currently handling the risk management functions.

179. The Agency agreed with the recommendation.

Lack of direct follow-up with borrowers on loan instalments and outstanding balances

180. Through the evaluation and monitoring of the UNRWA Microfinance Department cycles and borrowers' loan payments and balances, it was noted that the Department does not have the practice in place to regularly and directly monitor, follow up and confirm with borrowers the instalments paid or the remaining outstanding loan balances. The current practice is to issue a receipt to the borrower once the loan instalment is paid: either a manual receipt, if the instalment is received by the loan officer at the field office, or a system-generated receipt, when the borrower pays the instalment at one of the branch offices.

181. The Board considers that having an independent system to regularly monitor, follow up on and confirm the instalment made and outstanding loan balances directly with borrowers mitigates the risk of delays in the timely submission of instalments received by the loan officer and/or use of the instalments paid for other purposes.

182. The Board recommends that the UNRWA Microfinance Department set up and activate an independent system to confirm the loan instalment payments made, along with the remaining outstanding balances, directly with the borrowers. The system may be automated by having messages sent to borrowers on a regular basis, indicating the instalments paid and the loan balance as at the date of the message.

183. The Agency agreed with the recommendation.

Segregation of duties

184. During the audit, the following observations were noted:

(a) A user authority matrix defining employee roles and the required level of access for each role had been developed for the loan management information system (Omni application), but had not been approved by management;

(b) Generic accounts were noted as being assigned to various employees on an as-needed basis, creating an issue with regard to the segregation of duties, whereby users would have two active accounts, one with their own privileges and one with the newly assigned privileges, which would allow transactions to be created and approved without obtaining the required levels of independent approvers.

185. When users are granted access to the Omni application without the guidance of an approved access authority matrix, the Agency risks granting inappropriate access to users and risks violating the principle of the segregation of duties, which could compromise the integrity and confidentiality of information. Granting two separate accounts with two different privilege levels may lead to the execution of unauthorized or erroneous transactions without proper approvals and without being detected in a timely manner.

186. Moreover, if critical actions and activities performed in the core Omni application are not recorded and reviewed periodically, possible violations or violation attempts may not be detected in a timely manner.

187. **The Board recommends that the Microfinance Department obtain management approvals over the authority matrix in order for it to be implemented in the Omni application, given the potential for conflict of interest with regard to the segregation of duties.**

188. **The Board recommends that UNRWA improve the process of granting access to generic accounts in order to avoid the associated risks, taking into account the following considerations: maintain a formal user access form, along with the management's approvals, to grant or revoke access to generic accounts in order to establish accountability; disable the current account of the employee before granting the new account, so as to avoid problems associated with the segregation of duties; and have Omni application activities logged and reviewed on a periodic basis by an independent party at the management level, in order to identify any violations and any alarming or excessive actions taken during the period. That review must be formally documented for future reference.**

189. The Agency agreed with both recommendations.

Inappropriate access

190. During the audit, accesses inappropriate to job descriptions and management levels were observed. In that regard, it is important to note that excessive and inappropriate access to certain functions leaves room for abuse and human error in highly critical processes and could result in misstated financial statements.

191. **The Board recommends that the UNRWA Microfinance Department perform an immediate review of Omni application users with access to the relevant screens for general provisioning settings, restrict such access on the basis of job description and appropriate management level and remove any unnecessary or inappropriate access.**

192. The Agency agreed with the recommendation.

C. Disclosures by management

193. UNRWA made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud, which in the view of the Board are not significant.

1. Write-off of cash, receivables and property

194. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to \$3.15 million had been recognized during the year: inventory losses of \$745,487, identified through inventory valuation; outstanding loans receivable of \$1,244,163; property losses of \$713,916; and accounts receivable losses of \$451,526. No cash losses or contributions receivable losses were reported (see annex II).

2. Ex gratia payments

195. As required by financial regulation 11.5, UNRWA reported ex gratia payments amounting to \$1.74 million for 2018. The payments were related to staff separation modalities.

3. Cases of fraud and presumptive fraud

196. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity, including those resulting from fraud. Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

197. During the audit, the Board made enquiries of management regarding its responsibility for oversight in the assessment of risks of material fraud and the processes in place for identifying and responding to risks of fraud, including any specific risks that management has identified or that have been brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Department of Internal Oversight Services. The additional terms of reference governing the external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the Board's report.

198. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in the present report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 47 cases of fraud and presumptive fraud to the Board during the period under review. Of the 47 cases, 19 (41 per cent) investigations were completed and finalized during the year, with quantified losses of \$11,298. The remaining 28 (59 per cent) cases were still under investigation, and UNRWA will report on the outcomes of those cases next year. Of the pending 28 cases, one relates to 2016, while 8 relate to 2017 and 8 relate to 2018. The Board is concerned at the slow pace of investigation, as the remaining cases represent more than 59 per cent of the reported cases. UNRWA is therefore urged to exert more effort to increase the rate of investigation of the pending cases. A summary of the cases is contained in annex III to the present report.

D. Acknowledgement

199. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Commissioner-General and the members of his staff, as well as the staff at the Amman headquarters, the Gaza headquarters, the Jordan field office, the Gaza field office, the Lebanon field office and the field office in the Syrian Arab Republic.

(Signed) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
(Lead Auditor)

(Signed) Rajiv **Mehrishi**
Comptroller and Auditor General of India

24 July 2019

Annex I

Status of implementation of recommendations up to the year ended 31 December 2017

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2013	A/69/5/Add.4 , chap. II, para. 40	Undertake a mapping exercise to identify and compile in a single document key internal controls for its business processes with reference to other documents providing detailed procedures.	UNRWA submitted the governance document to the Board of Auditors for closure.	The Board has reviewed the governance and accountability instruments prepared by the Executive Office, in which the UNRWA regulatory framework is laid out. The Board was able to obtain 926 of the documents indicated in the abovementioned document, although many of them were without a working hyperlink. The other 170 documents were not available, and no support was provided. Therefore, the Board considers this recommendation under implementation.		X		
2	2016	A/72/5/Add.4 , chap. II, para. 19	(a) Develop an insurance framework to govern insurance practice by defining roles and responsibilities, drawing clear decision lines regarding what and how much to be insured, management of insurance portfolio in terms of risk exposures and developing valuation methodologies for insurance purposes; and (b) assess the risk exposure of the Agency's assets and use its assessment as a basis for deciding on the	The Agency took the following measures: (a) It researched the insurance framework used by other United Nations agencies; (b) An insurance framework was developed in supply division technical instruction No. 8; (c) An organizational structure and defined roles assigning responsibilities for assessing risk exposure have been implemented;	Given the actions taken and the explanations and documents provided by the Agency, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
3	2016	A/72/5/Add.4 , chap. II, para. 23	nature of the assets to be insured and the value to be covered by the insurance. (a) Certify the monthly statements submitted by the [group medical insurance] contractor to authenticate the quality of service delivered and the accuracy of monthly actual expenditure, and (b) reconcile monthly statement submitted by the contractor against the submission made by the staff to validate the accuracy of the information submitted by the contractor.	(d) Clear insurance contracts are currently in force, covering fire, third-party, cash, marine cargo and vehicle liability. This is now an embedded approach: the position is agreed between UNRWA and the company each month. In addition, REACH balances of collected payroll amounts are offset against the payments made on a regular basis so that advances are cleared on an ongoing basis. The closure of this recommendation is requested.	Further questions and documents were requested of the Agency in order to evaluate the implementation of this recommendation, in particular the regulation provided by the contract currently in force and the most recent agreements made with the current contractor. No complete documentation has been provided. In this context, the recommendation is considered under implementation. Given the current stage of the process to ensure the reconciliation of monthly statements, the Board considers the recommendation under implementation.		X		
4	2016	A/72/5/Add.4 , chap. II, para. 31	(a) Expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and	In addition to the earlier responses provided during the interim 2018 audit, UNRWA provided updated registers for all fields. In particular, details were requested from the Lebanon field office during the 2018 interim field audit, which have been provided. The barcoding exercise is now being	(a) The allocation of physical identifiers has not been completed in the field offices visited, as it will only be resumed once the barcode system is fully operational. (b) There is still no completion of the link between REACH and the barcode system in the Jordan field office,		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			(c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.	conducted separately, and therefore submission for the following recommendation (see below) will be made separately. The closure of this recommendation is requested.	although it is almost finalized. The recommendation is therefore considered under implementation.				
5	2016	A/72/5/Add.4 , chap. II, para. 36	(a) Ensure that sections and departments provide timely notifications to the Property Management Unit on the new acquisitions, surveyed and transferred assets to allow manual recording and numbering of assets as a short-term solution pending the reactivation of the barcode system; (b) improve communication and build awareness among custodians on raising survey requests and adherence to transfer procedures to ensure timely dissemination of information to the Property Management Unit for updating the assets records; and (c) expedite the reactivation process of the barcode system in the REACH system for easy tracking and monitoring of acquired assets and surveyed and transferred assets from one location to another.	Barcode II was deployed to the Jordan field office in October as a pilot project. Implementation is in progress. The minor issues reported by users are being addressed to ensure the system's smooth operation for all users. A roll-out plan will be prepared to implement the system in the other field offices in the third quarter of 2019.	The full deployment of barcode II at the Jordan field office remains pending. Barcode II has been implemented at Jordan field office warehouses, in the Procurement and Logistics Division. In addition, Agency-wide implementation is pending.		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
6	2016	A/72/5/Add.4 , chap. II, para. 75	(a) Review its procurement manual to include limits for contract renewals in order to enhance fair competition and obtain best value for money; and (b) improve the data collection process to include end users' satisfaction as part of vendors' performance evaluation and ensure that renewal of contract takes into account the results of the Agency's market assessment.	(a) A revision of the procurement manual is foreseen in 2019, and the renewal of contracts will be taken into account. (b) A mandatory supplier evaluation tool is being developed in REACH to facilitate the collection of data allowing for the evaluation of supplier performance. This will be operational by the end of 2019.	The Board has determined that the recommendation is subject to the update of the procurement manual and the mandatory assessment of suppliers in REACH.		X		
7	2016	A/72/5/Add.4 , chap. II, para. 82	(a) In coordination with Health Department and the Procurement and Logistics Division at headquarters in Amman, establish a timeline for raising purchase requisition on medical items on the basis of the procurement plan in order to avoid stock-out and emergency procurement, which could lead to higher costs; and (b) consider entering into long-term agreements with local suppliers that offer competitive prices and meet the required specifications, to be used for emergency needs of medical supplies.	(a) This has been implemented, as the procurement plan issued indicates the dates to issue purchase requests. (b) UNRWA issued an open tender in November 2018, which is now under technical evaluation so that the new long-term agreements with local suppliers can be established in April 2019.	Given the actions taken by the Agency, this recommendation is considered implemented.	X			
8	2016	A/72/5/Add.4 , chap. II, para. 87	(a) Comply with the procurement manual by awarding contracts to the lowest technically compliant evaluated	UNRWA states that awarding the contract to the second-best bidder was an exceptional case and that it complies with the	The Board examined the documentation related to external services for the elimination of solid waste, which, for 2018, continued	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			bidders; (b) ensure that contract management plans are developed for strategic and important contracts and used as a tool for monitoring the implementation of contracts and reporting the key performance indicator measures as required by the procurement technical instruction; and (c) perform a comprehensive evaluation review and ensure that the evaluation criteria are detailed enough to include vendors' past performance, equipment, qualified staff and financial stability, in order to confirm its ability to deliver the intended service before award.	procurement manual and provides the documentation associated with external services for the disposal of solid waste in the Palestinian refugee camps of Baqa'a, Jerash, Suf and Husn.	with the same suppliers, and did not detect new cases of adjudication to the second-best bidder. In addition, evidence was provided of the monitoring and recording of the supplier's work, which was carried out quarterly. Based on the progress currently registered, the Board considers the recommendation implemented.				
9	2016	A/72/S/Add.4 , chap. II, para. 97	(a) Solicit other sources of funds to complete the remaining work for the project; (b) conduct training for the engineering team on the contract management process to ensure that it takes proactive decisions based on the terms and conditions of contract in order to avoid failures in completing projects; (c) involve legal officers when their intervention is required in events, such as slow progress, which indicate that the work cannot reasonably be	(b) The implementation of (b) remains pending, and the Agency states that in 2018 it implemented austerity measures which effected a 100 per cent reduction in training.	In spite of the fact that the austerity measures reported by UNRWA have not allowed them to carry out training activities, that they depend on funds availability and that those measures are temporary, the Agency set the second quarter of 2019 as their target date in their report to the General Assembly. Therefore, the Board considers this recommendation under implementation.		X		

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			completed on the fixed date and that negotiation with donors is needed in order to prolong the funding period; (d) hold regular meetings to discuss the status of project implementation and the expiry date of the donor funding involving engineers, the External Relations and Communication Department and project officers and maintain regular communication with the executive office in view of a final decision.						
10	2016	A/72/5/Add.4 , chap. II, para. 103	Ensure close monitoring of the contracts and in case the work was below standard and there was delay in implementation, apply remedies in accordance with the contract conditions and, if feasible, terminate the contract as matter of urgency to avoid further delay in the completion of the project and cost escalation, considering the associated risk and benefits.	UNRWA provided the policy related to construction work, entitled "Procedures and practices related to construction work".	The Agency has prepared policies related to construction work that are effective as at 1 January 2019. Consequently, the Board considers the recommendation implemented.	X			
11	2016	A/72/5/Add.4 , chap. II, para. 108	(a) Ensure that project proposals with a detailed workplan are prepared, in the interests of efficient project implementation and monitoring and to solicit funds; (b) improve preliminary survey and	(a) UNRWA is ensuring that programmes and concerned departments attach work plans to proposals before submitting to donors. (c) The Jordan field office is complying with due	The Board of Auditors requested a sample from the Jordan field office in order to close the recommendation and cover all related aspects. However, the Agency provided different evidence		X		

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			design of construction and maintenance projects and, where feasible, prepare cost estimates on the basis of more detailed information to enable improved accuracy of the cost estimate to be submitted to the donor in order to avoid major changes in the scope of work during project implementation; and (c) ensure that monthly reports are submitted to the donor to comply with the funding agreement.	dates for submitting progress reports. The only exception is projects funded by the Saudi Fund for Development, for which the frequency of reporting has been set monthly. This was brought to the attention of the donor during one of their missions to the field. Moreover, owing to the specific regulations of this particular donor, the donor representative has been made aware of all the stages of the projects that they fund, as they must approve every single procurement, tender, awarding of contract, variation order, and reprogramming, among others, before the field initiates action.	than what was requested, as also explained during the field visit. This recommendation is therefore considered under implementation.				
12	2016	A/72/S/Add.4 , chap. II, para. 119	Develop and deploy a web page for the Department of Security and Risk Management on the Agency intranet in order to improve sharing of security governance documents and other key security-related information and to use the page as a platform to carry out an online security awareness campaign.	The Agency continues to update its best practices and lessons learned related to the security of its staff. In the meantime, the Agency's Executive Office is leading the process of updating and enhancing the intranet, including the web pages of the individual departments. In May 2019, UNRWA reported that it had set the target date for this project at the fourth quarter of 2019.	In line with the information provided by the Agency, and given that the target date for implementation is the fourth quarter of 2019, the recommendation remains under implementation.		X		

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13	2016	A/72/5/Add.4 , chap. II, para. 123	Expedite the process of developing business continuity plans for headquarters and field offices to improve continuity of service delivery and enhance the security and safety of the Agency resources during major incidents.	This recommendation remains under implementation, and the Agency continues to work on its business continuity plans. In May 2019, UNRWA reported having set the target date at the fourth quarter of 2019.	In line with the information provided by the Agency, and given that the target date for implementation is the fourth quarter of 2019, the recommendation remains under implementation.		X		
14	2016	A/72/5/Add.4 , chap. II, para. 153	The Board also recommends that the West Bank field office (a) establish succession plan on recruitment section so that the absence of one person does not obstruct the recruitment process; and (b) streamline the recruitment process among the hiring departments and human resources and ensure that the detailed interview reports are submitted for appointment within an agreed period of the completed interviews with a view to minimizing delays in the recruitment process.	(a) The West Bank headquarters field office has the necessary measures in place for office coverage to ensure the continuity of tasks and the recruitment process in the case of any staff absences. This succession plan is managed within the respective team, with oversight by the supervisor. (b) The Human Resources Department at headquarters has taken the lead in implementing the Agency's recruitment reform, which addresses these points and drives significant improvements to the overall process. The Department and the human resources office of the West Bank field office have taken steps to streamline the recruitment process between the hiring departments and human resources, in order to ensure detailed interview reports are prepared in	The Administration did not provide any new evidence regarding this recommendation. There was no information on the succession plan established by the West Bank field office, a documented arrangement for staff involved in recruitment to ensure the continuity of the recruitment process or a streamlined process between the hiring department and Human Resources Department. There is also no evidence that the recruitment tracker has reduced the length of the recruitment process. As a result, this recommendation is still considered under implementation.		X		

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				<p>accordance with Agency standards and the competency-based interview methodology and to minimize delays. In November 2017, the headquarters recruitment section visited the West Bank field office in connection with the recruitment reform, the implementation of which was due in that field office by 31 December 2017. A copy of the training materials was provided as a supporting document. Furthermore, as part of monitoring by the Human Resources Department, in February 2018, the Director of Human Resources inquired whether all field offices had started using the new assessment methodology. The human resources office of the West Bank field office confirmed that they had been following the revised methodology since November 2017 and all interview panel members were trained prior to the process. Regarding evidence of improvement in recruitment timelines in the field office as a result of the recruitment reform, such improvement could only be measured in the 6 to 12 months following the</p>					

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				reform. In view of the aforementioned, the Human Resources Department requests the closure of this audit recommendation.					
15	2016	A/72/5/Add.4 , chap. II, para. 167	(a) Expedite the process of recovering the overpaid amount from separation benefits; (b) improve the review process for the computation of staff separation benefits before payment is made; (c) ensure that the accrued annual leave balance in the e-leave system is supported by confirmation from the hiring department before authorizing the leave encashment in order to avoid overpayment; and (d) adjust the overpaid amount for area staff and international staff in the financial statements to recognize the account receivable and derecognize the expense by the same amount.	All the tools mentioned have been implemented. UNRWA requests the closure of this recommendation.	Given the actions taken by the Agency, the recommendation is considered implemented.	X			
16	2016	A/72/5/Add.4 , chap. II, para. 186	(a) Regularly conduct information security policy awareness training for its staff in order to improve information security practice at the Agency; and (b) ensure that the Security and Safety Section classifies security information on the basis of its criticality and sensitivity	UNRWA reported that it will send a circular to all agencies to remind them of the information security policy.	Part (b) of this recommendation is closed, as UNRWA distributed on 25 November 2018 a circular to all field offices to ensure that personnel comply with the information security policy. Therefore, the recommendation is considered implemented.	X			

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17	2016	A/72/5/Add.4 , chap. II, para. 195	in accordance with the information security policy. (a) Develop an internal audit manual that will guide the audit process and provide the Department with practical guidance and information for managing the internal audit activity, planning, execution and reporting of engagements; and (b) expedite the recruitment process for the vacant posts to allow smooth implementation of the 2017 audit plan.	The development of the internal audit manual is complete, and the current recruitment audit has been planned and executed, thus piloting the manual. The manual, developed in conformance with relevant professional standards, also includes a multitude of checklists and manuals to guide the auditors and the Department in all phases of the audit life cycle. UNRWA therefore requests that the recommendation be considered implemented.	UNRWA provided evidence of the development of the audit manual that will guide the audit process. Part (b) of the recommendation was already closed. Therefore, the recommendation is implemented.	X			
18	2016	A/72/5/Add.4 , chap. II, para. 211	The Board recommends that the Microfinance Department (a) improve coordination between information technology and human resources departments such that access for every separating employee is revoked on the last day of employee service; (b) the use of accounts of separated employees is accompanied by formal documented exemption and approval by management to justify such access; and (c) ensure that separating employees accounts are deleted as part of the clearance procedures.	Although there was a delay in delivering the access revoke form, the last login date of the user in question was checked, and there was no log for that user. This is because a staff member (loan officer) had been under UNRWA investigation through the period: the Microfinance Department could not revoke the user's access during the investigation process, in order to avoid any appearance of administrative retaliation.	After the evidence was obtained from the Agency, it was evaluated according to the risk represented by this observation. The risk to which this recommendation responds has been addressed, and it is therefore considered as implemented.	X			

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19	2016	A/72/5/Add.4 , chap. II, para. 220	The Board recommends that the Microfinance Department (a) include external members on the Advisory Board as required by organizational directive No. 25 in order to benefit from their independent technical experience and expertise on microfinance operations within and outside the region; and (b) ensure that the Advisory Board includes members as specified in organizational directive No. 25 of 2003.	The Microfinance Department prepared a revised organizational directive No. 25. It was reviewed by the legal department and the Deputy Commissioner General's office and was duly signed. UNRWA requests the closure of the recommendation.	Organizational Directive No. 25 has been received, approved and signed. Furthermore, the Advisory Board includes all members, as specified in the document. This recommendation is therefore considered to be implemented.	X			
20	2017	A/73/5/Add.4 , chap. II, para. 20	(a) Develop and implement an enforcement mechanism to ensure compliance with the travel guidelines, which may include obtaining approval from the UNRWA executive office for travel requests below 15 days; and (b) review the advance purchase policy and evaluate how best prices for travel can be achieved.	Headquarters in Amman is implementing the official travel guidelines for UNRWA personnel (document ASI 01/2016). The advance payment policy is implemented; however, it is not always easy to secure the required 15 days' notice for official business travel, as per UNRWA travel rules, owing to the prolonged approval periods necessary to obtain visas, approvals and security clearance. All efforts are made to ensure the required notice period is observed for travel as part of the onboarding process.	Given the actions taken by the Agency and further discussions regarding the subject, the recommendation is considered to be implemented.	X			
21	2017	A/73/5/Add.4 , chap. II, para. 21	(a) Document reasons in the travel management system for all travel requests and bookings	UNRWA developed modifications to the travel management system at headquarters in Amman in	The UNRWA travel section provided evidence that the travel management system at headquarters had been	X			

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			made less than 15 days in advance of travel; (b) ensure that all official trips are booked by the travel office and avoid personal bookings, to enhance compliance with procurement procedures; and (c) ensure that the booking dates of all tickets in all fields are documented and maintained in the travel management system.	coordination with the Information Management Department, and the travel management system was amended accordingly.	updated and the travel offices in different field offices had improved the procedure to request, book and maintain the documents associated with each travel purchase.				
22	2017	A/73/5/Add.4 , chap. II, para. 25	(a) Maintain price quotations for other options in the file to enhance internal control and confirm that the best option is selected over other options; (b) ensure that the price quotations are received from at least three agents to widen the scope of price options; and (c) document the reasons in cases where the selected price is not the best price and ensure that they are approved by the executive office.	(a) The legacy practice to ensure the best value for the money with three quotations has been implemented. (b) This has been implemented and uploaded to the system. (c) The travel management service modified this and inserted the booking date.	The Agency has enhanced the air ticket acquisition process by entering into long-term agreements with different agencies. The Board's conclusion is that this recommendation is implemented.	X			
23	2017	A/73/5/Add.4 , chap. II, para. 33	(a) Establish a linkage between salary increment and performance appraisal to ensure that salary increments and promotion of staff are based on performance appraisal, while staff members with uncompleted performance appraisal and unsatisfactory performance are subjected	The performance management review is still in process, including the requirement of developing a new e-performance system. There was no significant progress achieved in the year under review, and the initiative has therefore been carried forward to 2019.	The Agency did not provide any new evidence regarding this recommendation. In addition, an explanation was requested regarding the salary increment for staff under the "opportunity to improve" process, with no signs of improvement at the Lebanon field office.		X		

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			to deferment of annual salary increment as required by personnel directives No. A/3 Rev. 1 and No. PD/A/23; and (b) enhance the monitoring of staff performance appraisal and ensure that heads of departments and division exercise their supervisory roles with regard to the completion of staff performance appraisal.		However, no explanation has been provided in this regard. The recommendation is therefore considered under implementation.				
24	2017	A/73/5/Add.4 , chap. II, para. 37	(a) Improve its review process in respect of the manual computation of staff entitlements while awaiting the interface between the electronic leave system and the REACH system to minimize the risk of human error; and (b) enhance the time management module in the REACH system through integration with the stand-alone e-leave system to facilitate system computation of leave encashment.	The Agency states that change request No. 67/2017 of 14 June 2017 addresses this recommendation, with the fourth quarter of 2019 as the target date for implementation.	A copy of the relevant change request has yet to be provided by the Agency. Furthermore, as implementation is set to take place in the fourth quarter of 2019, this recommendation remains under implementation.		X		
25	2017	A/73/5/Add.4 , chap. II, para. 42	Observe the required time frame for the internal recruitment process for effective and timely service delivery to refugees.	The Agency reported on the recruitment reform, General Staff Circular No. 01/2018, candidate assessments using competency-based interviews and a monitoring table for international recruitment.	The explanation provided by the Lebanon and the Syrian Arab Republic Field Human Resources Officers was satisfactory. The Director of Human Resources noted that, in order to avoid delays in the recruitment process, an early warning system		X		

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					should be put in place and creative thinking and exceptional outreach solutions should be applied. Further tests are to be performed during the 2019 audit. The Board considers this recommendation under implementation				
26	2017	A/73/S/Add.4 , chap. II, para. 46	(a) Configure the REACH system to include 1.5 days per month as annual leave days and 2 days' sick leave to align with the new complementary personnel directive (CPD/1) and avoid the risk of errors through manual intervention; and (b) ensure that any changes in the policies relating to staff entitlement are immediately reflected in the system for the accurate computation of staff entitlements.	Changes to the REACH system were made to reflect leave parameters in the system for ISP and to ensure that any changes in the policies relating to staff entitlements are immediately reflected in the system for the accurate computation of staff entitlements.	The Board of Auditors reviewed the changes made in the system and considers the recommendation implemented.	X			
27	2017	A/73/S/Add.4 , chap. II, para 49	(a) Update the existing organizational structure and organizational directive No. 3 to reflect the additional departments and divisions; and (b) indicate the actual number of staff when requesting and accounting for advance grants received from United Nations Headquarters to finance international staff posts under the regular budget.	(a) UNWRA did not provide an update on the organizational structure. (b) The Agency sent the most recent submission to United Nations Headquarters in New York to request the payment of international staff costs and notes that the submission includes the total value to be requested for the period. UNRWA requests the closure of this recommendation.	Regarding (a), no evidence has been presented. Part (b) is considered implemented.		X		

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28	2017	A/73/5/Add.4 , chap. II, para. 69	(a) Improve monitoring of staff leave through supervisors to ensure that all leave applications are approved prior to the commencement of the leave; (b) streamline the levels of leave approval in the e-leave system to maintain consistency; and (c) perform regular review of leave systems to identify and take action with regard to non-compliance, including the charging of pending and rejected leave to the monthly salary of the staff concerned or leave encashment for the separated staff.	UNRWA provided area staff circular No. A/03/2018, effective 20 March 2018, for the auto-approval of annual and uncertified sick leaves, which states that all pending leaves with a waiting time of more than 3 days will be automatically approved in the system on the 20th of each month. In May 2019, evidence of improvements in the monitoring system were presented by the Human Resources Department. UNRWA requests the closure of this recommendation.	Given the actions taken by the Agency, the Board of Auditors considers this recommendation implemented.	X			
29	2017	A/73/5/Add.4 , chap. II, para. 70	(a) Investigate the discrepancies noted in the leave balances and take appropriate action to arrive at correct leave entitlement for all staff; (b) perform regular reconciliation of international staff leave balance between e-leave and staff attendance records to ensure reliable year-end leave balance; and (c) review and reset the e-leave and electronic time management systems to ensure that automated reports for past dates leave balance are generated for monitoring and evidence checks for the audit trail.	UNRWA explained in an email that the discrepancies noted in leave balances are due to staff members moving from a five-day working week to a six-day working week and vice versa. In May 2019, the Agency provided a satisfactory response on area staff e-leave reconciliation and provided the evidence required.	Given the actions taken by the Agency, the Board of Auditors considers this recommendation implemented.	X			

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30	2017	A/73/S/Add.4 , chap. II, para. 71	Revisit the REACH and electronic time management system interface to ensure that all approved leave applications in the electronic time management system during payroll processing periods are automatically uploaded to the REACH system after release.	UNRWA responded that a new solution has been introduced to allow the electronic time management module to capture pending leave applications under "Pending approval" and the interface between the REACH and electronic time management system. This is linked to area staff circular No. A/03/2018, effective 20 March 2018, on the auto-approval of annual and uncertified sick leaves, which states that all pending leaves with a waiting time of more than three days will be automatically approved in the system on the 20th of each month.	Given the actions taken by the Agency, the Board of Auditors considers this recommendation implemented.	X			
31	2017	A/73/S/Add.4 , chap. II, para. 78	(a) Institute adequate controls over the registration process in the emergency assistance management system database and update the system with accurate and most up-to-date data to eliminate and prevent multiple registration of refugees while awaiting the roll-out of the refugee registration information system; (b) establish a unified key identifier to map the data between the emergency assistance management system and	The Syrian Arab Republic field office has migrated the data to the emergency module of the refugee registration information system. The field office also used the system to generate lists of beneficiaries of the first 2019 cash assistance round. Furthermore, the refugee registration information system will also be used to generate the lists of beneficiaries eligible for in-kind food for the first round in 2019.	UNRWA has provided the required evidence related to the tasks and actions undertaken by the Agency to resolve and correct the detected deviations. The Board considers this recommendation implemented.	X			

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			the refugee registration information system, while reviewing the feasibility of transferring the emergency assistance management system data to the refugee registration information system; and (c) perform data verification of the distribution list before submission to the banks for payments.	To ensure that the refugee registration information system is fully compatible and fully functional, the data administrators will compare the system's generated lists with the lists generated by the emergency assistance management system to ensure that eligible families are present in the Syrian Arab Republic and recorded in both databases.					
32	2017	A/73/5/Add.4 , chap. II, para. 79	(a) Conduct investigation into the duplicate cases to confirm which were intentional and take necessary remedial action; and (b) recover the duplicate payments from the beneficiaries concerned from future distributions.	The Syrian Arab Republic field office was relying entirely on the refugee registration information system data as the input for its cash assistance operations. Apparently some PRs managed, in one way or another, to have two records in the system under two different registration numbers. As part of the team's ongoing monitoring of the cash activities, data in the system was cross-checked with data from the emergency assistance management system. The field office found 133 families with full duplication and 437 other families with partial duplication. Duplication was removed from the system accordingly. The recovery of additional payments to these families	After a review of the new evidence provided on 5 May 2019, the recommendation is considered implemented.	X			

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33	2017	A/73/5/Add.4 , chap. II, para. 89	The UNRWA-Jordan field office agreed with the Board's recommendation to work (a) in coordination with headquarters to develop a comprehensive standard operating procedure, which will set controls for emergency cash assistance from registration to the cash distribution process, (b) institute adequate controls over the registration database to enhance internal checks during registration and changes of records for existing refugees, (c) perform pre- and post-distribution verification to ensure that only the	<p>started immediately, depending on the vulnerability of the case. Currently, most of the funds have been recovered, and beneficiaries' data is continuously scrutinized to avoid potential duplication. The current status of the recovery of amounts from the duplicate cases is the following:</p> <p>Total amount of duplication: 26,199,000 Syrian pounds</p> <p>Total recovered: 13,450,500 Syrian pounds</p> <p>Total remaining amount: 12,742,500 Syrian pounds.</p> <p>UNRWA agrees to the recommendation and is taking steps to address the outstanding issues. A cash transfer specialist was recruited recently to work on (a) drafting registration instructions for the emergency programme; (b) drafting instructions for social transfers, including control measures; and (c) setting up a post distribution monitoring system. The consultant began collecting information from field offices, and the final set of deliverables is expected in the next few months. The deliverables will address all outstanding issues raised</p>	<p>The Board recognizes the efforts undertaken by the Agency to implement actions that allow it to define norms and implement adequate measures of control to increase management's relief and social services benefits.</p> <p>On that basis, the Board considers this recommendation under implementation.</p>		X		

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			intended beneficiaries receive cash assistance, and (d) ensure that all unregistered refugees not included in the refugee registration information system are attested and registered for effective control.	by this recommendation. In addition, the specialist is working closely with the head of registration to institute adequate controls over the registration processes within the refugee registration information system. The aforementioned deliverables remain under implementation and are expected to be completed by the end of the second quarter of 2019.					
34	2017	A/73/5/Add.4 , chap. II, para. 94	UNRWA-Syrian Arab Republic field office agreed with the Board's recommendation that it start procurement processes at the earliest possible time to provide time for unexpected negotiation on terms and conditions of the contracts with the government hospitals to ensure that the contract is signed in a timely manner.	UNRWA indicates that the hospitalization contracts for 2017 were extended for 2018 in order to avoid an interruption in hospitalization services.	The recommendation has been implemented, given that the entity has provided evidence relevant to 2018, in cases in which the signing of contracts and the extension of hospitalization services were made before the date of the beginning of the contract.	X			
35	2017	A/73/5/Add.4 , chap. II, para. 101	(a) Ensure that technical evaluation criteria are comprehensively set to take into account all technical factors and risks that may affect execution of the tender; and (b) clearly specify the determinant of the award decision, whether aggregate score, technical evaluation score or financial evaluation score, in order to avoid	UNRWA indicates that the preparation criteria are clearly established in the application documents in accordance with chapter 8.4 of the procurement manual and states that the incident in question was an isolated one.	The Board has examined the documentation provided by the Agency and considers that the evidence shows that the suppliers awarded are the ones that obtained the best score in the bidding process. The Board therefore considers the recommendation implemented.	X			

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36	2017	A/73/5/Add.4 , chap. II, para. 105	award decisions based on the bid evaluation panel's judgment call. (a) Establish a joint monitoring and follow-up mechanism between the procurement team and end users to oversee the delivery cycle once purchase orders are issued; (b) the Procurement and Logistics Division perform regular reviews of open purchase orders in the system to identify all cases of delay for close follow-up with the vendors, to minimize delay in delivery of goods, and close all purchase orders which should have been closed; and (c) it charge liquidated damages for all delays caused by suppliers in accordance with section 15.2 of the general conditions of contract for the provision of goods.	UNRWA indicates that all offices of the Procurement and Logistics Division have been informed and confirmed that they have a purchase order tracking mechanism. In addition, the number of open purchase orders has decreased, as open purchase orders are reviewed regularly and sent to the respective fields for follow-up. Moreover, charges due to delays are being handled properly, in accordance with the relevant norms.	Given the actions taken by the Agency, this recommendation is considered implemented.	X			
37	2017	A/73/5/Add.4 , chap. II, para. 106	(a) Ensure that purchase orders are sent to suppliers on time to avoid unnecessary delays; and (b) involve field procurement and logistics divisions in the project pre-procurement planning stage for the proper planning of delivery schedules and link the programme budget	UNRWA mentions that each office/section of the Procurement and Logistics Division has its own annual procurement plan. It also provided evidence of the timely delivery of purchase orders to suppliers.	Given the actions taken by the Agency, this recommendation is considered to be implemented.	X			

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38	2017	A/73/5/Add.4 , chap. II, para. 113	planning to procurement planning. UNRWA-Gaza field office agreed with the Board's recommendation that it (a) ensure that annual procurement plans for medicine and medical supplies are prepared by early January and submitted to the Chief of the Procurement and Logistics Division in the same month for further processing and approval as required under the procurement manual; and (b) work closely with the headquarters to ensure compliance with the established dates in the approved annual procurement plan by issuing purchase requisitions on time to allow the timely release of purchase orders to avoid the risk of stock-out.	UNRWA states that close follow-up is carried out with the departments interested in the delivery of medical supplies, and physical inspections and laboratory quality tests are carried out for the articles. In addition, each office/section of the Procurement and Logistics Division has its own annual procurement plan and must publish its 2019 plans before the end of November 2018. In May 2019, the Agency reported that it had recently completed a new tender process to establish long-term agreements for the provision of medicines.	The Board has concluded that (a) has been implemented, as the Agency has provided the document entitled "Procurement planning – health commodities 2018–2019". Regarding (b), the Board of Auditors will check new cases during the 2019 audit, given that the Agency reported it had completed, in March 2019, a new tender process to establish long-term agreements for the provision of medicines. The recommendation therefore remains under implementation.		X		
39	2017	A/73/5/Add.4 , chap. II, para. 120	(a) Conduct a cost benefit analysis by allowing the Gaza field office to enter into long-term agreements with local suppliers to procure Eightcheck control reagent, to avoid expiration of items before consumption due to longer transportation time and border entry restrictions when using a long-term agreement from	(a) This is not applicable, as the agreement with Sysmex is to procure all reagents solely through them. (b) CSSD at headquarters has already shared the Sysmex production line with the Health Department, in order to enable maximum shelf life and to ensure that Sysmex will produce a sufficient	Following a review of the new evidence provided in April 2019, the recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			headquarters in Amman; (b) review the long-term agreement and liaise with the supplier to separate the reagent price from the price of other services which do not occur frequently, to increase transparency and reduce the unit cost of the item; and (c) ensure compliance with the UNRWA quality assurance policy for pharmaceutical products by accepting only medicine and medical supplies which have at least 75 per cent remaining shelf life at the time of arrival in the country of destination.	quantity of reagent to meet UNRWA needs. In addition, UNRWA will contact Sysmex to enquire whether they can include local dealer representatives in order to ensure the continuity of their supply. (c) UNRWA provided solicitation documents stating dated product shelf life information.					
40	2017	A/73/5/Add.4 , chap. II, para. 129	(a) Introduce an independent quality control testing mechanism for medicine and medical supplies in field offices, as in the case of basic commodities, to ensure the quality of medicine and medical supplies received from suppliers prior to acceptance; (b) seek contractual remedies from the suppliers of these medicines in accordance with article 5.7 of the Agency's general conditions of contract for the provision of goods; (c) include independent quality control testing at the point of pre-shipment and post-shipment in the	UNRWA noted that it had started pre-shipment inspection for the 2018 requirements. The contract is with TUV, which is a lab pre-qualified by the World Health Organization (the contract is managed by the Central Support Services Division). With respect to (a), in 2018, the Agency carried out pre-shipment quality control tests for medicines procured from manufacturers. All manufacturers for which any quality issues had been encountered in previous years were selected for tests.	Following a review of the new evidence provided in April 2019, the recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			UNRWA quality assurance policy for pharmaceutical products; and (d) harmonize the procedures for physical inspection and quality control tests at all field offices for medicines procured at headquarters in Amman.						
41	2017	A/73/5/Add.4 , chap. II, para. 134	The Board recommends that UNRWA-Lebanon field office (a) expedite implementation of the contract of solar power installation to avoid the problem of power outages; (b) finalize the reporting module to generate accurate management reports from the e-health system and find an appropriate solution to the access problem for records of other health centres; and (c) resolve the network connectivity problem in order to provide reliable and appropriate service to beneficiaries.	(a) The solar power system has been installed in the health centres and is operating to support the e-health system in case of power outage. The purchase of the solar power system provides the rationale for the closure of (a). (b) The e-health solution is finalized and implemented through the e-health system. (c) Work by the Lebanese Government on solutions to network problems is under way. These are large-scale projects aimed at resolving connectivity issues throughout the country. UNRWA is monitoring the progress of the Government in this regard and considers the recommendation implemented.	Given the actions taken by the Agency and the further evidence presented by the Director of the Health Department, this recommendation is considered implemented.	X			
42	2017	A/73/5/Add.4 , chap. II, para. 138	(a) Closely follow up with the guarantors of loan defaulters to recover the long-outstanding loan and liaise with the legal office for legal advice, including enforcement of legal action	(a) The Agency is awaiting feedback on the legal steps that it will take to settle the case. (b) An eligibility analysis is being carried out according	The auditors were not provided with evidence of the enforcement of legal action against the guarantors, and no action was taken during 2018 to recover the outstanding			X	

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			against the guarantors; (b) perform eligibility analysis prior to granting the loan and avoid granting loans to clients whose guarantors refuse to provide monthly income evidence, with a view to reducing the recoverability risks in case of default by clients; and (c) amend the microcredit community support programme guideline of 2012 to reflect the change in the late fee, from 5 per cent to 2 per cent.	to the standard procedures. Non-UNRWA guarantors who are employed by private companies are providing evidence of their annual income. The Agency requests the closure of this part of the recommendation. (c) The guidelines contain a mention of late fees up to 5 per cent. The Agency therefore does not believe there is a need to amend the guidelines to reflect the lower number of 2 per cent and requests the closure of this part of the recommendation.	loans. Additionally, the Board could not review the performed eligibility analysis prior to the granting of loans or refusal of loans to clients whose guarantors refused to provide monthly income evidence with a view of reducing the recoverability risks associated with client defaults. Finally, the Board was not provided with an official document, duly signed by a high-level chief of the Agency, that supports the amendment of the guideline to reflect late fees of 2 per cent. Therefore, the Board of Auditors considers this recommendation as not implemented.				
43	2017	A/73/5/Add.4 , chap. II, para. 142	UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.	Due to unforeseen delays, implementation of this recommendation has been delayed until the fourth quarter of 2019.	No proper evidence has thus far been received by the Board of Auditors. The Board therefore considers this recommendation not implemented.			X	
44	2017	A/73/5/Add.4 , chap. II, para. 148	The Board recommends that UNRWA-Jordan field office (a) ensure that project workplans are developed and documented	The strategic project management office is in the process of being fully established. Solid progress has been made in	The Agency stated that this recommendation is under implementation and provided the Board with an inter-office memorandum		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			prior to implementation of the projects; (b) develop and implement a plan to put in place a field project office equipped with appropriate level of staff; and (c) ensure that project progress reports are prepared at regular intervals for all projects for monitoring the progress of the project and accountability for the resources utilized.	strengthening certain elements of the project management cycle within UNRWA, including in relation to the issuance of revised guidance for project governance, as reflected in the relevant inter-office memorandum.	that addresses the issue of project management governance. The recommendation is therefore considered under implementation.				
45	2017	A/73/5/Add.4 , chap. II, para. 152	Operationalize the Project Review Committee and ensure that it performs its responsibilities effectively.	When the Project Review Committee was established in 2015, it was envisaged that the Committee would meet on a monthly basis to monitor overall project implementation progress and take action and make decisions on the basis of monthly reports provided by the Project Assessment Committee. Given the nature of the issues faced by the Project Assessment Committee, that Committee moved to a quarterly schedule in 2017. The corresponding need for the Project Review Committee to monitor overall project implementation progress and take action and make decisions when implementation efforts are not on track or risk tolerance thresholds have been exceeded was also	In accordance with the Project Review Committee terms of reference, the Committee is required to meet during the fourth week of every month. The Agency was able to verify the holding of the February, September and November meetings in 2018. In 2019, the Agency provided a draft of the terms of reference that modified the frequency of the meetings. In 2018, the meetings were not held with the obligatory frequency. If the Agency intends to modify the aforementioned terms of reference, the document should be formal, consider best practices and be tested during the year of applicability. The recommendation is therefore considered under implementation.		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
46	2017	A/73/5/Add.4 , chap. II, para. 159	(a) Document the average time frame for the issue of a closure memorandum by the External Relations and Communications Department after the operational closure of a project for projects which are supposed to be closed and the time frame for administrative closure and financial closure of a project in the system for accountability among the accountable stakeholders; (b) ensure close follow-up in respect of unallocated balances where communication with the donor is needed for reprogramming, refund or transfer to another fund code to allow closure of the projects; (c) close all projects in the system which were indicated by the Department as closed in the project tracker; and (d) develop a work breakdown structure to allocate the pending project fund balance, to avoid the risk of returning the	reduced. However, thus far, UNRWA has yet to revise the Project Review Committee terms of reference. The terms of reference will be revised in the near future. As of December 2017, UNRWA was in the process of establishing a strategic project management office in the Department of Planning. Owing to the financial crisis in 2018, the establishment of the office – through the appointment of a head of office – was delayed. However, the Department of Planning pushed forward the work of the office by: (a) allowing it to benefit from a short-term (four-month) secondment from the Register of Engineers for Disaster Relief as the head of the office (this came to an end in September 2018); (b) the development, issuance and institutionalization of a technical instruction on project identification, verification and approval; and (c) in the light of the restricted funding environment, referenced above, the streamlining of the projects portfolio in support of key programme budget, emergency appeal,	The Board reviewed the evidence, responses, Project Assessment Committee meeting minutes and project tracking sheet provided by the Agency and found no documentation of the average time frame for the issuance of a closure memorandum, as the Agency states it is beyond their control. Regarding (b), as stated in the Project Assessment Committee meeting, the External Relations and Communications Departments should take all necessary actions to issue closure memorandums for expired grant codes that can be closed and to continue to follow up with the donor, as this is an ongoing process. Regarding (c), the Board reviewed the status of projects in the system, and as several projects are not closed, this recommendation can be considered as under implementation. Regarding		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			contributed funds to the donors.	reform and construction interventions, and the limiting of small grants and in-kind assistance.	(d), the work breakdown to allocate the pending project fund balance has not been implemented. The overall status of the recommendation is under implementation.				
47	2017	A/73/5/Add.4 , chap. II, para. 160	Enhance communication between the External Relations and Communications Department, the Finance Department and the Department of Planning, to ensure the smooth monitoring of project implementation and timely processing of pending financial and other reports so as to expedite project closure.	As of December 2017, UNRWA was in the process of establishing a strategic project management office in the Department of Planning. Owing to the financial crisis in 2018, the establishment of the office – through the appointment of a head of office – was delayed. However, the Department of Planning pushed forward the work of the office by: (a) allowing it to benefit from a short-term (four-month) secondment from the Register of Engineers for Disaster Relief as the head of the office (this came to an end in September 2018); (b) the development, issuance and institutionalization of a technical instruction on project identification, verification and approval; and (c) in the light of the restricted funding environment, referenced above, the streamlining of the projects portfolio in support of key programme budget, emergency appeal, reform and construction interventions, and the	With the same assessment, and linked with the previous recommendation, this recommendation is considered under implementation.		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
48	2017	A/73/5/Add.4 , chap. II, para. 163	(a) Adopt and implement an appropriate strategic planning model to assist management to obtain a holistic picture of the strategic management process and bring all the key strategic management components together for effective strategy communication and implementation; and (b) develop key performance indicators to measure the achievement of the strategic objectives.	limiting of small grants and in-kind assistance. The Information Management Department informed the Board that a Department meeting was booked by the end of February to address the issue of the final version of the plan.	After the review of the new evidence provided in April 2019, the recommendation is considered implemented.	X			
49	2017	A/73/5/Add.4 , chap. II, para. 166	(a) Identify all staff who have changed their employment status, and disable their accounts in the REACH system; and (b) develop a user accounts review procedure that will require periodic review of the access rights attached to user accounts, to ensure that no staff are given access rights to the system that do not fit their current job requirements.	UNRWA provided documents that described the process of user management and the main rules for that task in addition to the latest version of the REACH access form.	Part (a) was addressed through the issuance of a human resources circular. Part (b) was resolved in the Information Management Department/Field Information and Communication Technology Officer clearance form, standard operating procedures and international staff circular No. 03/2018, entitled "Guidelines on exit clearance procedures". The overall status of the recommendation is therefore implemented.	X			
50	2017	A/73/5/Add.4 , chap. II, para. 171	(a) Ensure that the Advisory Committee on Internal Oversight conducts annual self-assessment of	Organizational directive No. 24 was signed by the Commissioner General. As UNRWA provided the	(a) The Agency provided organizational directive No. 24, entitled "Terms of reference of the Advisory	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			its performance as required by organizational directive No. 24; (b) design a confidentiality template form and ensure that members of the Advisory Committee sign the statement of confidentiality for accountability; and (c) review organizational directive No. 24 and incorporate the appointment process, including ways of seeking candidates for appointment, the review process and the selection decision, to ensure an unbiased, competitive and transparent selection process.	signed version, it requests confirmation from the Board that this recommendation can be considered implemented.	Committee on Internal Oversight". (b) The Board confirmed the signature of the statement of confidentiality for accountability. (c) The Board confirmed the review of the selection process in organizational directive No. 24. The recommendation is therefore considered implemented.				
51	2017	A/73/5/Add.4 , chap. II, para. 178	(a) Consider exploring an alternative resource deployment strategy in the Assurance and Advisory Services Division to strengthen the Division and ensure sufficient coverage of high-risk areas identified and comply with the annual audit plan, and (b) review the staffing structure of the Division to align with the complexity and growth of the Agency.	The Department of Internal Oversight Services has engaged temporarily alternative capacity (on a voluntary basis) to assist with information-technology-related audit procedures while expediting the recruitment of a P-4 Senior Auditor, as the previous Senior Auditor had resigned at the end of 2018. The Assurance and Advisory Service Division will utilize the 2019 budget to supplement available resources, including in potential collaboration with OIOS, or engage consultants, and will further explore alternative	After a review of the new evidence provided in May 2019, the recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
52	2017	A/73/5/Add.4 , chap. II, para. 181	The Board recommends that the UNRWA Department of Internal Oversight Services expedite discussion with management on the most appropriate model so as to minimize delay in the completion of investigation cases.	staffing structures through the Junior Professional Officers Programme and volunteers and continue to benchmark against the United Nations system to further assess alternative resource strategies and realignment for management's consideration. As training for investigators in connection with the new structure will be conducted after their onboarding (and the securing of funding), human resources has suggested postponing training in the Lebanon field office until after that time. The recommendation concerns the issue of strengthening investigative capacity, which has been addressed through the addition of the new investigators.	After a review of the new evidence provided in May 2019, the recommendation is considered implemented.	X			
53	2017	A/73/5/Add.4 , chap. II, para. 182	The Board also recommends that UNRWA conduct awareness training for its staff on fraud and corruption.	As training for investigators in connection with the new structure will be conducted after their onboarding (and the securing of funding), human resources has suggested postponing training in the Lebanon field office until after that time. The recommendation concerns the issue of strengthening investigative	After a review of the new evidence provided in May 2019, the recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
54	2017	A/73/5/Add.4 , chap. II, para. 186	The Board recommends that the UNRWA Microfinance Department review its strategies for managing loans and enforce staff follow-up on the loan and compliance with manuals to ensure that the portfolio at risk is at or below the regional benchmark of 5.85 per cent.	capacity, which has been addressed through the addition of the new investigators. Microfinance Department management adopted several tools to review its strategies for managing loans and enforcing staff follow-up on loan and compliance with manuals to ensure that the portfolio at risk is at or below the regional benchmark of 5.85 per cent through the following measures: training staff to improve the client screening process during the loan application preparation process; better evaluations of clients' monthly income and repayment capability as well as of guarantor capability; better follow-up procedures for late payments both before and after due dates; linking staff performance with the portfolio at risk; strengthening loan collaterals; highlighting, in the operational manual, the need to keep the portfolio at risk below 3 per cent; Microfinance Department training sessions every year for new and current loan officers and cashiers; the internal development of training materials by expert	In accordance with the evidence provided by the Agency and the assessment made by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				Microfinance Department branch managers and credit operation managers; the provision, by expert branch managers or credit operation managers, of the main topics to be covered in training loan officers on filling out loan applications and better follow-up on late payments. Loan Officers from the Jordan and West Bank field offices attended training sessions in October 2018. The Microfinance Department is activating a credit scoring system for clients to enable a better client screening process. UNRWA considers this recommendation to have been implemented and requests its closure by the Board of Auditors.					
Total					54	32	20	2	0
Percentage					100	59	37	4	0

Annex II

Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2018</i>	<i>2017</i>	<i>Increase/(decrease)</i>
Cash	—	44	(44)
Inventory	745 487	464 177	281 310
Property	713 916	290 502	423 414
Outstanding contribution receivables	—	696 196	(696 196)
Outstanding account receivables	451 526	757 129	(509 137)
Outstanding loans receivables	1 244 163	960 663	283 500
Total	3 155 092	3 168 711	(13 619)

Source: UNRWA information.

Annex III

Cases of fraud and presumptive fraud reported to the Board for the year 2018

<i>Case number</i>	<i>Office</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
INV-16-0361	Syria field office	General fraud	234.65	Overcharging of cable purchase, from subject's own workshop, for inflated reimbursement.	Substantiated: written censure and a fine of \$500
INV-17-0251	Syrian Arab Republic Field Office	General fraud	Undetermined	Aid was given to an ineligible person for over a year. When another beneficiary reported it, she claimed staff tried to cover it up.	Substantiated: suspension without pay for two weeks
INV-17-0269	West Bank field office	Corruption	800.00	Contractors alleged a supervising engineer demanded cash from them and generally overpaid them for Agency work to obtain favours in kind.	Substantiated: awaiting "opportunity to respond" letter
INV-17-0346	Lebanon field office	General fraud	Undetermined	Beneficiaries claim they were forced to pay excessive amounts to a school principal for uniforms.	Closed: unsubstantiated
INV-18-0005	Gaza field office	Theft	0	A workshop store employee attempted to steal two tires from a warehouse.	Substantiated: letter of censure and three days' suspension without pay
INV-18-0013	Lebanon field office	General fraud	Undetermined	A senior archeologist working on the Nahr el-Bared construction project at the Lebanon field office forged purchase bills and misappropriated money.	Closed: unsubstantiated
INV-18-0016	Jordan field office	General fraud	828.5	A school principal submitted false accounts to an UNRWA office, including false invoices to conceal his theft from the school budget.	Substantiated: termination without termination indemnity
INV-18-0022	Syrian Arab Republic field office	General fraud	0	Cheating during a technical test through the use of a flash disk that contained material related to the test's materials.	Substantiated: awaiting "opportunity to respond" letter
INV-18-0029	Gaza field office	General fraud	Undetermined	Invoices were manipulated in order to purchase UNRWA supplies.	Closed: unsubstantiated
INV-18-0041	Gaza field office	Theft	Undetermined	Loss of dental instruments from a mobile dental clinic.	Closed: unsubstantiated
INV-18-0043	Gaza field office	General fraud	0	Two UNRWA staff from the health field programme defrauded a non-UNRWA staff member by selling government land to him.	Closed: unsubstantiated
INV-18-0071	West Bank field office	Theft	Undetermined	An UNRWA contractor was suspected of several cases of theft from a health centre, as he had a master key to the store.	Closed: lack of evidence

<i>Case number</i>	<i>Office</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
INV-18-0095	Gaza field office	Theft	Undetermined	An UNRWA staff member stole the private mobile phone of another staff member.	Substantiated: letter of censure
INV-18-0106	Jordan field office	Entitlement fraud	Undetermined	A staff member did not report to human resources that he had divorced in 2014 and had been receiving a spousal allowance since then.	Closed: no intention to defraud
INV-18-0115	Gaza field office	Bribery	0	A staff member received a sum of money in order for an applicant to be recommended for an UNRWA post.	Closed: unsubstantiated
INV-18-0117	Gaza field office	Theft	0	A staff member stole an LCD screen. Later, the stolen device was retrieved.	Substantiated: letter of censure and two days' suspension without pay
INV-18-0119	Gaza field office	Theft	8 100.00	Nine laptops were stolen from an UNRWA warehouse during the summer games events.	Closed: unsubstantiated
INV-18-0146	Gaza field office	Theft	1 335.00	A school attendant stole 23 aluminium windows and water taps from an UNRWA school.	Substantiated: letter of censure and one week's suspension without pay
INV-18-0208	Gaza field office	General fraud	Undetermined	The subject forged beneficiaries' signatures in order to collect their coupons for his benefit.	Substantiated: letter of censure and three days' suspension without pay
Total			11 298.15		

Chapter III

Certification of the financial statements

Letter dated 31 March 2019 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors

Pursuant to financial regulations 11.4 and 12.2, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2018.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2018.

(Signed) Shadi **El-Abed**
Director of Finance

Chapter IV

Financial report for the year ended 31 December 2018

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2018, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. The year 2018 has been another challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2018, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the challenges associated with the dramatic deterioration of the political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic and the security concerns with which the Agency is faced on a daily basis.

4. Donors continued to provide support, with \$1,261.1 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic. With the loss of a key donor, announced early in 2018, the Commissioner-General successfully engaged with traditional and new donors and mobilized a task force for funding through the “Dignity is priceless” campaign to bridge the gap in its funding needs. The Agency further undertook efficiency mechanisms, implementing a strict regime of cost containment and reduction.

5. The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning a specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

6. The biennial budget for 2018–2019 was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS 24: Presentation of budget information in financial statements.

Financial performance for 2018

7. The Agency’s total revenue and income for 2018 was \$1,295.2 million, compared with total expenses of \$1,190.2 million, resulting in a net surplus of \$105.0 million for 2018.

8. Detailed information on the financial performance of each fund is contained in note 33 to the financial statements and is summarized in table IV.1.

Table IV.1

Summary financial performance by fund for the period ended 31 December 2018

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Total revenues	864.3	23.0	12.8	266.2	164.9	(36.1)	1 295.2
Total expenses	764.0	22.5	8.5	276.9	154.0	(35.5)	1 190.2
Surplus/(deficit) for the year	100.3	0.5	4.3	(10.7)	10.9	(0.6)	105.0

9. The programme budget and the emergency appeals recorded a surplus of \$100.3 million and a deficit of \$10.7 million, respectively. The surplus in the programme budget is due to donor support in the light of the loss of a key donor and the implementation of a strict regime of cost containment and reduction, offset by unfunded end-of-service liabilities of \$725.9 million, with interest costs of \$27.1 million, service costs of \$50.6 million and past service costs of (\$2.8 million) contributed during the year. The deficit in emergency appeals is due to accrued expenses and committed payables at year end due to timing difference in the receipt of income.

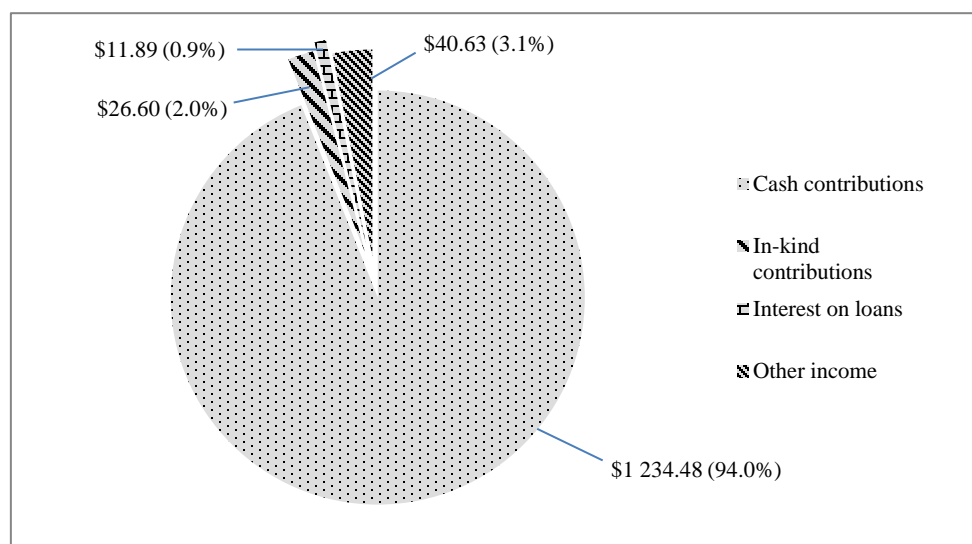
10. The restricted funds and the Microfinance Department reflected a surplus of \$0.5 million and \$4.3 million, respectively. The projects funds recorded a surplus of \$10.9 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 95 per cent (\$1,234.5 million) of total revenue. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$26.6 million. This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.I
Revenue and income sources

(Millions of United States dollars)



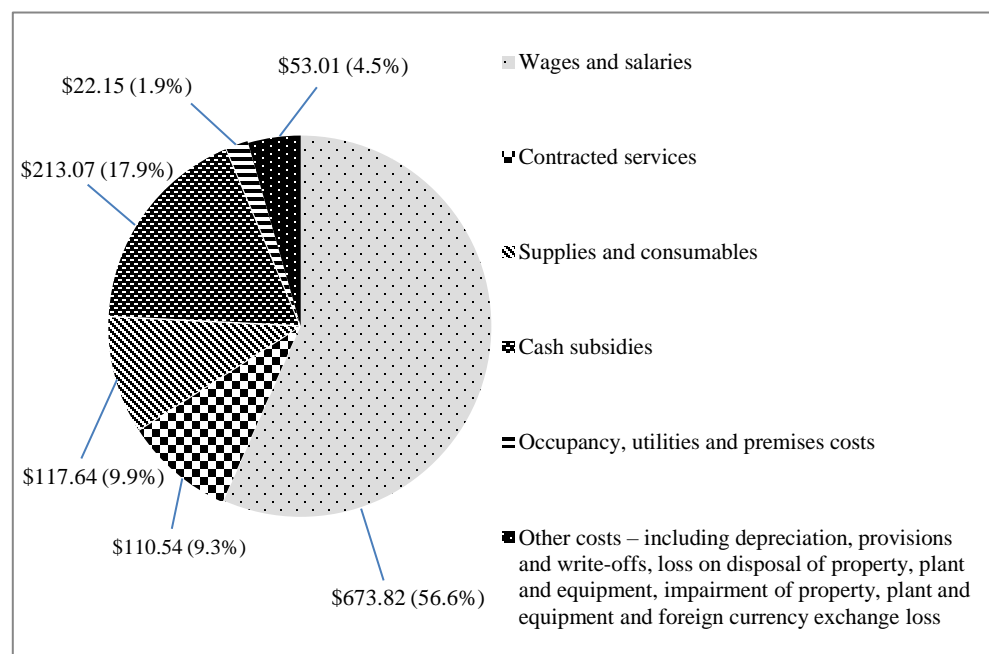
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 73/92), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 73/93) and operations of UNRWA (most recently, resolution 73/94). At its seventy-first session, the United Nations General Assembly extended the Agency's mandate until 30 June 2020 (see resolution 71/91). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 28 members and 3 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is, at the same time, engaged in developing funding from the private sector.

Nature of expense analysis

13. The Agency spent a total of \$1,190.2 million in 2018. Staff costs of \$673.8 million represented 57 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II
Expense analysis by nature of expense

(Millions of United States dollars)



14. A total of \$110.5 million was spent on contracted services, representing expenses relating to the Agency's engagement of third parties to perform work on its behalf. Of that amount, \$36.4 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency which falls below the capitalization threshold. A total of \$24.3 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$117.6 million was spent on supplies and consumables, including \$61.4 million for basic commodities and \$1.8 million for fresh food. An amount of \$21.7 million was spent on medical supplies, and \$4.0 million was spent on text and library books. The sum of \$9.9 million was spent on transportation supplies.

16. A total of \$213.1 million was spent on subsidies, including \$141.3 million distributed to beneficiaries providing selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and rent subsidies. The sum of \$45.6 million was provided as subsidies for the construction and repair of shelters, and \$4.6 million was provided for patient subsidies.

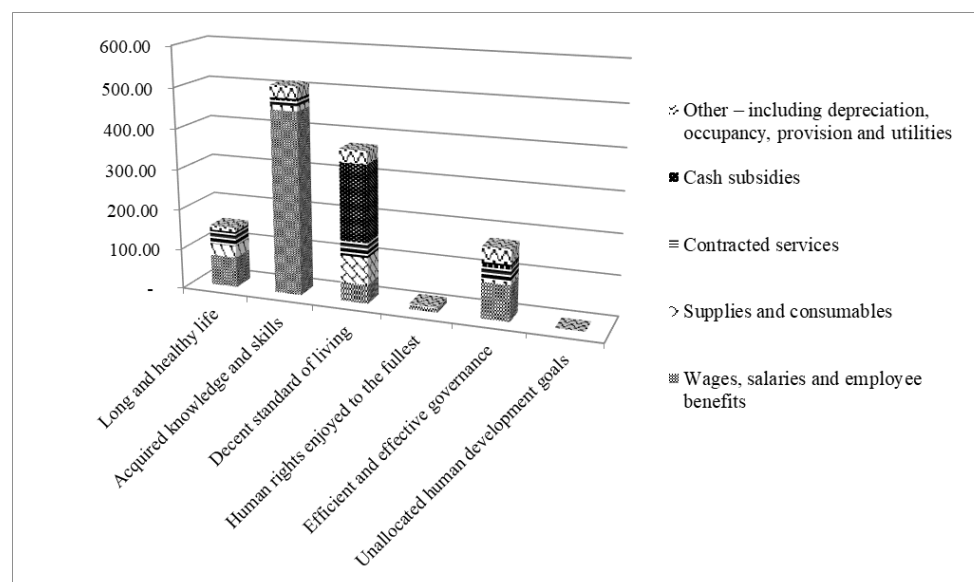
17. Occupancy and utility costs totalled \$22.1 million in 2018. Other expenses, amounting to \$53.0 million, included depreciation, provisions and write-offs, loss on disposal, impairment of fixed assets and foreign currency exchange loss.

Human development goals and Agency programmes: expense analysis

18. As part of its planning approach, UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees and the aim of accomplishing the goals with efficient and effective governance. The goals are: (a) a long and healthy life; (b) acquired knowledge and skills; (c) a decent standard of living; and (d) human rights enjoyed to the fullest. The amounts spent on each are shown in figure IV.III.

Figure IV.III
Expense analysis by human development goal^a

(Millions of United States dollars)



^a \$73.8 million in headquarters expenses and \$35.5 million in inter-segment eliminations are excluded from the analysis.

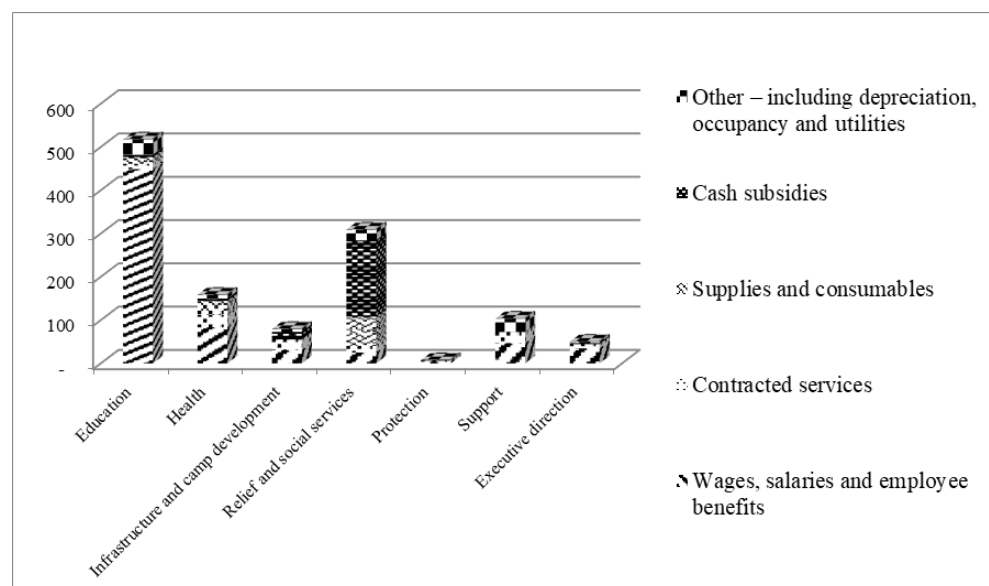
19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV below shows the 2018 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by human development goal.

20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$152.1 million (12 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (158.6 million). Approximately 53 per cent (\$83.5 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 20 per cent (\$31.9 million) spent on medical supplies and consumables and 18 per cent (\$28.4 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 3 per cent (\$5.2 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

21. An amount of \$512.2 million, representing 42 per cent of the Agency's 2018 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme (\$517.6 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

Figure IV.IV
Expense analysis by programme^a

(Millions of United States dollars)



^a \$35.5 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$372.8 million, or 30 per cent, of UNRWA expenses, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp improvement programmes (\$309.2 million and \$50.0 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Eighteen per cent of the expenses (\$67.5 million) dedicated to the pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$190.2 million was provided in the form of cash subsidies.

23. An amount of \$174.0 million, or 14 per cent, of the Agency's 2018 expenses enables effective and efficient governance, which supports the activities aimed at accomplishing the four human development goals. Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$50.0 million and \$103.4 million, respectively. Fifty-one per cent of the expenses for effective and efficient governance (\$88.6 million) was spent on wages and salaries.

25. An amount of \$14.6 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries; safeguarding and advancing the rights of Palestine refugees; strengthening the capacity of refugees to formulate and

implement sustainable social services in their communities; and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, together with the services provided to achieve the objectives of the human development goal of a decent standard of living. The Protection Division was established to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were \$7.5 million.

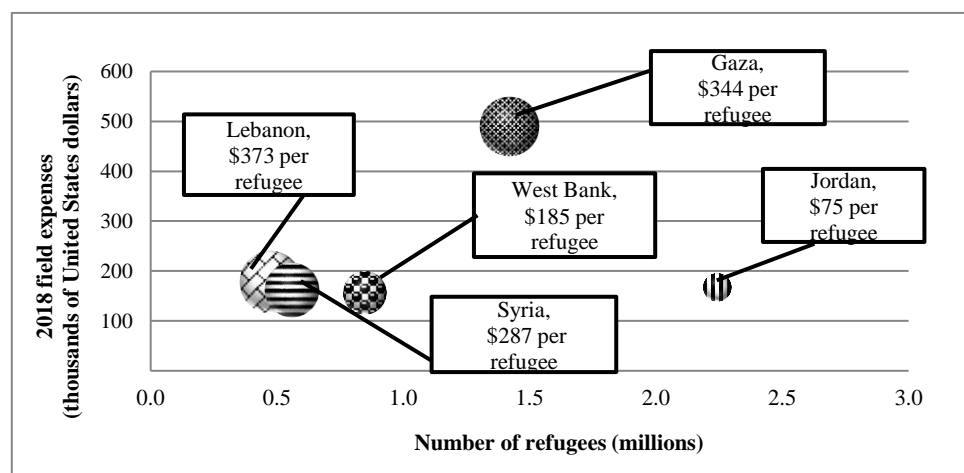
Geographical location: expense analysis

26. Although UNRWA goals and services are delivered primarily within a programme approach, its operations are managed on a field basis. UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic and the Occupied Palestinian Territory (the West Bank, including East Jerusalem, and the Gaza Strip). Each field provides similar services, but is distinctive to some extent owing to the particular political, humanitarian and economic contexts in which the field operates and the status and rights of the Palestine refugees enjoyed in it. Figure IV.V shows the costs of UNRWA services per refugee for each field. The different levels of expenses reflect the situations prevailing in each of the fields.

27. The average 2018 expense per refugee in the Gaza field office is \$344. The Gaza Strip has 1,421,282 registered Palestine refugees. Reconstruction of the extensive physical damage and destruction of the 50-day conflict in 2014 advanced despite Israeli restrictions on cement imports, machinery, steel, water pumps, elevators, which slowed progress. Additionally, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and monitoring of the materials the Agency imports into the Gaza Strip. Lack of funding also remains a cause of slow progress. UNRWA continues its efforts to provide relief, education, health and other human development services in the aftermath of the hostilities and deteriorating socioeconomic conditions after almost 12 years of blockade. The Gaza field office supports 8 camps, 274 schools, 2 vocational and technical training centres, 22 primary health centres, 7 community rehabilitation centres and 7 women's programme centres.

28. The Lebanon field office has the lowest number of registered refugees, at just over 475,075 and the average expense per refugee is \$373. Palestine refugees face challenges in relation to access to services and limitations on the right to practise certain professions and many live in UNRWA refugee camps. The field office supports 12 camps, 66 schools, 1 vocational and technical training centres, 27 primary health centres, and 8 women's programme centres. Average expense is higher in Lebanon owing to higher hospitalization and schooling costs.

Figure IV.V
Average 2018 expenses per registered refugee, by field^a



^a \$73.8 million in headquarters expenses and \$35.5 million in inter-segment eliminations are excluded from the analysis.

29. There are more than 846,465 Palestine refugees registered with the West Bank field office, with one quarter of them living in 19 refugee camps. Palestine refugees in the West Bank continue to face several socioeconomic and other protection challenges and concerns arising from the ongoing Israeli occupation. The average 2018 expense per registered Palestine refugee in the West Bank is \$185. In addition to the 19 camps, the field office supports 96 schools, 2 vocational and technical training centres, 43 primary health centres, 15 community rehabilitation centres and 19 women's programme centres.

30. The Syrian Arab Republic field office is mandated to provide services to nearly 560,139 registered Palestine refugees living in the official camps and the 3 unofficial camps in the Syrian Arab Republic. The average 2018 expense per registered refugee is \$287. The ongoing armed conflict in the Syrian Arab Republic has, among other things, severely affected the economy, including the socioeconomic conditions of the Palestine refugee community. The field office supports 9 camps, 103 schools, the Damascus Training Centre, 26 primary health centres and 13 community rehabilitation centres.

31. Over 2,242,579 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan are understood to have citizenship rights, with the exception of some 165,700 Palestine refugees displaced from Gaza as a result of the 1967 hostilities and their descendants ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. Expense per refugee, at \$75, representing the lowest average in 2018, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 169 schools, 2 vocational and technical training centres, 26 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Commissioner-General's Office, the Finance Department, the Information Management Department and the External Relations and Communications Department, as well as the departments of education, health, relief and social services,

infrastructure and camp improvement, microfinance and the newly established Protection Division. The headquarters function is also carried out at representative offices in New York, Washington, D.C., and Brussels and at a liaison office in Cairo. Headquarters expenses comprise primarily wages and salaries (\$35.1 million), contracted services (\$16.7) and provisions and write-offs (\$4.7 million), as the value added tax (VAT) and contribution receivables are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2018

33. The Agency's net assets/equity increased from \$41.8 million as at 31 December 2017 to \$239.3 million as at 31 December 2018 owing to the surplus recorded for the year 2018 (\$105.0 million) and actuarial gains on staff termination liabilities (of \$82.5 million).

34. The financial position of each fund is detailed in note 33 to the financial statements and is summarized in table IV.2.

Table IV.2

Summary financial position by fund as at 31 December 2018

(Millions of United States dollars)

	<i>Unearmarked activities</i>	<i>Earmarked activities</i>					<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Current assets	87.8	32.2	42.1	134.4	257.2	(0.9)	552.8
Non-current assets	481.8	1.3	2.7	0.3	23.6	–	5509.7
Total assets	569.6	33.5	44.8	134.7	280.8	(0.9)	1 062.5
Current liabilities	137.0	19.7	1.5	11.0	12.6	(0.9)	180.9
Non-current liabilities	638.4	–	3.9	–	–	–	642.3
Total liabilities	775.5	19.7	5.4	11.0	12.6	(0.9)	823.2
Net assets/equity	(205.9)	13.8	39.4	123.7	268.3	–	239.3

35. The negative net assets/equity position of the programme budget is due to the significant post-employment benefits liabilities, which was recognized in the financial statements upon the adoption of IPSAS in 2012, and to the cumulated deficit resulting from the funding shortfall during the last three years.

36. The net assets/equity balance of the projects funds showed a balance of \$268.3 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated surplus of \$182.8 million and reserves of \$56.5 million.

38. Although there is a negative net current asset balance for the programme budget of \$49.2 million, the net current assets (current assets less current liabilities) of the Agency were \$371.9 million as at 31 December 2018 (compared with \$256.3 million as at 31 December 2017), indicating an increase in short-term liquidity. The Agency's current assets amount to 52 per cent of its total assets, whereas current liabilities constitute 22 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to \$362.6 million as at 31 December 2018, a small portion of which is held by the programme budget (7.6 per cent) and restricted funds (7.5 per cent), with the majority falling under emergency appeals and projects (22.3 per cent and 57.6 per cent, respectively). UNRWA holds short-term investments of \$359.1 million (bank deposits) which are classified as cash and cash equivalents.

Receivables

40. Contributions receivable represent confirmed agreements outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at \$40.3 million as at 31 December 2018, owing to the programme budget (\$14.4 million), emergency appeals (\$15.2 million) and projects (\$10.8 million).

41. Accounts receivable, net of provision, were valued at \$26.3 million as at 31 December 2018. This amount relates primarily to significant value added tax – refund claims of \$109.6 million before provision, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as \$2.8 million related to personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$28.7 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$25.1 million relates to short-term (current) loans receivable.

Inventories

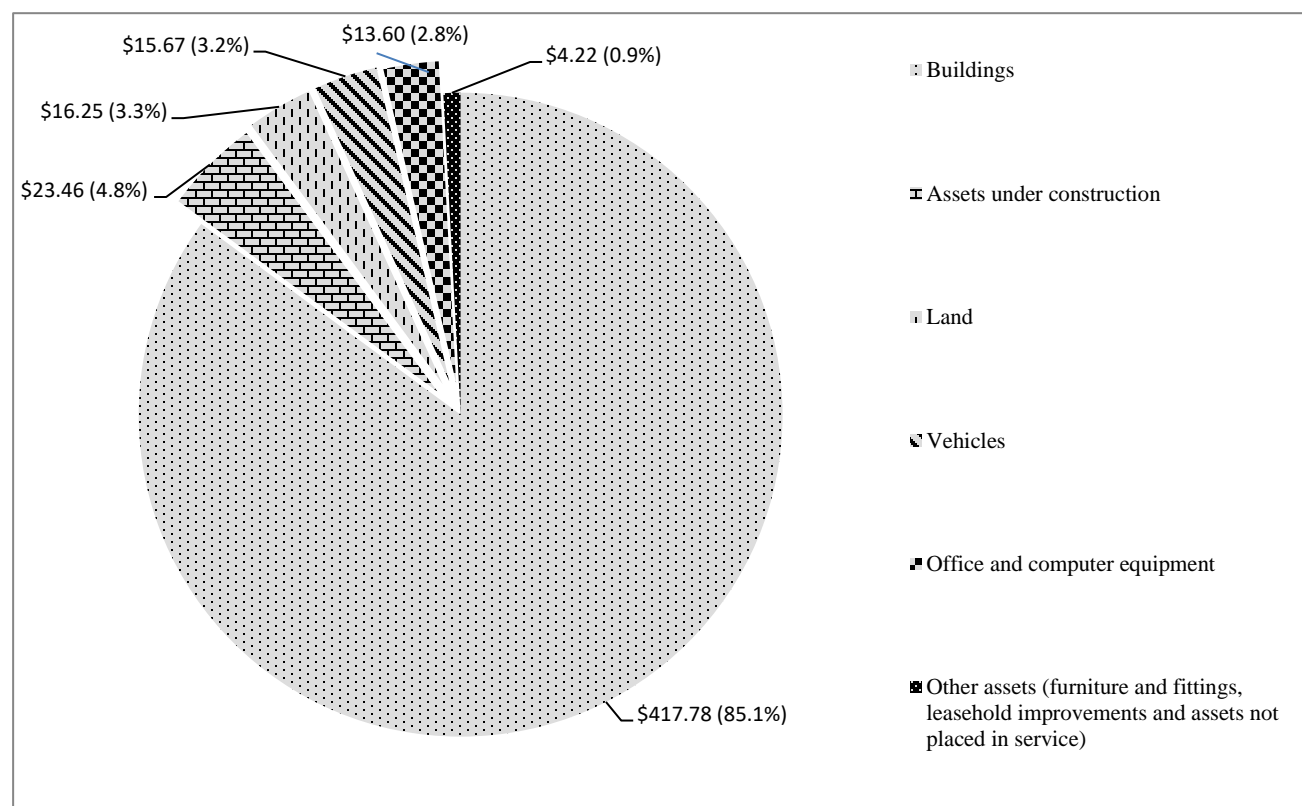
42. The value of the Agency's inventory at the end of 2018 was estimated at \$92.0 million, reflecting an increase of \$3.5 million as compared with 31 December 2017, due primarily to the purchase of commodities such as flour. Assets included shelters under construction (\$15.3 (million), non-Agency installations (\$9.5 million) and warehouse inventory (\$49.1 million), as well as inventory in transit valued at \$4.4 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$13.5 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at \$0.2 million.

Property, plant and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2018 was \$491.0 million, representing 46 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure IV.VI
Property, plant and equipment

(Millions of United States dollars)



44. Assets under construction amounted to \$23.5 million as at 31 December 2018, relating largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at \$16.3 million as at 31 December 2018. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities relating to post-employment and other long-term employee benefits. Those liabilities amounted to \$725.9 million as at the end of 2018, reflecting a decrease of \$89.3 million during the year. The employee benefits liabilities represent 88.2 per cent of the Agency's liabilities, with \$84.1 million categorized as current liabilities and \$641.1 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The decrease during the year is due to the change in the discount rate from 3.51 per cent to 4.14 per cent owing to the continuing low interest rate environment of \$43.7 million, payments of \$75.7 million and actuarial gain of \$38.7 million, offset by interest of \$27.6 million and service costs of \$50.6 million incurred during the year.

Budgetary analysis

Basis of the budget

47. The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2018–2019 programme budget (Blue Book). The budget for UNRWA includes the core requirements funded through the programme budget, which, if exceeded, requires submission to the General Assembly; and an in-kind donation budget and a projects budget, where allocation varies on the basis of donor response.

Explanation of material differences

48. The 2018 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2018–2019, amounted to \$1,177.1 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2018 programme budget was \$1,111.8 million and is disclosed in financial statement V as “final” budget accordingly. The decrease of \$65.3 million, or 5.5 per cent, is due to the decrease in the final programme and projects budgets.

C. Enhancing transparency and accountability

49. Financial regulation 5.2 requires that the Commissioner-General of UNRWA maintain a system of internal controls to provide for an effective current examination or review of financial transactions to ensure the regularity of the receipt, custody and disposal of the resources of the Agency, to ensure the conformity of all expenses with the provisions of the Financial Regulations, and to detect any uneconomic use of the resources of the Agency.

50. The Agency has a system of internal controls that are intended to safeguard assets, ensure adherence to regulations and rules, including management policies and procedures, and prevent fraud. To enhance transparency and control and ensure that no single individual has the final say in decisions, most high-level managerial responsibilities and decisions are administered by committees. The Agency has established detailed instructions and procedures to ensure effective financial administration and the exercise of economy. There are also organizational directives to guide the day-to-day running of the Agency and ensure adherence to internal controls.

51. In addition, the annual workplan of the Department of Internal Oversight Services includes reviews of the Agency’s system of internal controls and makes recommendations for improvements. The Department’s workplan and resulting reports are considered by the Agency’s independent external oversight body, the Advisory Committee on Internal Oversight, which provides advice on this and on financial accountability in general to the Commissioner-General.

52. Furthermore, monthly financial reports are issued to members of the Management Committee of UNRWA and to major donors, thereby maintaining transparency, both internally and externally. The reports to senior management have served to strengthen its focus on identified financial risks.

D. Enterprise and financial risk management

Enterprise risk management

53. A broad spectrum of risks is associated with the existence and the operations of UNRWA. The risks fall mainly in the broad categories of operational, environmental

and financial risk. The management of risks is aimed at reducing the Agency's exposure to various forms of loss and, more critically, to shortcomings in the delivery of services to the Palestine refugees in the areas of education, health, relief and social services, and infrastructure and camp improvement.

54. "Operational risk" refers mainly to the risk of failing to deliver the services that the Agency is mandated to provide. Such risk is managed through proper planning, control and performance reviews and evaluations in the Agency's main areas of operation (education, health, relief and social services, and infrastructure and camp improvement).

55. Operational risk is also managed at the field level. Given the similarities among, yet distinctive operational nature of, the five fields, the responsibility for the delivery of services to UNRWA beneficiaries was devolved to them. While guided by the Agency's goals and programmes of priority services, this devolution to operational fields has provided greater discretion to field offices in the provision of services geared towards local needs, taking into account the realities in the field and the field's available resources. Such devolution, along with centralized policymaking and the regular monitoring of results, provides for enhanced management of the Agency's operational risk.

56. "Environmental risk" is the inherent risk associated with the volatile nature of the environment in which the Agency operates. Such risk is managed through recognition of the potential danger and the political and security concerns posed by the conflicts in the greater Middle East, particularly in the areas in which the Agency operates: Jordan, the Syrian Arab Republic, Lebanon, the West Bank, including East Jerusalem, and the Gaza Strip. The security alerts are set at the appropriate levels, and all risk-mitigating elements are installed and monitored on an ongoing basis.

Financial risk management

57. The Agency is prone to exposure to various forms of financial risk, the greatest of which is the risk of failure to have sufficient financial resources to achieve the planned objectives and activities. The source of funding for operations aimed at meeting the objectives of the Agency and the needs of the refugees is predominantly the donor community. The uncertainty surrounding the timing and the actual amounts of voluntary contributions also poses some financial risk when it comes to planning. Such risk is managed in the best way possible, by considering the available information and providing for inflows in the most prudent manner.

58. The Agency's activities expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates, given that most contributions are in currencies other than the Agency's reporting currency, the United States dollar. Consequently, UNRWA financial risk management focuses on the unpredictability of foreign exchange rates and seeks to minimize, where feasible, potential adverse effects on the Agency's financial performance. Financial risk management is carried out by a central treasury function using UNRWA technical guidelines covering areas of financial risk, such as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity. There is no perceived risk that receivables and payables will not be liquidated when they fall due.

59. The Agency's employee benefits liabilities totalled \$725.9 million as at 31 December 2018. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable political

solution resolving the displacement of Palestine refugees, this solution will address, among other matters, the future of UNRWA activities along with the dissolution of its assets and liabilities.

60. The Agency relies on funding from various donors, which are managed through an extensive outreach programme. It is further working towards expanding its donor base with potential supporters, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector, in order to manage this risk.

E. Responsibility

61. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of UNRWA, I am pleased to submit the Agency's financial statements, which have been prepared under IPSAS (see chap. V). The financial statements have been certified as correct by the Director of Finance.

Chapter V

Financial statements for the year ended 31 December 2018

United Nations Relief and Works Agency for Palestine Refugees in the Near East

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Reference	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	Note 4	362 625	271 423
Short-term loans receivable	Note 5	25 142	25 678
Contributions receivable	Note 6	40 316	40 944
Accounts receivable	Note 7	26 269	23 481
Other current assets	Note 8	6 441	8 674
Inventories	Note 9	91 985	88 459
Non-current assets			
Other non-current assets	Note 8	55	96
Long-term loans receivable	Note 5	3 588	4 497
Property, plant and equipment	Note 11	490 984	500 657
Intangible assets	Note 12	15 051	22 075
Total assets		1 062 456	985 984
Liabilities			
Current liabilities			
Payables and accruals	Note 13	84 198	110 182
Employee benefits	Notes 14 and 15	84 142	84 094
Other current liabilities	Note 16	1 866	7 977
Advance contributions	Note 17	10 651	96
Non-current liabilities			
Employee benefits	Notes 14 and 15	641 708	731 028
Other non-current liabilities	Note 16	617	10 760
Total liabilities		823 182	944 137
Net assets		239 274	41 847
Net assets/equity			
Revaluation and other reserves		17 691	(64 758)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	38 825	28 861
Accumulated surplus		182 758	77 744
Total net assets/equity		239 274	41 847

United Nations Relief and Works Agency for Palestine Refugees in the Near East
II. Statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	<i>Reference</i>	<i>2018</i>	<i>2017</i>
Revenue			
Cash contributions	Note 20	1 234 481	1 184 139
In-kind contributions	Note 21	26 595	23 301
Interest on loans	Note 22	11 886	11 449
Interest on bank deposits	Note 23	3 919	2 626
Other revenue			
Foreign currency exchange gain	Note 24	—	6 216
Indirect support cost recovery	Note 25	118	180
Financial derivative gain	Note 10	1 091	70
Miscellaneous revenue	Note 26	17 147	10 911
Total revenue		1 295 237	1 238 892
Expenses			
Wages, salaries and employee benefits	Note 27	673 816	695 982
Supplies and consumables	Note 28	117 638	140 728
Occupancy, utilities and premises costs	Note 29	22 149	23 807
Contracted services	Note 30	110 544	108 221
Subsidies	Note 31	213 068	286 341
Depreciation and amortization	Notes 11 and 12	37 327	36 006
Provision and write-offs	Note 32	6 269	18 342
Loss on disposal	Note 11	714	289
Impairment of property, plant and equipment	Note 11	1 700	728
Foreign currency exchange loss	Note 24	6 998	—
Total expenses		1 190 223	1 310 444
Surplus/(deficit) for the year		105 014	(71 552)

United Nations Relief and Works Agency for Palestine Refugees in the Near East

III. Statement of changes in net assets/equity for the year ended 31 December 2018

(Thousands of United States dollars)

	<i>Revaluation and other reserves^a</i>	<i>Reserves, microcredit community support programme and Microfinance Department^b</i>	<i>Accumulated surplus/ deficit – unearmarked</i>	<i>Accumulated surplus/ deficit – earmarked</i>	<i>Total</i>
Balance at 1 January 2018	(64 758)	28 861	(263 012)	340 756	41 847
Reclassification of funds	–	–	(59 613)	59 613	–
Surplus/(deficit) for the period	–	–	100 379	4 635	105 014
Changes in revaluation reserve for derivative financial instruments	–	–	–	–	–
Reserves, microcredit community support programme and Microfinance Department, during 2018	–	9 964	–	–	9 964
Actuarial gain on staff termination liabilities ^c	82 449	–	–	–	82 449
Total net assets/equity	17 691	38 825	(222 246)	405 004	239 274

^a See note 33.

^b See note 19.

^c See note 15.12.

United Nations Relief and Works Agency for Palestine Refugees in the Near East
IV. Statement of cash flow for the year ended 31 December 2018

(Thousands of United States dollars)

	2018	2017
Cash flows from operating activities		
Surplus/(deficit) for the year	105 014	(71 552)
Adjustment for non-cash items		
Add depreciation and amortization	37 327	36 006
Loss on disposal	703	261
Impairment of property, plant and equipment	1 700	728
Actuarial gain/(loss) on employee benefit liabilities	82 449	(30 121)
(Decrease)/increase in provision for doubtful debts	(2 193)	14 663
(Increase) in inventories	(3 527)	(11 699)
Decrease/(increase) in contributions receivable	6 104	(1 117)
(Increase) in accounts receivable	(6 210)	(2 803)
Decrease/(increase) in loans receivable	1 583	(1 456)
Decrease/(increase) in other assets	2 274	(5 678)
(Decrease)/increase in accounts payable and accruals	(25 983)	39 945
(Decrease)/increase in leave encashment and employee benefits	(89 272)	69 262
(Decrease)/increase in other liabilities	(16 254)	8 183
Increase/(decrease) in advance contributions	10 555	(3 508)
Net cash from operating activities	104 270	41 114
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	11	29
Purchase of property, plant, equipment and adjustment	(23 004)	(37 505)
Purchase of intangible assets	(40)	(381)
Net cash from investing activities	(23 033)	(37 857)
Cash flows from financing activities		
Increase in capital reserve for Microfinance Department and microcredit community support programme	9 964	941
Net cash from financing activities	9 964	941
Net increase/(decrease) in cash	91 201	4 198
Cash balance at the beginning of the year	271 423	267 225
Cash balance at the end of the year	362 625	271 423

United Nations Relief and Works Agency for Palestine Refugees in the Near East
**V. Statement of comparison of budget and actual amounts for the year ended
31 December 2018**

(Thousands of United States dollars)

		Budget amounts		Actual on comparable basis	Variances: final budget and actual
	Reference	Original	Final		
International staff					
Staff costs		50 581	44 361	36 256	8 105
Area staff					
Basic salary		438 102	398 350	391 146	7 204
Hazard pay and special elements		–	730	707	24
Provident Fund Agency contribution		63 895	61 068	58 521	2 547
Special professional occupational allowance, special occupational allowance and others		5 902	9 676	6 879	2 797
Overtime and excess hours supplement		874	601	414	187
Currency adjustment factor		2 000	35	1 782	(1 747)
Special allowance		27 382	25 752	28 148	(2 396)
Health-related expenses		8 473	9 813	11 089	(1 276)
Other miscellaneous staff costs		107	38	125	(87)
Severance cash payment out		39 992	81 918	81 918	–
Limited duration contract		1 205	2 130	1 453	677
Temporary staff		7 665	19 753	17 772	1 981
Total staff costs (A)	Note 34	646 178	654 225	636 209	18 016
Non-staff costs					
Supplies		49 235	55 458	50 959	4 499
Utilities		6 168	5 933	5 866	67
Maintenance of premises		36 444	20 060	15 918	4 142
Equipment and non-capital construction		300 629	140 428	109 931	30 497
Training		1 476	2 504	1 415	1 089
Travel		1 881	2 088	1 468	620
Administrative support services		5 347	6 770	5 883	888
Consultancy services		13 705	13 620	10 674	2 946
Hospital services		26 180	26 328	24 267	2 062
Miscellaneous services		13 086	11 445	9 756	1 689
Subsidies to hardship cases		43 670	29 725	24 633	5 092
Subsidies to patients		3 089	3 709	3 542	167
Third-party subsidies		2 612	15 284	15 284	–
Other subsidies		235	64 166	48 017	16 149
Cost recovery		(4 359)	(3 192)	(2 233)	(959)
Reserves		31 505	63 269	13 527	49 742
Total non-staff costs (B)	Note 34	530 902	457 596	338 907	118 689
Total resources requirements (A+B)	Note 34	1 177 080	1 111 822	975 116	136 706

United Nations Relief and Works Agency for Palestine Refugees in the Near East**Notes to the 2018 financial statements****Note 1****Mission statement**

1.1 The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA or the Agency) is a United Nations agency established by the General Assembly in 1949 and is mandated to provide assistance and protection to a population of over 5 million registered Palestine refugees. Its mission is to help Palestine refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip to achieve their full potential in human development, pending a just solution to their plight. UNRWA services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance. UNRWA is funded almost entirely by voluntary contributions.

Note 2**Summary of significant accounting policies****(a) Basis of presentation**

2.1 The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

2.2 There are currently no standards issued by the IPSAS Board awaiting implementation that would be likely to affect the financial statements of UNRWA.

(b) Accounting convention

2.3 The financial statements have been prepared using the historical cost convention, except for some financial instruments that are carried at fair value, and donated inventory or property, plant and equipment, which are valued at fair value.

(c) Functional currency and translation of foreign currencies**Functional and presentation currency**

2.4 The financial statements are presented in United States dollars, and all values are rounded to the nearest thousand. The functional currency of the Agency is the United States dollar, with the exception of the Microfinance Department, which uses the Syrian pound as the functional currency in the Syrian Arab Republic and the Jordanian dinar as the functional currency in the West Bank and Jordan.

Transactions and balances

2.5 Foreign currency transactions are translated into United States dollars using the United Nations operational rates of exchange, which approximate the exchange rates prevailing at the dates of the transactions. The United Nations operational rates of exchange are set once a month and are revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.6 Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the year-end closing rate of the United Nations operational rates of exchange.

2.7 Realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of unreceived non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach (e.g. hedging) to minimize its exposure to exchange rate fluctuations. UNRWA hedges the currency risk by entering into forward contracts for expected non-United States dollar programme budget contributions (see note 10).

2.9 Such hedges are consistent with the Agency's risk management objective and strategy, given that they remove the risk of an appreciation of the United States dollar and provide a fixed known income amount. The gain or loss from hedging will be offset by the foreign exchange gain or loss from donor contributions.

2.10 The Agency provides protection against volatility in local currencies (currency adjustment factor) to its area staff for their salaries. Its currency risk management policies allow hedging against local currencies to reduce exposure arising from fluctuations in exchange rates between the United States dollar and local currencies (see note 10).

(d) Materiality and use of judgment and estimates

2.11 The concept of materiality is applied for the development of accounting policies and the preparation of financial statements.

2.12 The financial statements include amounts based on judgments, estimates and assumptions by management. Changes in estimates are reflected in the period during which they become known.

(e) Significant accounting policies

Cash and cash equivalents

2.13 Cash and cash equivalents include cash on hand, cash at banks and other short-term highly liquid investments with original maturities of up to three months.

Revenue

2.14 Revenue is recognized in the statement of financial performance when increases in future economic benefits relate to increases in assets or decreases in liabilities have arisen from mutually agreed interactions between two parties and can be measured reliably.

Revenue from non-exchange transactions

2.15 Unconditional contributions are recognized when the contributions are confirmed in writing by donors. If conditions exist requiring specific performance and the return of unexpended balances, then revenue is recognized upon provision of the goods and services. At the end of projects and in accordance with the donor agreement, unexpended contributions will be included in the statement of financial

position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities (see note 17) in the statement of financial position, until the criteria for recording revenue are met (see notes 20 and 21).

Revenue from exchange transactions

2.16 Revenue from exchange transactions is recorded on an accrual basis at the fair value of the consideration received or receivable when it is probable that the future economic benefits and/or service potential will flow to the Agency and those benefits can be measured reliably (see notes 22 to 26). This includes revenue from interest on loans and interest on bank deposits, gains and recoveries, as well as revenue from miscellaneous sources.

Contributions receivable

2.17 Contributions and contributions receivable are presented net of provision for estimated reductions in contribution revenue and doubtful accounts.

2.18 In-kind contributions of services that directly support approved operations and activities, and that have budgetary impact and can be reliably measured, are recognized and valued at fair value. Such contributions include the use of premises, vehicles and personnel.

2.19 Donated inventory or property, plant and equipment are valued at fair value and recognized as assets and revenue.

Accounts receivable

2.20 Receivables are recognized at their nominal value.

2.21 Provision for doubtful accounts is recognized when there is objective evidence that a receivable is impaired. In particular, a provision is recognized on the basis of historical collection experience. Impairment losses are recognized in the statement of financial performance.

Loans receivable and provision for loan losses

Loans receivable

2.22 Loans receivable represent loans from borrowers under the Agency's microfinance programme and microcredit community support programme, which offer targeted credit products through a revolving loan fund that serves its operations in all fields. Loans receivable are recognized at their outstanding principal balance.

Provision for impairment of loans

2.23 Each quarter, the Agency assesses whether a loan asset or group of loan assets is impaired. A group of loan assets is impaired and impairment losses are incurred only if there is objective evidence that there has been impairment as a result of one or more events ("loss events") occurring after the initial recognition of the asset and that the loss event or events have had an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

2.24 If, during the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account.

Related-party ("insider") loans

2.25 The Agency provides credit facilities to staff, but not to the Executive Director of the Microfinance Department or to members of the Advisory Board. The loan conditions and interest rates for staff-clients are identical to those for other customers. Such loans are provided for consumption and housing.

Accrued interest on loans

2.26 Interest income on loans is accounted for on the accrual basis.

Recoveries

2.27 Recoveries of previously written-off loans are reflected in the statement of financial performance for the period of receipt.

Financial instruments

2.28 Financial instruments are recognized when UNRWA becomes a party to the contractual provisions of the instrument until such time as the rights to receive cash flows from those assets have expired or have been transferred and UNRWA has transferred substantially all of the risks and rewards of ownership.

2.29 Loans, receivables and payables are non-derivative financial instruments with fixed or determinable payments that are not quoted in active markets. These financial instruments consist of contributions receivable in cash, loans receivable as part of the credit facilities of the Microfinance Department, other receivables and cash in bank accounts and accounts payable. Non-derivative financial instruments are recognized in the statement of financial position at fair value. The nominal value of receivables and payables approximates the fair value of the transaction.

2.30 The Agency uses derivative financial instruments to hedge exchange risk. Foreign exchange forward contracts are revalued and the revaluation gain or loss is reported in the statement of financial performance if the contracts belong to the current year. For contracts relating to subsequent years, the revaluation gain or loss is reported in the statement of financial position. For revaluation at year-end, the market rate for the forward contract is obtained from the banks and these are compared against the forward rates to ascertain the gain or loss.

Financial risk management

2.31 The activities carried out by UNRWA expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates. Consequently, the Agency's financial risk management policies are focused on the unpredictability of foreign exchange rates and are aimed at minimizing, where feasible, potential adverse effects on the financial performance of UNRWA. Financial risk management is carried out by a central treasury function using UNRWA technical guidelines covering such areas of financial risk as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity.

Advances and prepayments

2.32 Advances and prepayments are recognized at their nominal value.

Inventories

2.33 Inventories are stated at the lower of cost or current replacement cost. The cost of inventories includes purchase cost, or fair value if donated in kind, and all other

costs incurred in bringing the inventory into custody. Cost is determined using a weighted average cost formula.

2.34 Current replacement cost, which is used so that inventories can be distributed to beneficiaries at no or nominal charge, is the cost that the Agency would incur to acquire the asset on the reporting date.

2.35 Shelter work in progress is recognized as inventory and such inventories expensed in the period in which the shelter is handed over to the refugees.

2.36 A charge for impairment is recorded in the statement of financial performance for the year in which the inventory is determined to be impaired.

Property, plant and equipment

2.37 Property, plant and equipment items are stated at historical cost, less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as at the date of acquisition is utilized as a proxy for historical cost. For property acquired before 1 January 2010, items were recognized at fair value as at that date and depreciated using the straight-line method over their estimated remaining useful lives.

2.38 Property, plant and equipment are capitalized in the financial statements if their cost exceeds a nominal value.

2.39 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Agency and the cost of the item can be measured reliably. All repairs and maintenance are charged to the statement of financial performance for the financial period during which they are incurred.

2.40 Depreciation is charged so as to allocate the cost of assets over their estimated useful lives using the straight-line method. The depreciation rates are as follows and are subject to annual review (property acquired before 2010 was fair valued and is depreciated using the straight-line method up to 60 years and not subject to the rates below):

(Percentage)

<i>Asset type</i>	<i>Depreciation rate</i>
Buildings and land improvements	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
Vehicles	
Heavy trucks	5
Sedans, light buses and light trucks/or buses	10
Other vehicles	14
Equipment	
Long-life information and communications technology (ICT) equipment, medical equipment and technical vocational training equipment	14
General machinery and equipment, office equipment, medium-life ICT equipment and teaching and school equipment	20

<i>Asset type</i>	<i>Depreciation rate</i>
Short-life ICT equipment, computers and printers	33
Microfinance Department office equipment	10
Lease equipment	Shorter of lease term or useful life
Furniture and fixtures	
Fixtures	14
Furniture	10–20

Capital work in progress

2.41 All capital expenses incurred on construction are accumulated in a separate account within property, plant and equipment. Upon the completion of construction, the accumulated cost is transferred to a property, plant and equipment account and depreciated on the basis of the aforementioned rates as at the date on which the completed asset is placed in service.

Intangible assets

2.42 Intangible assets are carried at historical cost, less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as at the date of acquisition is used as a proxy for historical cost. Intangible assets are capitalized in the financial statements if their cost exceeds a nominal value.

2.43 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will allocate the cost or value of the assets to their estimated residual values. The estimated useful lives of classes of intangible assets are as follows and are subject to annual review:

<i>Asset class</i>	<i>Useful life (years)</i>
Software acquired externally	3
Software developed internally	6
Licences and rights	2
Copyrights	3

2.44 Intangible asset recognition requires the meeting of strict criteria with regard to being identifiable, being under the Agency's control and contributing future economic benefits or service potential that can be reliably measured. Remaining useful life is also a consideration. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Software acquisition and development

2.45 Acquired computer software licences are capitalized on the basis of costs incurred to acquire the specific software and bring it into use. Costs directly associated with the development of software for use by the Agency are capitalized as an intangible asset. Development activities include a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and UNRWA intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the costs of

materials and direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of financial performance as incurred: capitalized development expenditure is measured at cost, less accumulated amortization and accumulated impairment losses.

Impairment

2.46 Assets that are subject to depreciation or amortization are reviewed annually for impairment to ensure that the carrying amount is still considered to be recoverable. Impairment occurs through complete loss, major damage or obsolescence. In the case of a complete loss, full impairment is recorded. This impairment loss can be reversed in subsequent periods, subject to a maximum of the impairment loss recognized.

Finance leases

2.47 Leases of tangible assets, for which the Agency has substantially all the risks and rewards of ownership, are classified as finance leases.

Operating leases

2.48 Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments due under operating leases are charged to the statement of financial performance as an expense.

Payables and accruals

2.49 Payables and accruals represent present obligations of the Agency arising from past events.

Employee benefits

2.50 The Agency recognizes the following categories of employee benefits:

- (a) Short-term employee benefits that fall due wholly within 12 months after the end of the accounting period in which employees render the related service;
- (b) Post-employment benefits;
- (c) Other long-term employee benefits;
- (d) Termination benefits.

2.51 UNRWA 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 to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.52 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNRWA and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Agency's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were

a defined contribution plan in accordance with the requirements set out in IPSAS 39: Employee benefits. The Agency's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

2.53 All area staff members participate in the Area Staff Provident Fund, which is accounted for as a defined contribution retirement plan in accordance with IPSAS 39.

Provisions and contingent liabilities

2.54 Provisions are made for future liabilities and charges where UNRWA has a present legal or constructive obligation as a result of past events, it is probable that it will be required to settle the obligation and the amount can be reasonably estimated.

2.55 Other material commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNRWA.

Interest revenue

2.56 Interest revenue is recognized over the period during which it is earned.

Indirect support cost recovery

2.57 The Agency is entitled to a specific percentage of the expenditure incurred on certain projects according to agreements with donors. Indirect support cost recoveries are recognized as income and represent recoveries of overhead costs incurred by the Agency to implement the related projects.

Fund accounting and segment reporting

2.58 A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all UNRWA funds. Fund balances represent the accumulated residual of revenue and expenses.

2.59 A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. UNRWA classifies all projects, operations and fund activities into five segments:

- (a) Unearmarked activities, comprising activities under the programme budget;
- (b) Earmarked activities, which include:
 - (i) Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined budget. This applies to activities related to both cash and in-kind contributions for the regular budget;
 - (ii) Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;

(iii) Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;

(iv) Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

Note 3

Budget comparison

3.1 The budget for the biennium 2018–2019 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

3.2 The biennial budget is prepared on the modified cash basis and the statement of financial performance is prepared on the accrual basis. Owing to the different bases used for the preparation of budgets and financial statements, statement V, which provides a comparison of budget and actual amounts, is prepared on the same basis of accounting, classification and period as the approved budget, as required under IPSAS 24: Presentation of budget information in financial statements.

3.3 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

3.4 Note 34 provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Note 4

Cash and cash equivalents

4.1 Cash is held principally in United States dollar bank accounts. The composition of cash is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Cash in hand	3 562	8 280
Cash at banks	359 063	263 143
Total	362 625	271 423

4.2 Cash at banks increased by approximately \$95.920 million owing to significant advanced funding received by the Agency towards the end of 2018 for 2019.

4.3 The Agency held funds for other United Nations entities in the amount of \$0.150 million as at 31 December 2018 (compared with \$0.003 million as at 31 December 2017).

4.4 The balances of cash and cash equivalents at banks as at 31 December 2018 were held in the currencies shown in the table below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2019.

Currency	Balance as at 31 December 2018			Balance as at 31 December 2017		
	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)
Australian dollar	307	1.424	216	–	1.283	–
Canadian dollar	20 139	1.365	14 754	163	1.260	130
Swiss franc	291	0.987	294	259	0.978	265
Danish krone	3	6.536	–	23	6.232	4
Egyptian pound	856	17.922	48	11	17.810	1
Euro	39 530	0.876	45 126	2 893	0.837	3 456
Pound sterling	37 171	0.791	46 992	315	0.743	424
Jordanian dinar	10 471	0.708	14 790	9 665	0.708	13 651
Yen	1 424	110.750	13	1 853	112.920	16
Lebanese pound	3 960 020	1 514.500	2 615	4 260 906	1 513.500	2 815
New Israeli sheqel	19 409	3.774	5 143	11 254	3.473	3 240
Norwegian krone	124 251	8.791	14 134	6	8.254	1
Swedish krona	153 187	9.019	16 985	232	8.238	28
Syrian pound	365 179	434.000	841	115 121	434.000	265
United States dollar	197 112	1.000	197 112	238 847	1	238 847
Total			359 063			263 143

Note 5

Loans receivable

5.1 Loans receivable include loans outstanding from funds disbursed from the Microfinance Department and the microcredit community support programme, both through an initial donor contribution (first-time loans) and from revolving loan funds. The Microfinance Department operates as a separate department within UNRWA. The microcredit community support programme is a subprogramme of the Social Services Division of the Relief and Social Services Department of UNRWA.

5.2 The composition of loans receivable, net of provision for bad debts by maturity, is as follows:

(Thousands of United States dollars)

	31 December 2018			31 December 2017		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	23 654	1 488	25 142	24 312	1 366	25 678
Non-current	2 409	1 179	3 588	3 139	1 358	4 497
Total	26 063	2 667	28 730	27 451	2 724	30 175

Provision for loans receivable

5.3 The change in the provision for doubtful loans receivable is as follows:

(Thousands of United States dollars)

	2018			2017		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Beginning balance	(1 760)	(43)	(1 803)	(1 452)	(9)	(1 461)
Additions	(1 102)	(5)	(1 107)	(1 265)	(38)	(1 303)
Less: write-off	1 241	3	1 244	957	4	961
Ending balance	(1 621)	(45)	(1 666)	(1 760)	(43)	(1 803)

Provision for loan losses

5.4 For the microcredit community support programme, the provision for doubtful loans is equal to 3 per cent of the outstanding amount of the loan portfolio, excluding loans to UNRWA staff, for which no provision is made.

5.5 For the Microfinance Department, the provision for doubtful loans is based on an “aged portfolio at-risk report”, which is applied to the total amount outstanding of each loan. On the basis of empirical experience, historical record and market knowledge, it was determined that the following general provision is required for delinquent and defaulting Microfinance Department loans:

<i>Loan status</i>	<i>Provision</i>
Current	1% general provision
1–30 days overdue	5% general provision
31–60 days overdue	10% general provision
61–90 days overdue	25% general provision
91–120 days overdue	50% general provision
121–180 days overdue	75% general provision
181–360 days overdue	100% general provision

5.6 Effective September 2012, a special impairment on outstanding Microfinance Department loans was adopted in the Syrian Arab Republic to mitigate the risk posed by the situation of armed conflict. The rates of reserve calculation are set out below for the special impairment at year-end 2015 and 2016:

<i>Loan status</i>	<i>Provision</i>
1–30 days overdue	95% special impairment
31–60 days overdue	90% special impairment
61–90 days overdue	75% special impairment
91–120 days overdue	50% special impairment
121–180 days overdue	25% special impairment
181–360 days overdue	0% special impairment

5.7 Based upon the above percentages, if a loan is not serviced, an increasing reserve should be provided for. This provision will be shown in the statement of financial performance for the period. On a monthly basis, an adjustment is made to reflect the changes in the general provision. When a loan is in arrears for 360 days or more, there exists objective evidence of an impairment loss and the loan has been

fully provisioned in the general provision, it will be written off. Criteria used to determine that there is objective evidence of an impairment loss may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in payments of interest or principal; breach of loan covenants or conditions; deterioration in the value of collateral; the probability exists that they will enter bankruptcy or other financial reorganization; and observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Recovery of written-off loans will continue to be pursued through the collection and compliance section of the Department.

Note 6
Contributions receivable

6.1 Contributions receivable represents confirmed or signed agreements that are due within 12 months. There are no non-current receivables due after 31 December 2019. The following is a breakdown of contributions receivable balances by donor category at the end of the year:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Due from Governments	22 829	24 516
Due from intergovernmental organizations	19 340	16 815
Due from non-governmental organizations	6 733	12 581
Due from United Nations organizations	609	1 637
Due from private individual donors	—	67
Provision against contributions receivable	(9 195)	(14 672)
Total contributions receivable	40 316	40 944

6.2 Receivables due from non-governmental organizations and the provision against contributions receivable decreased owing to a receivables balance that was paid by one donor in particular after significant effort was made by the Agency to collect on the amount in question.

6.3 Contributions receivable relate to donor contributions for each of the five identified segments. Donor contributions may include restrictions that require UNRWA to use the contribution for a specific project, activity or country within a specified time period.

6.4 Contributions receivable are shown net of provision for estimated reductions in contribution revenue and doubtful accounts.

6.5 The change in the provision for doubtful contributions receivable is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Beginning balance	(14 672)	(3 236)
Reduction in provision/adjustment	5 588	1 395
Addition during the period	(111)	(12 832)
Less: write-offs	—	1
Ending balance	(9 195)	(14 672)

6.6 The reduction in provision is due to the same reason outlined in paragraph 6.2 above. Furthermore, closer financial scrutiny and follow-up with donors in 2018 helped to lower the increase in the provision during the year.

6.7 The provision for doubtful contributions receivable is estimated at the following percentages of outstanding contributions receivable:

(Percentage)

Governments	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100
Intergovernmental organizations, non-governmental organizations and sundry donors	More than 1 year	100

6.8 After six years for governments and after three years for other donors, the doubtful debt and the write-off request, together with the supporting documents, should be submitted to the Director of Finance for approval after all collection efforts have been exhausted.

Note 7

Accounts receivable

7.1 Accounts receivable are due to be collected within 12 months and comprise the following:

(Thousands of United States dollars)

	<i>Relevant note</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Value added tax receivable	7.2	109 557	111 198
Other accounts receivable	7.3	20 373	12 523
Less: provisions	7.5	(103 661)	(100 240)
Accounts receivable net of provisions		26 269	23 481

Value added tax receivable

7.2 Value added tax receivable represents amounts receivable from Governments for value added tax paid by the Agency that is subject to reimbursement. The composition of value added tax receivable by government is as follows:

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Value added tax receivable from the Palestinian Authority	100 589	100 962
Value added tax receivable from the Government of Israel	7 461	9 608
Value added tax receivable from the Government of Lebanon	1 507	628
Total	109 557	111 198

Other accounts receivable

7.3 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Miscellaneous receivable	8 284	6 919
Personal accounts of staff members	2 817	3 864
Refundable utility deposits	121	121
Due from Area Staff Provident Fund ^a	9 151	1 619
Total	20 373	12 523

^a See note 14.1.

7.4 Miscellaneous receivable increased as compared with 2017 owing primarily to an exercise conducted to clear up debit balances classified as accounts payable over the years.

Provisions and write-offs

7.5 Provisions and write-offs comprise the following:

(Thousands of United States dollars)

	31 December 2018				31 December 2017			
	Value added tax	Accounts receivable	Microfinance Department	Total	Value added tax	Accounts receivable	Microfinance Department	Total
Beginning balance	(99 304)	(852)	(84)	(100 240)	(96 436)	(854)	(66)	(97 355)
Additions	(4 508)	(139)	(16)	(4 663)	(2 868)	(1)	(18)	(2 887)
Reduction in provision/adjustment	1 216	—	—	1 216	—	—	—	—
Less: write-offs	—	26	—	26	—	3	—	3
Ending balance	(102 596)	(965)	(100)	(103 661)	(99 304)	(852)	(84)	(100 239)

7.6 The provisions for value added tax receivable and accounts receivable are estimated amounts based on the aged analysis of the outstanding amounts as at the reporting date. These provisions have been calculated on the basis of past experience and the likelihood of collecting the outstanding amounts over the specific periods, as shown below.

(Percentage)

Value added tax receivable	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100
Other receivable	1 year or more	100

7.7 After six years for value added tax receivable and three years for other receivables, the doubtful debt and the write-off request, together with the supporting documents, may be submitted to the Director of Finance for approval after all collection efforts have been exhausted. In some instances, collection efforts continue after the time periods specified above have elapsed.

7.8 The 2018 additions for accounts receivable provisions (see note 7.5) reflect a net increase of \$4.663 million.

Note 8 Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$6.496 million as at 31 December 2018 (compared with \$8.770 million in 2017). Included therein are prepayments to staff in the amount of \$0.77 million as at 31 December 2018 (compared with \$0.131 million in 2017).

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2018 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current		
Advances to suppliers	6 364	8 543
Prepayment to staff	77	131
Total current	6 441	8 674
Non-current		
Advances to suppliers	55	96
Total	6 496	8 770

Note 9 Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	31 December 2018	31 December 2017
Warehouse	49 050	39 638
Pharmacy/clinic	13 472	17 445
In transit	4 440	10 791
Production unit	168	168
Shelter under construction	15 313	9 526
Non-Agency installations	9 542	10 891
Total	91 985	88 459

9.2 Warehouse inventory comprises four main categories of items that are distributed to refugees or used to provide services to refugees: medical supplies, general supplies, food and motor transport. The increase in 2018 is due mainly to the increase in wheat flour and textbooks received towards the end of 2018 and distributed in 2019.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields. The

reduction in pharmacy/clinic inventory is due to reduced orders because of the budget situation and increasing controls over purchases.

9.4 Inventory in transit are materials for which significant risks and rewards are transferred to UNRWA and are yet to be received at the warehouse. Such goods are tracked and recorded in the virtual warehouses as inventories. Materials for which goods receipt notes were not recorded are shown as inventory in transit. In 2018, goods in transit decreased owing primarily to the rescheduling of the delivery of medical items because of the budget situation.

9.5 Production unit inventory relates to the Agency's self-supporting production unit, which is the embroidery centre located in the Gaza Strip. This unit is governed by separate instructions for effective management control and performance assessment. Inventories of the production unit are reported at cost, under assets in the financial statements.

9.6 The components of the production unit inventory are as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Raw materials inventory – embroidery	66	66
Work in progress – embroidery	2	2
Finished goods – embroidery	100	100
Total	168	168

9.7 Inventory adjustment in the amount of \$0.745 million was recorded in 2018 (impairment expense of \$0.210 million in 2017).

9.8 In accordance with IPSAS 12: Inventories, inventory has been adjusted to reflect the net realizable value based on current replacement cost. An amount of \$1.924 million has been adjusted in the cost of supplies and consumables (compared with an amount of \$2.157 million in 2017) and disclosed under note 28 accordingly.

9.9 Inventory of shelters under construction increased by \$5.787 million due primarily to construction in progress in Lebanon for handover.

Note 10

Derivative financial instruments

Nature of financial instruments

10.1 Details of the significant accounting policies and methods adopted, including the criteria for recognition and derecognition, the basis of measurement and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability, are set out in note 2.

10.2 The financial instruments of UNRWA comprise contributions receivable in cash, loans receivable as part of the Microfinance Department credit facilities, other receivables, cash in bank accounts, financial derivative forward contracts and accounts payable.

Financial derivatives

10.3 All financial derivative forward contracts were revalued during 2018; the impact on financial position and on financial performance is summarized below.

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Realized gain	1 091	4 689
Realized (loss)	–	(4 619)
Total realized gain	1 091	70
Unrealized gain/asset	–	–
Unrealized loss/(liability)	–	–

10.4 UNRWA entered into two forward contracts during 2018, both of which matured during that year, resulting in a net realized gain of \$1.09 million, classified as a financial derivatives gain under other revenues in the statement of financial performance.

10.5 As at 31 December 2018 there were no outstanding forward contracts.

Credit risk

10.6 The Agency has limited credit risk because its donors are generally of a high credit standing. Contributions receivable are primarily due from sovereign nations. Details of contributions receivable, including provision for reductions in contribution revenue, are provided in note 6.

10.7 The greatest area of credit risk arises from loans provided by the Microfinance Department. The Department manages credit risk by:

- (a) Establishing ceilings on amounts of direct credit for each product linked to the cash flow of each client;
- (b) Providing a range of products to different sectors and segments to spread credit and reduce concentration;
- (c) Formulating credit policies by product covering collateral requirements and credit compliance with regulatory requirements in each jurisdiction;
- (d) Establishing the authorization structure for the approval and renewal of credit facilities;
- (e) Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process;
- (f) Developing and maintaining a risk-grading system in order to categorize exposure according to when impairment provisions are required against specific credit exposures;
- (g) Providing guidance and training to improve skills of staff in order to promote best practice in the management of credit risk.

10.8 The Agency has its cash deposited with various banks and is therefore exposed to the risk that a bank will default in its obligation towards it. However, UNRWA holds all significant cash deposits in international banks with a high credit rating.

10.9 There is no perceived risk that other receivables may not be liquidated when they fall due.

Interest rate risk

10.10 The Agency deposits its funds in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.

Foreign currency risk

10.11 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2018, 38 per cent of contributions to the programme budget were denominated in the United States dollar base currency, and 62 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank and the Syrian pound used in the Syrian Arab Republic.

10.12 Furthermore, some field office expenditures are incurred in non-United States dollar currencies. The Agency is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. Foreign exchange forward contracts are used to hedge the non-United States dollar exchange exposure for donor contributions.

10.13 To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach, hedging to minimize its exposure to exchange rate fluctuations. In order to hedge the currency risk, UNRWA enters into forward contracts to remove the risk of an appreciation of the United States dollar and to provide a known, fixed income amount.

10.14 As at 31 December 2018, 55 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. Fifteen per cent of UNRWA field office balances were denominated in local currencies to support operating activities, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11

Property, plant and equipment

11.1 The table below presents a summary of property, plant and equipment as at 31 December 2018.

(Thousands of United States dollars)

Description	2018								2017	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
Cost										
As at 1 January	16 250	564 163	675	2 768	51 450	43 473	22 453	228	701 460	667 678
+ Additions in year	–	16 554	–	2 740	2 357	572	1 009	(228)	23 004	37 505
(-) Disposals/adjustment in year ^a	–	463	–	–	898	1 644	–	–	3 005	3 721
(A) Balance as at 31 December	16 250	580 254	675	5 508	52 909	42 401	23 463	–	721 461	701 462
Depreciation										
Balance as at 1 January	–	135 036	603	708	34 881	25 278	–	–	196 507	171 299
+ Depreciation in year	–	21 655	35	614	5 144	2 815	–	–	30 263	28 561
(-) Depreciation on disposals/adjustments in year ^a	–	210	–	–	716	1 365	–	–	2 291	3 353
(B) Balance as at 31 December	–	156 480	638	1 322	39 309	26 728	–	–	224 479	196 507
Impairment										
Balance as at 1 January	–	4 290	–	–	1	7	–	–	4 298	3 648
+ Impairment in year	–	1 700	–	–	–	–	–	–	1 700	728
(-) Impairment reversed and on disposal in year	–	–	–	–	–	–	–	–	–	78
(C) Balance as at 31 December	–	5 990	–	–	1	7	–	–	5 998	4 298
Net book value as at 31 December (A)–(B)–(C)	16 250	417 784	37	4 186	13 598	15 666	23 463	–	490 984	500 657

^a See note 11.2.

11.2 Net cost of disposal is \$0.714 million, which comprises the following:

(Thousands of United States dollars)

	2018	2017
Original cost of disposal	3 005	3 721
Accumulated depreciation	(2 291)	(3 353)
Accumulated impairment	–	(78)
Cost of disposal as per note 11.1	714	290

11.3 The proceeds from the sale of assets and the gain and loss on the class of assets is as below:

(Thousands of United States dollars)

	2018	2017
Loss on disposal	714	289
Gain on disposal	(11)	(28)
Proceeds from sale of assets	11	29
Net disposal/adjustments as per note 11.1	714	290

11.4 In addition to the active assets valued at \$490.984 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$53.409 million.

Note 12 Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2018					2017	
	Software acquired separately	Software developed internally	Licences and rights	Copy-rights	Work in progress	Total	Total
Cost							
As at 1 January	3 361	38 278	528	–	–	42 167	41 786
+ Additions in 2018	40	–	–	–	–	40	381
(-)/+ Disposals and adjustments in year	–	–	–	–	–	–	–
(A) Balance as at 31 December	3 401	38 278	528	–	–	42 207	42 167
Amortization and impairment							
Balance as at 1 January	2 809	17 219	65	–	–	20 093	12 647
Amortization in year	420	6 380	264	–	–	7 064	7 445
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–	–	–
(B) Balance as at 31 December	3 228	23 599	329	–	–	27 156	20 092
Net book value as at 31 December (A)–(B)	173	14 679	199	–	–	15 051	22 075

Note 13
Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Supplier accounts payable	Note 13.2	34 585	45 880
Accrued expenses	Note 13.3	21 141	27 914
Other accounts payable	Note 13.4	23 371	34 260
Miscellaneous provision	Note 13.5	5 101	2 128
Due to Area Staff Provident Fund	Note 14.1	–	–
Total		84 198	110 182

Supplier accounts payable

13.2 Supplier accounts payable represent outstanding amounts payable to vendors for goods and services received.

Accrued expenses

13.3 Accrued expenses include the following:

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Accrued expenses for services and utilities	14 617	18 459
Area staff group medical insurance	3 838	1 797
Accrued salaries, wages and other expenses	211	181
Other salary-related payable	294	5 703
Payable – reclassifications of accounts receivable balance staff	2 181	1 774
Total	21 141	27 914

Other accounts payable

13.4 Other accounts payable consist of the following:

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Deposits received	267	228
West Bank water supply, Palestinian Authority	343	311
Funds held for other United Nations entities	150	3
Interest payable for projects	2 366	1 721
Miscellaneous accounts payable	1 203	1 953
Central Emergency Response Fund	15 000	20 000
Staff liabilities payable	3 052	9 493
Unearned income canteen rent	990	551
Total	23 371	34 260

Miscellaneous provision

13.5 Miscellaneous provision includes provision for the Agency to meet various contingent liabilities that are likely to materialize, including in relation to pending arbitral proceedings.

Note 14

Employee pension fund

UNRWA Area Staff Provident Fund

14.1 The UNRWA Area Staff Provident Fund, established under article XIII of the Agency's Financial Regulations, is a retirement benefit plan that applies to all area staff members and vests after six months of service. UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements of IPSAS 39. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. The balances outstanding with the Provident Fund as at 31 December 2018 and as at 31 December 2017 are shown below.

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Opening balance	(1 619)	267
Employee contributions and repayments of withdrawals	61 885	58 463
Agency contributions	61 114	62 192
Withdrawals	(186 403)	(83 737)
Area Staff Provident Fund employee loans	(41 201)	(38 025)
Area Staff Provident Fund loan commission	174	158
Current account with Provident Fund	96 899	(937)
Total	(9 151)	(1 619)

United Nations Joint Staff Pension Fund: international staff

14.2 UNRWA 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 to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

14.3 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNRWA and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Agency's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

14.4 The Regulations of the Fund stipulate that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14.5 The Agency's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provisions of article 26, following a 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. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

14.6 During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biennial cycle, a roll-forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements.

14.7 The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 roll-forward). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 roll-forward) when the current system of pension adjustments was taken into account.

14.8 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provisions of article 26.

14.9 Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2015, 2016 and 2017) amounted to \$6,931.39 million, of which 0.35 per cent was contributed by the Agency.

14.10 During 2018, contributions paid to the Fund amounted to \$7.572 million (compared with \$8.013 million in 2017). Expected contributions due in 2019 are approximately \$7.950 million.

14.11 Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund as at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund on that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the

Fund on the date of termination; no part of the assets which are in excess of the liabilities is included in the amount.

14.12 The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board and to the General Assembly on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the website of the Fund at www.unjspf.org.

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

- (a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;
- (b) Post-employment benefits;
- (c) Other long-term employee benefits;
- (d) Termination benefits.

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current	84 142	84 094
Non-current	641 708	731 028
Total	725 850	815 122

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Annual leave encashment for area staff	38 883	43 558
End-of-service liability for area staff	685 330	768 620
Short-term employee benefits for international staff not funded through the United Nations regular budget	1 052	2 290
Long-term employee benefits for international staff not funded through the United Nations regular budget	585	654
Total	725 850	815 122

Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2018. The total employee annual leave liability as at 31 December 2018 amounted to \$38.883 million (compared with \$43.558 million as at 31 December 2017).

End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2018, total employee benefits liabilities amounted to \$685.330 million (compared with \$768.621 million as at 31 December

2017). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

15.4 In accordance with the requirements set out in IPSAS 39, the actuary has used the projected unit credit actuarial method to assess the plan's liabilities. Under this method a "projected accrued benefit" is calculated for each benefit that will accrue for all active members of the plan. The projected accrued benefit is based on the plan's accrual formula and on the service period as at the valuation date but using a member's final compensation projected to the age at which it is assumed that the employee will leave active service. The plan liability is the actuarial present value of the projected accrued benefits as at the valuation date for all active employees.

Normal and early retirement benefit

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA Area Staff Rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following: (a) all area staff employees, including part-time staff but excluding employees on limited duration contracts, are eligible, and the normal retirement age is considered to be 60, plus a minimum service period of 10 years; (b) the option of extension of retirement age from 60 years to 62 years was given until 2018 which was subsequently withdrawn; (c) the amount payable is calculated on the basis of the formula of base salary times 11 per cent times number of completed years of service before 1 January 2015 plus base salary times 12 per cent times number of completed years of service after 1 January 2015; (d) the service period is prorated until the last completed month of service; (e) the base salary is the basic matrix salary without allowances, whereas in Jordan, Lebanon and the Syrian Arab Republic, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar, and in the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar; and (f) for health staff, the qualifying salary for the service period up to 31 December 2016 is the qualifying salary of 31 December 2016 and is frozen at that date, while the qualifying salary for the service period after 31 December 2016 is subject to the new salary scale for health staff, which became effective from 1 January 2017.

15.6 The benefit referred to above is also payable in the case of early voluntary retirement. The conditions for early voluntary retirement are as follows: (a) attainment of the age of 50 to 59, with 10 years of service or more; (b) attainment of the age of 60 with 10 years of service or more for staff members whose service has been extended beyond the official age of retirement at the staff member's request; (c) a service period of 25 years or more; (d) attainment of the age of 45 to 49, with a service period of 10 years or more; and (e) 20 to 24 years of service. The aforementioned eligibility criteria for early retirement are listed in descending order and are subject to an annual budget set by the Agency.

Termination in the interests of the Agency

15.7 Area staff are paid end-of-service benefits in accordance with rule 109.9 of the UNRWA Area Staff Rules if the termination is as stipulated in rule 109.1 of the Staff Rules and is in the interests of the Agency as reflected in the following criteria: (a) the service period must be equal to or greater than one year and age must be less than 60 years; (b) the employee is paid under either of the following two schemes, with the benefit amount and the application terms varying by years of qualified service and attained age:

<i>Years of qualifying service</i>	<i>Months of base salary</i>
0	0
1	1
2	1
3	2
4	3
5	4
6	5
7	6
8	7
9 or more	8

<i>Age</i>	<i>Months of base salary</i>
46	8.25
47	8.50
48	8.75
49	9.00
50	9.25
51	9.50
52	9.75
53	10.00
54	10.25
55	10.50

(c) the benefit is not paid if separation from service is initiated by the employee (e.g. through resignation); (d) the service period is prorated until the last completed month of service; and (e) the base salary is the basic matrix salary without allowances. However, in Jordan and Lebanon, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

Death benefits

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA Area Staff Rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015, plus a supplemental benefit representing 50 per cent of the ending annual salary; or (b) as 200 per cent of the ending annual salary, whichever is greater.

Disability benefits

15.9 Area staff are paid in accordance with UNRWA Area staff rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated insofar as further service with the Agency. In the event of the disability of a staff member on or after 1 September 1987 and subject to paragraphs 3 to 6 of the above-

mentioned rule, a disability benefit is computed either: (a) as 11 per cent of the ending annual salary before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015; or (b) as 200 per cent of the ending annual salary, whichever is greater.

Reconciliation of end-of-service benefits

15.10 The interest costs and service costs incurred during the year have been directly accounted for in the statement of financial performance. The amount of interest costs, service costs and past service costs accounted for is shown in the table below.

15.11 The amount of actuarial (losses) presented in the statement of changes in net assets/equity is (\$82.450 million), which includes the discount rate change during the year.

15.12 Interest costs and service costs amounted to \$77.701 million as at 31 December 2018 (compared with \$75.387 million for 2017). The actuarial (gains) losses are directly accounted for in the statement of changes in net assets/equity. In the 2018 valuation of end-of-service liabilities, actuarial gains were determined to be \$38.717 million due to experience and \$43.733 million due to discount rate changes during the year.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2018 is conducted using the same assumptions (demographic and financial) as the previous year's valuation. This results in an actuarial gain of \$38,717 million. This gain is largely driven by the fact that there was no change to salary matrices in 2018, no salary escalation in 2018 and an increased number of resignations before 10 years of service.

15.14 The reconciliation of the opening and closing balance of the area staff end-of-service benefits is given below:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Opening balance as at 1 January	768 620	703 259
Interest costs for the year	27 131	28 371
Service costs for the year	50 570	47 016
Past service costs ^a	(2 832)	(1 505)
Financial remeasurements ^b	(43 733)	39 209
Payments in the year	(75 709)	(38 641)
Actuarial (gains)	(38 717)	(9 089)
Total	685 330	768 620

^a Past service costs changed for the year 2018 owing to the adjustment to the retirement age, to 60 years, and to extended voluntary separations.

^b For 2018, the discount rate (financial remeasurements) changed from 3.51 per cent to 4.14 per cent and is included in the actuarial gains (loss) in the statement of changes in net assets/equity.

Key assumptions

15.15 The discount rate (financial remeasurements) used was based on the currency and the term of the underlying liabilities. Where the benefit offered by the Agency provided protection for the fluctuation of the local currency against the United States dollar, the benefit was assumed to be in United States dollars and the applicable

United States dollar discount rate was used. This has been the case for the Lebanon, West Bank and Jordan field offices and the Amman headquarters.

15.16 The discount rates (financial remeasurements) and future escalation used, by field and currency, are as follows:

(Percentage)

<i>Field</i>	<i>Currency</i>	<i>Currency protection</i>	<i>Discount rate</i>	<i>Future escalation</i>
Gaza	United States dollar	No	4.14%	2.50
Gaza headquarters	United States dollar	No	4.14%	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.14%	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.14%	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.14%	2.50
Lebanon	Lebanese pound	Yes (Lebanese pound/United States dollar)	4.14%	2.50
Syrian Arab Republic	United States dollar	No	4.14%	2.50

15.17 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration. However, owing to increasing interest rates, the discount rate has been revised by management from 3.51 to 4.14 per cent, which is consistent with the yields on investment grade corporate United States bonds with term to maturity, consistent with the duration of the end-of-service liability. The discount rate is set on the basis of the Citi Pension Liability Index – Intermediate, which has a duration of 14.82 years, consistent with the duration of the end of service liability of the Agency (14 years). This index represents a single discount rate that would produce the same present value as calculated by discounting a standardized set of liabilities using the Citi Pension Discount Curve.

15.18 The Citi Pension Discount Curve is a set of yields on hypothetical AA zero coupon bonds whose maturities range from 6 months to 30 years. The yields are used to discount pension liabilities. The Citi Pension Discount Curve is calculated on the basis of a universe of AA rate corporate bonds from the Citi US Broad Investment-Grade Bond Index and the yields of the Citi Treasury model curve. This increase in the discount rate has resulted in an actuarial gain of \$43.733 million. Hence, the net actuarial gain for the year 2018 is \$82.450 million, which represents 10.72 per cent of the opening balance of the provision.

Step increments

15.19 According to the current salary matrices of the Agency, step increments can be either an amount or a percentage. Subject to satisfactory performance, step increments are applied once a year for each employee until the employee reaches the step level 20, applied once in two years until step 22 and thereafter applied once in four years until the maximum step level of 24.

Exchange rates as at 31 December 2018

15.20 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,514.50; Syrian pound, 434.000.

Resignation rates

15.21 It is assumed that plan members will resign at the following rates per annum, according to attained age: less than 30 years, 3 per cent; for 30 to 34 years, 2 per cent; for 35 to 39 years, 1.5 per cent; and for 40 years and above, 0 per cent.

Early retirement rates

15.22 It is assumed that plan members will elect for early retirement according to the rates set out below.

(Percentage)

Attained age	Number of years since early retirement conditions have been satisfied			
	0	1	2	3 +
Less than 45	8.0	5.0	3.0	1.0
45–49	8.0	5.0	3.0	1.0
50–54	8.0	5.0	3.0	1.0
55–59	8.0	5.0	3.0	1.0

15.23 For the field of Jordan and the Amman headquarters, the assumed early retirement rates set out above were multiplied by 150 per cent.

Mortality

15.24 It is assumed that active members of the plan will experience in-service mortality in accordance with the 1996 United States Annuity 2000 mortality table for males and females.

Disability

15.25 It is assumed that disability cases will occur annually according to the probabilities set out below.

Disability rate

(Per thousand)

Age	Male	Female
Less than 45	0.50	0.75
45–54	1.00	1.50
55–62	1.50	2.25

International staff end-of-service liability

15.26 The separation costs of international staff funded from the regular budget of the United Nations (158 posts as at 31 December 2018 and 155 posts as at 31 December 2017) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities relating to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

15.27 As a part of the implementation of IPSAS, UNRWA appointed an actuarial consultant to determine the employee liabilities for international staff members not

funded from the United Nations regular budget. The value of liabilities for international staff not funded from the regular budget is summarized below.

(Thousands of United States dollars)

<i>Benefit</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Repatriation grant	246	682
Shipment	376	823
Travel	125	288
After-service health insurance	585	654
Outstanding annual leave	306	497
Total	1 638	2 944

Assumptions

15.28 The discount rate is assumed to be 4.14 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of in-service mortality of active members of the plan will reflect those in the 1996 United States Annuity 2000 mortality table for males and females.

15.29 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency's contribution to the after-service health insurance premium is set at 50 per cent, with the rest paid by the former staff member. Aetna rates were used for international staff members not funded from the United Nations regular budget and holding United States citizenship, while CIGNA Dental Preferred Provider Organization rates were used for other nationalities. It is of note that only four employees are expected to qualify for this benefit on the assumption of no contract extension.

Note 16

Other current liabilities

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2018</i>	<i>31 December 2017</i>
Goods in transit payable	1 543	7 613
Donor refund payable	54	98
Finance lease liability	269	266
Total	1 866	7 977

16.2 During 2018, goods in transit decreased due primarily to the rescheduling of the delivery of medical items because of the budget situation.

Other non-current liabilities

16.3 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
OPEC Fund for International Development PalFund Trust		
Fund – Microfinance Department	–	9 875
Finance lease liability	617	885
Total	617	10 760

16.4 During the year, the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development PalFund Trust Fund was converted into a grant with the same purpose.

16.5 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Current	1 866	7 977
Non-current	617	10 760
Total	2 483	18 737

Note 17**Advance contribution**

17.1 The amount of contributions received in advance of the criteria for revenue recognition being met is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Received from Governments	10 651	96
Total	10 651	96

17.2 In 2018, two countries provided advances on 2019 contributions, leading to an increase in advances at the end of the year.

Note 18**Contingent liabilities, contingent assets and lease commitments****Contingent liabilities**

18.1 The Agency's contingent liabilities as at 31 December 2018 arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement (goods, services and construction contracts) and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities relating to these appeals amounted to approximately \$0.168 million as at 31 December 2018 (compared with \$1.404 million as at 31 December 2017).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$12.303 million as at 31 December 2018 (compared with \$15.376 million as at 31 December 2017).

Contingent assets

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2018 was \$565.905 million (compared with \$661.511 million as at 31 December 2017).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of \$3.891 million recognized as operating lease expenses during 2018 (compared with \$3.682 million in 2017). The amount includes minimum lease payments. No contingent rent payments were made.

18.6 The Agency holds principally cancellable operating leases. The operating lease agreements relate mainly to school premises, health centres, land and collective shelters for camps, field administrative offices and warehouse and distribution centres. The total of future minimum lease payments is as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Not later than one year	138	34
Later than one year and not later than five years	113	225
Later than five years	—	—
Total	251	259

18.7 Most of the operating lease agreements contain renewal clauses that enable the Agency to extend the terms of the leases at the end of the original terms. Some of the agreements have escalation clauses based on a fixed percentage increase or a fixed amount increase applied at prespecified intervals or dates in the future. No lease agreements contain purchase options.

18.8 The host Governments and some charitable organizations in the fields in which UNRWA operates provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The land is used to build schools, health centres or other UNRWA facilities that are administered by the Agency or in which it provides services.

18.9 These in-kind donations for the use of land have been valued at a fair value of \$3.885 million in 2018 (compared with \$3.887 million in 2017) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of \$3.115 million from sublease payments in 2018 (compared with \$4.297 million in 2017). All subleases are cancellable and contain no contingent lease payments.

Finance lease commitments

18.11 Leasing agreements which transfer to the Agency substantially all the risks and rewards of ownership of an asset are treated as finance leases. Assets acquired under finance leases are capitalized and depreciated over the shorter of lease term or useful life.

18.12 The Agency has one finance lease starting in 2018 for medical equipment used in clinics. The present and future values are as follows:

(Thousands of United States dollars)

	2018		2017	
	Present value	Future value	Present value	Future value
Not later than one year	269	278	266	278
Later than one year and not later than five years	617	627	885	905
Later than five years	—	—	—	—
Ending balance	886	905	1 151	1 183

18.13 The difference between the future value of minimum lease payments and their present value represents the discount on the lease obligations using the HSBC term deposit rate.

Note 19

Revolving loan fund

19.1 Restricted contributions received for on-lending purposes are transferred to the revolving loan fund for both the Microfinance Department and the microcredit community support programme. The revolving loan fund is included as a component of the Microfinance Department and microcredit community support programme reserve in the statement of changes in net assets/equity.

19.2 The composition of the revolving loan fund as at 31 December 2018 and 31 December 2017 was as follows:

(Thousands of United States dollars)

	31 December 2018	31 December 2017
Microfinance Department	35 146	25 271
Microcredit community support programme	3 679	3 590
Total	38 825	28 861

19.3 During the year, the OPEC Fund for International Development PalFund Trust Fund was converted into a grant of \$9.875 million for the same purpose.

Note 20

Cash contributions revenue

20.1 Total cash contributions revenue by source received in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Governments	958 872	930 458
Intergovernmental organizations	200 059	189 235
Non-governmental organizations and other entities	9 560	14 331
United Nations organizations	63 949	48 945
Sundry	2 041	1 170
Total	1 234 481	1 184 139

Note 21

In-kind contributions revenue

21.1 Total in-kind contributions revenue by source received in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Governments	19 547	16 768
Non-governmental organizations and other entities	5 265	4 488
United Nations organizations	1 783	2 045
Total	26 595	23 301

Note 22

Interest on loans

22.1 Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Microfinance Department	11 576	11 138
Microcredit community support programme	310	311
Total	11 886	11 449

Note 23

Interest revenue

23.1 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is \$3.919 million in 2018 (compared with \$2.626 million in 2017).

Note 24

Currency exchange (loss)/gain

24.1 Currency exchange gains or (losses) are realized and unrealized exchange gains or (losses) on the translation of non-United States dollar-denominated balances and transactions during the year.

(Thousands of United States dollars)

	2018	2017
Realized currency exchange rate gain	3 867	1 905
Unrealized currency exchange rate (loss)	(10 620)	3 972
Accounts receivable income realized exchange rate (loss)	(245)	339
Total	(6 998)	6 216

Note 25**Indirect support cost recovery**

25.1 The Agency is entitled to a specific percentage of the expenditure incurred on certain projects in accordance with donor agreements. Indirect support cost recoveries are recognized as income and represent the recovery of indirect costs incurred by the Agency in implementing the related projects.

25.2 The total indirect support cost recovery from projects revenue for 2018 is \$36.208 million (compared with \$54.569 million in 2017). The total revenue from indirect support cost is \$36.326 million (compared with \$54.749 million in 2017), offset by the cost of projects in 2018 by \$36.208 million (compared with \$54.569 million in 2017), and the remaining amount of indirect support cost recovery is \$0.118 million in 2018 (compared with \$0.180 million in 2017) from Junior Professional Officer programmes.

Note 26**Miscellaneous revenue**

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2018	2017
Canteen lease revenue	3 115	4 297
Sundries	7 864	5 310
Profit on income-producing activities	68	106
Reimbursed provision revenue	6 820	1 395
Income received from United Nations agencies	58	70
Refunds to donors	(778)	(267)
Total	17 147	10 911

26.2 The fluctuation in reimbursed provision revenue is discussed under note 6.2. Refunds to donors represent amounts that have been recorded as revenue but are refunded to donors in accordance with the terms of donor agreements.

Note 27**Wages, salaries and employee benefits**

27.1 Wages, salaries and employee benefits consisted of the following:

(Thousands of United States dollars)

	2018	2017
International staff	40 328	46 144
Area staff		
Basic salaries, allowances and benefits	561 268	578 921
Area Staff Provident Fund contributions	60 964	61 635
Health-related expenses	11 256	9 282
Total	673 816	695 982

Note 28

Supplies and consumables

28.1 The composition of supplies and consumables in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Basic commodities	61 443	76 870
Clothing supplies	3 934	2 421
Fresh food	1 794	3 511
Medical supplies	21 679	21 933
Miscellaneous supplies	14 758	19 746
Sport supplies	136	175
Textbooks and library books	3 973	5 247
Transportation supplies	9 921	10 825
Total	117 638	140 728

28.2 Basic commodities expenditure decreased significantly in 2018 owing primarily to the funding crisis and reduced commodity prices. The crisis also led to reduced distribution of wheat flour during the year.

28.3 The reduction in textbooks consumption was due to the delay in distribution from the fourth quarter of 2018 to the first quarter of 2019.

Note 29

Occupancy, utilities and premises costs

29.1 Occupancy, utilities and premises costs in 2018 and 2017 included the following:

(Thousands of United States dollars)

	2018	2017
Rental of premises	7 737	7 897
Maintenance of premises	8 283	9 534
Utilities	6 129	6 376
Total	22 149	23 807

Note 30

Contracted services

30.1 The composition of services expenses in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Construction and equipment	36 389	31 136
Contractual costs	11 222	14 383
Hospital costs	24 325	26 172
Miscellaneous, including accruals	6 193	1 417
Consultancy costs	16 629	17 293
Demurrage and port charges	11 467	11 433
Training costs	1 705	2 636
Travel	2 614	3 751
Total	110 544	108 221

30.2 Net construction and equipment increased as compared with the previous year owing to the reduction in construction work in Lebanon and an increase in construction in Gaza.

Note 31

Subsidies

31.1 Subsidies represent amounts paid to Palestine refugees for the following:

(Thousands of United States dollars)

	2018	2017
Cash subsidies to beneficiaries	141 293	210 886
Patient subsidies	4 613	4 553
Subsidies for the construction and repair of shelters	45 568	49 415
Subsidies to third party	21 594	21 487
Total	213 068	286 341

31.2 Cash subsidies to beneficiaries are paid in order to provide selective cash assistance to conflict-affected Palestine refugees in all fields for food security and rent subsidies. Subsidies paid to third parties consist of cash disbursed by UNRWA to the community and other parties for activities that will improve the lives of the refugees.

31.3 Cash subsidies in 2018 decreased significantly owing to the reduction on subsidies provided to beneficiaries for the temporary shelter cash assistance programme and reduced spending on the job creation programme. The reduction in subsidies for the construction and repair of shelters is due to the completion of major and minor repairs to damaged shelters under the Gaza reconstruction projects following the 2014 war.

Note 32
Provisions and write-offs

32.1 The composition of provisions and write-off expenses in 2018 and 2017 was as follows:

(Thousands of United States dollars)

	2018	2017
Provisions and write-off expenses on accounts receivable	4 663	2 887
Provisions and write-off expenses on contributions receivable	78	12 792
Provisions and write-off expenses on loans receivable	1 107	1 302
Provisions and write-off expenses for advances to international staff	22	–
Write-off overstated receivables and others	399	1 361
Total	6 269	18 342

Note 33
Segment reporting

33.1 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. Segment information is provided on several bases to reflect UNRWA objectives and activities. Full segment reporting is provided for sources of fund segments; segment expense reports are provided for human development goals, programmes and geographical locations.

(a) Sources of funds

33.2 A fund is an accounting entity established to account for transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all funds. Fund balances represent the accumulated residual amount of revenue and expenses.

33.3 The Agency's activities are financed through five fund groups. Each group of funds has differing parameters for utilization of the revenue.

33.4 The unearmarked fund is part of the UNRWA programme budget and is the principal means of financing the Agency's recurrent activities. The fund enables the Agency to meet obligations from authorized appropriations and is financed primarily by voluntary contributions and in-kind donations from Governments, intergovernmental and non-governmental bodies and host authorities.

33.5 The earmarked fund is also part of the UNRWA programme budget but its use is restricted to specific activities (e.g. direct support, cash and food assistance provided through the social safety net programme) that are undertaken during a defined time period within a defined budget.

33.6 The Microfinance Department fund is used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help to sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

33.7 Emergency appeals funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies. Funds are raised mainly through the consolidated appeals process and are to be utilized during specified time periods. Pursuant to the implementation of the new enterprise resource planning system, emergency appeals funds for the Syrian Arab Republic were internally reclassified from the earmarked projects segment to the earmarked emergency appeals segment. This is also in line with donor reporting effective 2016.

33.8 Project funds are used to meet capital expenditure needs (e.g. school and health centre construction) or development needs to improve or supplement existing programmes and systems (e.g. environmental health improvement). Projects are undertaken to meet a specific objective, and contributions are time-bound and earmarked for specified purposes.

(b) Human development goals

33.9 The mission of UNRWA is to help Palestine refugees achieve their full potential in human development under the difficult circumstances in which they live. UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees, with the aim of accomplishing the goals with efficient and effective governance. Fifteen strategic objectives that guide UNRWA core activities are grouped into the four human development goals, as follows:

(a) A long and healthy life, including the objectives of: (i) ensuring universal access to quality, comprehensive primary health care; (ii) protecting and promoting family health; and (iii) preventing and controlling diseases;

(b) Acquired knowledge and skills, including the objectives of: (i) ensuring universal access to and coverage of basic education; (ii) enhancing education quality and outcomes against set standards; and (iii) improving access to education opportunities for learners with special education needs;

(c) A decent standard of living, including the objectives of: (i) reducing abject poverty; (ii) mitigating the effects of emergencies (both small-scale family and national crises) on individuals; (iii) offering inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor; (iv) improving employability; and (v) improving the urban environment through sustainable camp improvement and the upgrading of substandard infrastructure and accommodation;

(d) Human rights enjoyed to the fullest possible extent, including the objectives of: (i) ensuring that service delivery meets the protection needs of beneficiaries, including vulnerable groups; (ii) safeguarding and advancing the rights of Palestine refugees by promoting respect for human rights, international humanitarian law and international refugee law; (iii) strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and (iv) ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards;

(e) In addition to the above-mentioned goals, UNRWA aims for effective and efficient governance through providing overall direction and control and ensuring both efficient operations and effective financial and risk management.

(c) Programme

33.10 The Agency is functionally organized under four core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments:

(a) The education programme provides basic and secondary education for learners with special educational needs and vocational and technical training. The programme has 10 vocational training centres, which provide skills training in such fields as pharmacy, plumbing, carpentry, business and computing. The programme offers in-service training and development for teachers to develop their professional qualifications and pre-service training for new teachers. The programme also encourages the progression of students to higher education by means of scholarships;

(b) The health programme provides a network of primary health-care facilities and mobile clinics that provide the foundation of its health services, offering preventive general medicine and specialist care services tailored for each stage of life. Although the programme is focused mainly on primary health care, it also helps Palestine refugees to gain access to secondary and tertiary health-care services. The environmental health subprogramme controls the quality of drinking water, provides sanitation and carries out vector and rodent control in refugee camps;

(c) The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations;

(d) The relief and social services programme provides a range of direct and indirect social protection services for Palestine refugees. The relief services subprogramme provides social safety-net assistance that includes basic food support, cash subsidies and additional family income supplements for the most vulnerable Palestine refugees caught in the cycle of abject poverty. It also provides selective cash assistance, such as one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;

(e) Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to other persons that it is mandated to serve in accordance with relevant General Assembly resolutions, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors;

(f) The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication;

(g) The Protection Division was established at UNRWA headquarters in Amman to provide strategic direction of, and coordination to, the implementation of the diverse protection activities across the Agency. In accordance with the Agency's mandate, the aim of UNRWA protection activities is to respond to the protection needs of Palestine refugees amid increasing conflict and displacement in the region. UNRWA applies a holistic approach to protection. This includes an "internal" dimension focused on realizing the rights of Palestine refugees in and through the Agency's service delivery programmes, and an "external" dimension involving engagement with relevant duty bearers to ensure respect for Palestine refugee rights. The Protection Division, through its thematic experts, covers the areas of protection mainstreaming, advocacy, child protection, gender and gender-based violence, disability and international protection.

(d) Geographical locations

33.11 Although UNRWA goals and services are delivered primarily within a programme approach, the Agency's operations are managed on a field basis. In accordance with the mandate set out by the General Assembly as the Agency's parent organ, UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic, the Gaza Strip and the West Bank. Each field provides similar services but is distinctive to some extent, owing to the particular political humanitarian and economic contexts in which it operates and the status and rights enjoyed by the Palestine refugees in it.

(e) Basis of pricing for inter-segment transfers and charges

33.12 Indirect support costs are incurred by UNRWA in support of the implementation of its non-regular budget activities that cannot be directly attributed to specific activities, projects or programmes. Programme support costs represent administrative, managerial, logistical and other support costs, including costs relating to staff recruitment, budgetary and financial control, information and communications technology support, and actions in respect of procurement transport and warehousing.

33.13 Indirect support costs represent a recovery of project expenditures to ensure that non-regular activities do not constitute financial costs in terms of the Agency's regular budget.

33.14 Indirect support costs at a uniform standard rate of 11 per cent are usually charged against all contributions for non-regular budget activities except for those of the Microfinance Department, with respect to which a standard rate of 6 per cent is charged on the Department's running costs, excluding staff costs.

Segment reporting by fund: financial position as at 31 December 2018

(Thousands of United States dollars)

	Unearmarked activities		Earmarked activities				Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Assets							
Current assets							
Cash and cash equivalents	27 685	27 028	18 038	80 888	208 986	—	362 625
Short-term loans receivable	—	1 488	23 654	—	—	—	25 142
Contributions receivable	14 379	—	—	15 119	10 818	—	40 316
Accounts receivable	25 046	153	40	615	809	(394)	26 269
Other current assets	2 437	37	372	27	3 568	—	6 441
Operational Microfinance Department account with UNRWA	—	520	—	—	—	(520)	—
Inventories	18 272	2 988	—	37 710	33 015	—	91 985
Non-current assets							
Other non-current assets	55	—	—	—	—	—	55
Long-term loans receivable	—	1 179	2 409	—	—	—	3 588
Property, plant and equipment	466 836	80	114	337	23 617	—	490 984
Intangible assets	14 885	—	166	—	—	—	15 051
Total assets	569 595	33 473	44 793	134 696	280 813	(914)	1 062 456
Liabilities							
Current liabilities							
Payables and accruals	39 917	19 743	610	11 398	12 593	(63)	84 198
Employee benefits	85 455	(25)	391	(1 658)	(56)	35	84 142
Operational Microfinance Department account with UNRWA	—	—	520	—	—	(520)	—
Other current liabilities	626	—	—	1 221	19	—	1 866
Advance contributions	11 045	—	—	—	—	(394)	10 651
Non-current liabilities							
Employee benefits	637 801	—	3 907	—	—	—	641 708
Other non-current liabilities	617	—	—	—	—	—	617
Total liabilities	775 461	19 718	5 428	10 961	12 557	(942)	823 182
Net assets/equity	(205 865)	13 754	39 365	123 735	268 258	28	239 274
Revaluation and other reserves	16 381	—	—	—	—	1 310	17 691
Capital reserve: microcredit community support programme and Microfinance Department	—	3 679	35 146	—	—	—	38 825
Accumulated surplus/(deficit)	(222 247)	10 075	4 219	123 735	268 258	(1 282)	182 758
Total net assets/equity	(205 865)	13 754	39 365	123 735	268 258	28	239 274

Segment reporting by fund: financial performance as at 31 December 2018

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Inter-fund balances</i>	<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>			
Revenue								
Cash contributions	829 884	22	—	243 581	160 994	—	—	1 234 481
In-kind contributions	—	16 640	—	6 494	3 461	—	—	26 595
Interest on loans	—	309	11 577	—	—	—	—	11 886
Interest on bank deposits	2 684	—	432	225	578	—	—	3 919
Other revenue								
Indirect support cost recovery	19 540	661	—	16 126	—	(36 208)	—	118
Financial derivative gain	1 091	—	—	—	—	—	—	1 091
Miscellaneous revenue	11 138	5 384	834	(195)	(83)	70	—	17 147
Total revenue	864 337	23 016	12 843	266 231	164 950	(36 138)	—	1 295 237
Expenses								
Wages, salaries and employee benefits	606 116	2 158	4 407	39 999	20 499	637	—	673 816
Supplies and consumables	24 287	14 355	208	68 342	10 446	—	—	117 638
Occupancy, utilities and premises costs	10 627	4 199	414	2 949	3 960	—	—	22 149
Contracted services	43 559	1 264	2 161	19 596	43 934	30	—	110 544
Indirect support costs	25	—	—	22 631	13 527	(36 183)	—	—
Subsidies	29 029	483	—	122 438	61 118	—	—	213 068
Depreciation and amortization	37 164	—	163	—	—	—	—	37 327
Provisions and write-offs	5 146	5	1 118	—	—	—	—	6 269
Loss on disposal	570	—	—	—	144	—	—	714
Impairment of property, plant and equipment	1 700	—	—	—	—	—	—	1 700
Foreign currency exchange loss	5 734	—	15	912	337	—	—	6 998
Total expenses	763 957	22 465	8 486	276 868	153 964	(35 516)	—	1 190 223
Surplus/(deficit) for the year	100 379	551	4 357	(10 637)	10 986	(622)	—	105 014

Segment reporting by human development goal: expenses as at 31 December 2018

(Thousands of United States dollars)

	<i>Long and healthy life</i>	<i>Acquired knowledge and skills</i>	<i>Decent standard of living</i>	<i>Human rights enjoyed to the fullest</i>	<i>Effective and efficient governance and support in the Agency</i>	<i>Unallocated human development goal</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	75 650	452 946	46 551	9 457	88 574	—	637	673 816
Supplies and consumables	29 910	12 453	67 456	301	7 518	—	—	117 638
Occupancy, utilities and premises costs	2 246	8 690	3 977	157	7 079	—	—	22 149
Contracted services	31 438	11 066	35 939	2 606	29 466	—	30	110 544
Indirect support costs	2 942	3 928	24 663	576	4 075	—	(36 183)	—
Subsidies	4 258	6 184	190 221	623	11 781	—	—	213 068
Depreciation and amortization	5 381	16 708	2 732	429	12 056	20	—	37 327
Provisions and write-offs	—	—	1 123	—	5 146	—	—	6 269
Loss on disposal	237	150	176	—	152	—	—	714
Impairment of property, plant and equipment	—	39	—	493	1 168	—	—	1 700
Foreign currency exchange loss	—	—	—	—	6 998	—	—	6 998
Total	152 062	512 164	372 838	14 642	174 013	20	(35 516)	1 190 223

Segment reporting by programme: expenses as at 31 December 2018

(Thousands of United States dollars)

	<i>Education</i>	<i>Health</i>	<i>Infrastructure and camp improvement</i>	<i>Relief and social services</i>	<i>Protection Division</i>	<i>Support department</i>	<i>Executive direction</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	448 713	83 478	30 554	25 340	3 952	46 261	34 880	637	673 816
Supplies and consumables	12 660	31 867	1 070	67 680	69	3 802	489	—	117 638
Occupancy, utilities and premises costs	12 401	1 969	182	1 488	44	5 171	894	—	22 149
Contracted services	12 654	28 398	23 180	12 386	2 187	22 467	9 241	30	110 544
Indirect support costs	3 993	3 571	4 248	20 589	431	2 093	1 259	(36 183)	—
Subsidies	7 086	5 229	18 024	179 039	716	520	2 454	—	213 068
Depreciation and amortization	18 697	3 910	1 968	1 054	66	10 825	807	—	37 327
Provisions and write-offs	—	—	—	1 123	—	5 146	—	—	6 269
Loss on disposal	152	219	192	—	—	146	5	—	714
Impairment of property, plant and equipment	1 206	—	—	494	—	—	—	—	1 700
Foreign currency exchange loss	—	—	—	—	—	6 998	—	—	6 998
Total	517 562	158 641	79 419	309 193	7 465	103 430	50 029	(35 516)	1 190 223

Segment reporting by geographical location: expenses as at 31 December 2018

(Thousands of United States dollars)

	<i>Gaza field</i>	<i>Lebanon field</i>	<i>Syrian Arab Republic field</i>	<i>Jordan field</i>	<i>West Bank field</i>	<i>Headquarters</i>	<i>Inter-fund balances</i>	<i>Total</i>
Expenses								
Wages, salaries and employee benefits	268 933	82 243	55 999	126 805	104 077	35 122	637	673 816
Supplies and consumables	76 716	8 399	15 192	7 898	9 165	268	–	117 638
Occupancy, utilities and premises costs	3 863	5 397	1 485	6 160	4 570	674	–	22 149
Contracted services	37 532	32 502	7 369	8 418	7 946	16 748	30	110 544
Indirect support costs	15 887	5 758	10 433	1 487	2 258	360	(36 183)	–
Subsidies	68 246	39 728	66 585	14 063	22 888	1 557	–	213 068
Depreciation	16 403	3 377	1 824	2 796	5 560	7 367	–	37 327
Provisions and write-offs	577	5	29	645	280	4 734	–	6 269
Loss on disposal	567	4	3	140	–	–	–	714
Impairment of property, plant and equipment	–	–	1 700	–	–	–	–	1 700
Foreign currency exchange loss	–	–	–	–	–	6 998	–	6 998
Total	488 726	177 412	160 619	168 413	156 742	73 827	(35 516)	1 190 223

Note 34

Presentation of budget information

34.1 The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2018–2019 programme budget (Blue Book). The UNRWA budget includes the core requirements funded through the programme budget, as endorsed by the General Assembly, which, if exceeded, requires submission to the General Assembly; in-kind donations; and the projects budget, where allocation varies based on donor response.

34.2 As compared with the Blue Book budget, the programme budget, made available at the beginning of each financial period, reflects reduced requirements based on the end-of-year income forecast and acceptable cash shortfall. However, for the projects budget, resources are made available when contributions are received and/or, on an exceptional basis, when pledges are confirmed by donors, by means of a signed agreement, for approved project proposals.

34.3 With the adoption of IPSAS, UNRWA internally adopted an accrual budgeting system based on IPSAS. However, in compliance with the Financial Rules and Regulations, the final budget set out in financial statement V still refers to a modified cash basis budget and is used for comparison with the actual amounts.

34.4 The UNRWA budget encompasses three main entities (funding portal types): the programme budget, funded mainly by voluntary contributions, along with 158 international staff members funded through the United Nations regular budget from assessed contributions; an in-kind donations budget; and the projects budget.

34.5 The Agency's budget structure follows a results-based budgeting format, as reflected in the annual operational plans, which are derived from the medium-term strategy for the period 2016–2021.

34.6 The budgets and accounts of UNRWA are arranged on different accounting bases. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement V) is prepared on a modified cash basis of accounting.

34.7 As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of the financial statements and the budget.

34.8 Basis differences occur when the approved budget is prepared on a basis other than the accounting basis, as stated in paragraph 34.6 above.

34.9 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNRWA for purposes of comparison of budget and actual amounts.

34.10 Entity differences occur when the budget omits funds that are part of the entity for which the financial statements are prepared.

34.11 Presentation differences are due to differences in the format and classification schemes adopted for presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2018 is presented below.

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Actual amounts on a comparable basis (statement V)	865 185	109 931	–	975 116
Basis differences	326 111	(136 168)	9 273	199 216
Timing differences	–	–	–	–
Entity differences	(41 587)	3 203	691	(37 693)
Presentation differences	(1 045 438)	–	–	(1 045 438)
Actual amounts in the statement of cash flow (statement IV)	104 271	(23 034)	9 964	91 201

34.13 Open commitments, including open purchase orders and net cash flows from operating, investing and financing activities, are presented as basis differences. Revenue that does not form part of the statement of comparison of budget and actual amounts is reflected as presentation differences. Entity differences occur as the approved budget, as noted above, includes the programme budget, the in-kind donations budget and the projects budget. The cash flow statement also includes the emergency appeals fund, the Microfinance Department fund and the earmarked fund of the programme budget.

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2018–2019 programme budget, as

recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	<i>Total expenses</i>
Actual amounts on a comparable basis (statement V)	975 116
Basis differences	(31 024)
Timing differences	–
Entity differences	246 131
Actual amounts in the statement of financial performance (statement II)	1 190 223

Explanations of material differences

34.15 Explanations of material differences between the original budget and the final budget, and between the final budget and the actual amounts, are presented below.

Original and final budgets (income and expense/capital expenditure)

34.16 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2018 budget allocation at year-end.

34.17 The 2018 programme budget, as reflected in the Blue Book for 2018–2019, amounted to \$1,177.1 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. On a modified cash basis, the final 2018 budget was \$1,111.1 million, representing a decrease of \$65 million, or 5.5 per cent. This is disclosed in financial statement V as “final” budget. The \$65 million decrease is a reflection of the decrease in the final budget, due mainly to a decrease in the final programme budget from \$825.7 million to \$772.1 million (including in-kind) and a decrease in the final projects budget from \$351.4 million to \$338.9 million, including restricted funds (earmarked projects).

Utilization of the budget

34.18 The variation in the budgetary utilization of the different budget cost components is due to various factors, such as management actions to reduce the cash shortfall, cash and food distribution from the social safety net programme, and other budget reserves. The utilization rate against the various key cost components rates is as follows:

(a) *Staff costs.* Implementation rate is 97.2 per cent. The underutilization of \$18 million is due to: (i) a high vacancy rate for international staff (funded by assessed contributions); and (ii) underspending under fixed-term area staff, daily paid and limited duration contracts by \$9.9 million, owing to management actions adopted to bridge the cash shortfall under the programme budget;

(b) *Supplies.* Implementation rate is 91.9 per cent. The underutilization of \$4.5 million is due to the receipt of project funds and the commitment of funds at year-end that have been carried forward to 2019;

(c) *Maintenance of premises and equipment.* Implementation rate is 78.4 per cent. The underspending of \$34.6 million is due to the late receipt of donations that were allocated at year-end 2018 but carried forward to 2019;

(d) *Training, travel, administrative services and consultancy.* Implementation rate is 77.8 per cent. The underutilization is due to continuous management actions adopted to meet the cash shortfall under the programme budget;

(e) *Hospital and miscellaneous services.* Implementation rate is 90.1 per cent. The underspending is due to projects related to service purchase orders yet to be implemented in the next financial period, in line with the lifespan of the projects, and extended hospital contracts;

(f) *Subsidies to hardship cases, subsidies to patients.* The implementation rate is 84.3 per cent. The underspending of cash subsidies is due to commitments of funds of grants that will be distributed early next year;

(g) *Reserves.* The reserves reflect the impact of management actions due mainly to retirement and separation benefits.

Note 35

Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern.

35.2 The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. Additionally, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector.

35.3 The financial position of UNRWA has been a matter of long-standing concern to the General Assembly. In an effort to decisively address the Agency's financial situation, on 6 December 2016, the Assembly, in paragraph 32 of its resolution 71/93, requested the Secretary-General to facilitate broad consultations with Member States, notably host countries, members of the Advisory Commission and other donors, as well as with international financial institutions, so as to explore all potential ways and means, including through voluntary and assessed contributions, to ensure that the Agency's funding was sufficient, predictable and sustained for the duration of its mandate. As recommended by the Secretary-General in his report to the General Assembly of 30 March 2017 on the operations of UNRWA, the Commissioner-General of UNRWA continues to take forward the recommendations set out in that report in order to continue operating for the duration of its mandate.

Note 36

Related parties

36.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2018 was as follows:

(Thousands of United States dollars)

<i>Number of individuals</i>	<i>Total remuneration</i>	<i>Outstanding advances against entitlements</i>	<i>Outstanding loans</i>	<i>Number of individuals</i>
Key management personnel	4 830	185	—	21
Family member of key management personnel	77	—	—	1
Total	4 907	185	—	22

36.2 Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. Related parties for UNRWA include key management personnel of the Agency, the United Nations Secretariat and the Area Staff Provident Fund.

36.3 The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances.

36.4 One family member of key management personnel was employed by the Agency during the year. The details of the compensation paid to said family member are provided in the disclosure above.

36.5 Advances are those made against entitlements in accordance with UNRWA area and international staff rules and regulations. These are widely available to all UNRWA staff.

Note 37

Subsequent events

37.1 The Agency's reporting date is 31 December 2018 for the 2018 IPSAS financial statements. As at the date of approval and signing of these accounts, there have been no material events, whether favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issuance, that would have had an impact on these statements.

Note 38

Date and approval

38.1 The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2019.