United Nations

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2019

and

Report of the Board of Auditors

General Assembly

Official Records
Seventy-fifth Session
Supplement No. 5A

General Assembly
Official Records
Seventy-fifth Session
Supplement No. 5A

A/75/5/Add.1

United Nations Development Programme

Financial report and audited financial statements

for the year ended 31 December 2019

and

Report of the Board of Auditors

United Nations • New York, 2020

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.

ISSN 0251-8198

[21 July 2020]

Contents

Letters of transmittal and certification

Letter dated 30 April 2020 from the Administrator, the Assistant Secretary-General/Assistant Administrator and Director, Bureau for Management Services, and the Chief Finance Officer and Comptroller of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2019, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

- Management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on management's best estimates and judgments.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- The management provided the Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.
- The recommendations of the Board of Auditors and UNDP internal auditors are reviewed by management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Achim **Steiner**
Administrator

(*Signed*) Angelique M. **Crumbly**
Assistant Secretary-General
Assistant Administrator and Director
Bureau for Management Services

(*Signed*) Darshak **Shah**
Chief Finance Officer/Comptroller
Bureau for Management Services

Letter dated 21 July 2020 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 Development Programme for the year ended 31 December 2019.

(*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 accompanying financial statements of the United Nations Development Programme (UNDP), which comprise the statement of financial position (statement I) as at 31 December 2019 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (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 our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNDP as at 31 December 2019, and its financial performance and 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 the 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 UNDP, in accordance with the ethical requirements 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 that we have obtained is appropriate and sufficient to provide a basis for our opinion.

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

The Administrator is responsible for the other information, which comprises the financial report for the year ended 31 December 2019, contained in chapter III 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 the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of 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 Administrator 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, management is responsible for assessing the ability of UNDP to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNDP or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process of UNDP.

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 is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it 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 those 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 appropriate and sufficient 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 omission, misrepresentation or the overriding 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 internal control of UNDP.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of 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 UNDP 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 auditor's report. However, future events or conditions may cause UNDP 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 UNDP 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 and Rules of UNDP and legislative authority.

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

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

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

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

21 July 2020

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2019. The first part of the audit was carried out at headquarters in New York and at the Global Shared Services Unit in Copenhagen and Kuala Lumpur, as well as through visits to country offices in Bangladesh, the Sudan, Tajikistan and the United Republic of Tanzania. From 23 March 2020, the Board conducted the audit remotely owing to the coronavirus disease (COVID-19) global pandemic.

Scope of the report

The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and have been discussed with UNDP 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 presented fairly the financial position of UNDP as at 31 December 2019 and its financial performance and cash flows for the financial 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 UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNDP operations. The report also includes comments on the status of implementation of recommendations made in previous years.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of UNDP for the period under review, as reflected in chapter I.

Overall conclusion

The finances of UNDP remain sound, with high levels of liquid assets. In 2019, the total revenue decreased slightly compared with 2018. As in the prior year, the liquidity was affected by the inclusion of funding partners' contributions made for future years.

Over 80 per cent of the donations are tightly earmarked and can be used only for certain projects. This high level of tight earmarking continues to bring challenges for management to focus on priorities and to deploy resources flexibly to meet demand across all areas of activity. At the same time, emergency situations such as the COVID-19 pandemic and complex, evolving development settings require an unprecedented

operational readiness, including unearmarked resources, to support the integrated offer of UNDP to co-create and operationalize development solutions across sectors.

UNDP continues to be affected by a number of parallel reform initiatives, such as the externally driven reform of the United Nations development system and various internal initiatives to reposition itself within this changed environment. Therefore, the Board wishes to encourage UNDP to accelerate implementation of the medium-term internal initiatives, such as the clustering exercise and the "People for 2030" strategy, that are critical to deal with some of the observations made in this year's report.

Key findings

Financial statements and accounting-related matters

The Board noted that funding partners contributed resources to UNDP for staff through different programmes, and that some staff in those programmes were assigned to the resident coordinator system. Since 1 January 2019, the resident coordinator system has been separate from UNDP. UNDP initiated the payments for the costs related to those staff but, in the end, did not bear the expenses. The Board holds that there was no inflow of or decrease in economic benefits for UNDP.

Enterprise risk management

The Board noted that the three lines of defence model had been introduced for UNDP risk management and governance with the revision of the UNDP enterprise risk management policy. The Board noted that external oversight bodies such as the Board had been included in the third line of defence. In line with the international standard for the three lines of defence model, external oversight bodies are considered to be external to the model. The Board holds that external oversight bodies should not be considered a substitute for the internal lines of defence as it is an organization's responsibility to manage its risks, not the responsibility of independent third parties.

The Board noted that the assessment of fraud and corruption risks was integrated into the overall enterprise risk management process of UNDP. The Board also noted that the number of fraud risks identified by country offices and recorded in the risk registers was low and often not plausible given the context that country offices are operating in. Thus, the Board obtained only limited evidence on whether and how the assessment of fraud and corruption risks was integrated into the overall enterprise risk assessment process of UNDP.

Fraud risk management

The Board reviewed the UNDP policy on fraud and other corrupt practices (UNDP anti-fraud policy) and considered it to be suitable for providing guidance on how UNDP aims to prevent, detect and address fraudulent acts. The Board noted that, despite related oversight recommendations, at the time of the audit, UNDP did not have a separate strategy document in place to complement the implementation of its anti-fraud policy. However, UNDP stated that it was currently working on preparing a separate strategy document.

The Board noted that UNDP had developed a fraud risk management framework action plan in 2016 and had identified 19 areas of concern within its operating environment. UNDP initially intended to implement the plan over a period of two years, with regular reports to the Organizational Performance Group. The Board noted that the implementation of the action plan was ongoing at the time of the audit but did not note documented regular reporting to the Organizational Performance Group on the current status of implementation.

Internal controls

The Board followed up on matters of non-compliance identified in its previous report (A/74/5/Add.1) with regard to the UNDP internal control framework. The Board noted that UNDP had attempted to address those matters through an inter-office memorandum issued in October 2019. Pursuant to the memorandum, all country offices were required to review their internal control frameworks. However, the inter-office memorandum alone did not lead to the full implementation of one compliance issue identified until an automated control to enforce segregation of duty between first and second authority approval at the transaction level was put in place. Since December 2019, requisitions and purchase orders can no longer be approved by the same person as a result of that automated control.

The Board identified bank signatories who held the vendor approver role, which was not in line with the operational guide. In this regard, the Board noted that guidance on segregation-of-duty requirements for bank signatories could be enhanced by providing all information relevant for a topic in the same place.

Although it was not permitted pursuant to the UNDP internal control framework, the Board identified 44 service contract holders and United Nations Volunteers performing internal control functions. In addition, the Board found that one service contract holder had been provided with a supplementary role in the enterprise resource planning system that allowed overriding match exceptions. In line with the internal control framework of UNDP, this is a sensitive role given the risks involved.

During its field visits, the Board further found various additional controls applied by country offices, such as mandatory e-tendering for all solicitations or lower thresholds for the mandatory creation of purchase orders. The Board noted that country offices had implemented additional controls to specifically reduce the risk of fraudulent activities. The Board also noted that some effective and cost-efficient anti-fraud controls, such as rotation of tasks or portfolios and mandatory vacations, were unknown to most of the staff members interviewed.

In addition, the Board identified vehicles owned and operated by one of the country offices visited. The vehicles were not recorded in the enterprise resource planning system. The Board noted that the Office of Audit and Investigations had reported a similar case, in which vehicles in a different country office were not recorded in the enterprise resource planning system. Pursuant to UNDP policies, all vehicles were subject to physical verification at least annually, including the reconciliation of physical verification results with the records. In the view of the Board, this is necessary not only to ensure sound accounting records but also to minimize the risks related to the disposal of vehicles.

Vendor management

The Board noted the inclusion of ineligible vendors in the vendor master files of country offices. At least one country office was continuing a business relationship with a vendor despite the debarment of the vendor by UNDP. The Board holds that this situation was the result of policies and procedures for vendor management that revealed room for enhancement. Potential enhancements included more robust requirements for continuous due diligence and eligibility screening by business units.

The Board was informed that the UNDP vendor review committee had not been operating at full capacity owing to staff shortages from 2017 to March 2019. Meetings were also less frequent compared with prior years. The Board noted that, at the time of the audit, 66 cases submitted to the vendor review committee were pending.

United Nations development system reform

The Board noted that UNDP had established mechanisms and processes to deliver its contributions to the resident coordinator system funding and had initiated steps to operationalize, monitor and report on UNDP contributions to funding compact commitments.

The Board noted that UNDP had administered and facilitated the separation of the resident coordinator function from the UNDP resident representative function and, as from 1 January 2019, had served as an operational service provider to the resident coordinator system. The Board also noted that UNDP had completed the majority of actions in relevant operational areas related to the separation process and had continued some transitional arrangements throughout 2019.

The Board noted the strong commitment and engagement of UNDP on all inter-agency workstreams related to the United Nations development system reform. The Board holds that UNDP managed its contributions to the reform process effectively and coordinated across the organization and that it was supported by the strong leadership of the Administrator and senior management.

Recommendations

With regard to the above findings, the Board recommends that UNDP:

Financial statements and accounting-related matters

(a) **In the next financial statements, derecognize revenue and expenses for staff costs related to staff for whom funding partners contributed resources and who were assigned to the resident coordinator system;**

Enterprise risk management

(b) **Revise its enterprise risk management policy to exclude external oversight bodies such as the Board of Auditors from the third line of defence;**

(c) **Enhance the awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner, for example by presenting good practices at regional or annual retreats for its managers;**

(d) **Tighten the assertions by adding an affirmative statement that an office has assessed fraud and corruption risks in an integrated manner as required by the anti-fraud policy and the enterprise risk management policy;**

Fraud risk management

(e) **Define its organizational priorities through an organization-specific anti-fraud strategy that should incorporate current good practices;**

(f) **Continue to implement its fraud risk management framework action plan and provide regular updates on its status to the Risk Committee that should be documented in the meeting minutes;**

Internal controls

(g) **Further refine its internal control framework to strengthen its implementation;**

(h) **Assess the application of good practices such as task rotation in contexts where a higher risk of fraudulent acts has been identified;**

(i) **Enhance awareness of the importance of fully complying with existing requirements to physically verify the existence and completeness of vehicles and to fully record all vehicles in the enterprise resource planning system for country offices where deviations from the records were identified;**

Vendor management

(j) **Implement the recently established process to regularly review its vendor databases to exclude ineligible vendors;**

United Nations development system reform

(k) **Continue to provide feedback and to engage with the Development Coordination Office on 1 per cent levy matters (including challenges observed at the country level and questions on interpretation of the United Nations Secretariat guidance);**

(l) **Use the results from the joint survey with the Development Coordination Office to assess and, if needed, refine its service offer to the resident coordinator system and its operational support to country offices;**

(m) **Consider further streamlining the mapping of its contributions to the United Nations development system reform process and continue its strong engagement with all inter-agency workstreams for the United Nations development system reform.**

Previous recommendations

As at 31 May 2020, of the 51 recommendations made for 2018 and previous years, 29 (57 per cent) had been implemented and 20 (39 per cent) remained under implementation. Two recommendations (4 per cent) had been overtaken by events (see annex).

Key facts

170	Countries and territories where UNDP operates
$696 million	Budget for 2019 approved by the Executive Board for regular resources.[a] Other resources do not fall within the remit of the approved budget of the Board although they are accounted for in the financial statements.
$4.83 billion	Total revenue
$4.92 billion	Total expenses
$12.49 billion	Total assets
$2.79 billion	Total liabilities

[a] Regular resources refer to commingled, untied and unearmarked resources that are free from the restrictions of funding partners.

A. Mandate, scope and methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNDP for the year ended 31 December 2019 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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 UNDP as at 31 December 2019 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 bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of UNDP. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNDP operations under regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allowed the Board to make observations with respect to the efficiency of the financial procedures, the accounting system and the internal financial controls and, in general, the administration and management of UNDP operations. The General Assembly had also requested the

Board to follow up on previous recommendations and to report thereon accordingly. Those matters are addressed in the relevant sections of the present report, and the details of the results are included in the annex to the present chapter.

5. The Board also performed the annual audit of the regular resources of the UNDP-Global Environment Facility trust fund and issued an unqualified audit opinion for the year ended 31 December 2019.

6. The Board continued to work collaboratively with the Office of Audit and Investigations to provide coordinated coverage. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's report was discussed with UNDP management, whose views have been appropriately reflected.

7. The audit was carried out with visits to country offices in Bangladesh, the Sudan, Tajikistan and the United Republic of Tanzania between November 2019 and March 2020, at headquarters in New York in October 2019 and January 2020 and at the Global Shared Services Unit in Copenhagen and Kuala Lumpur in November and December 2019. From 23 March to 12 June, the audit was carried out remotely owing to the coronavirus disease (COVID-19) global pandemic. The latter part of the audit included the final audit of the financial statements.

8. The auditors engaged in discussions with UNDP management to continuously assess the impacts of the COVID-19 global pandemic on UNDP. UNDP disclosed the pandemic in 2020 as a material event after the reporting date, describing its main impacts in note 35 to the financial statements for 2019.

9. The pandemic had an impact on the operations of programme Governments and implementing partners, which may have an effect on UNDP project delivery and the achievement of planned development results in 2020. UNDP is closely monitoring the situation as events unfold and is implementing mitigation measures, including additional support to country offices and partners aimed at facilitating continued operations.

10. Despite the challenges, the pandemic also presents opportunities to UNDP given the organization's experience in assisting programme countries in recovery efforts. The organization is working closely with programme Governments to re-evaluate national priorities and mobilize funding to assist in recovery efforts. This is expected to become a focus area for the work of UNDP in 2020.

B. Findings and recommendations

1. Follow-up on recommendations from previous years

11. The Board noted that there were 51 recommendations outstanding when its report for the financial year ended 31 December 2018 was issued. The Board considered 29 recommendations (57 per cent) to have been implemented and 20 recommendations (39 per cent) as remaining under implementation. Two recommendations (4 per cent) had been overtaken by events. Details of the status of implementation of the recommendations are shown in the annex to the present report.

12. The Board acknowledges management's efforts towards implementation of its recommendations, especially with regard to recurring recommendations. The Board expects some medium-term projects, such as the clustering exercise and the "People for 2030" strategy, to further expedite those efforts once implemented. The Board trusts that UNDP will continue to undertake procedures put into place to ensure that positive trends achieved in 2019 and in the first half of 2020 will continue.

13. Two recommendations from 2016 have remained pending, with progress ongoing. One recommendation relates to the timely review and update of project risks, issues and monitoring logs in the enterprise resource planning system. This recommendation has been addressed by UNDP but the measures taken include the programming of a workspace that is still ongoing. The second recommendation relates to the timely completion of service contract evaluations. UNDP has started to revise the policy on this matter and expects the policy to be in place in 2020, for the performance cycle starting in 2021.

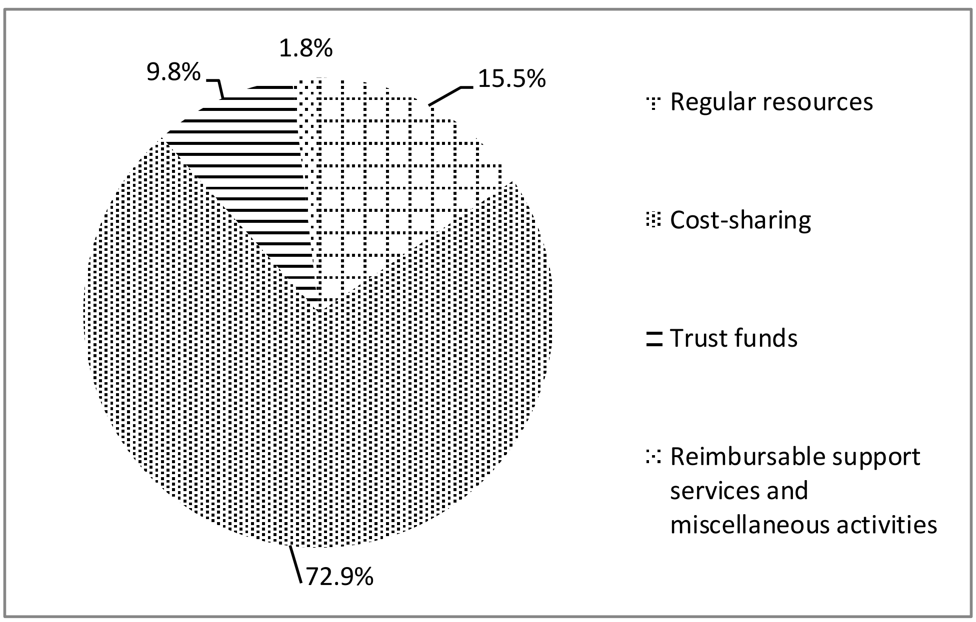
2. Financial overview

Revenue and expenses

14. UNDP revenue includes voluntary contributions, revenue from exchange transactions, investment revenue and other revenue. During 2019, total revenue amounted to $4.83 billion (2018 (restated): $5.70 billion) and total expenses amounted to $4.92 billion (2018: $5.10 billion), resulting in a deficit of $94.54 million (2018 (restated): surplus of $594.78 million).

15. The total voluntary contributions to UNDP were $4.47 billion (2018 (restated): $5.36 billion), equivalent to 92.5 per cent (2018: 94.0 per cent) of total revenue. Voluntary contributions decreased by $887.33 million (16.6 per cent) compared with contributions in 2018 (restated). The decrease in revenue relates mainly to a decrease in voluntary contributions. This is due to the fact that UNDP funding is received on a cyclical basis and revenue is recorded at the time the agreement is signed, provided that certain criteria are met. The amount of voluntary contributions comprised regular resources of $693.63 million (15.5 per cent), cost-sharing of $3,260.46 million (72.9 per cent), trust funds of $439.22 million (9.8 per cent) and reimbursable support services and miscellaneous activities of $79.24 million (1.8 per cent). These contribution levels are shown in figure II.I below.

Figure II.I
Contributions to regular and other resources



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2019.

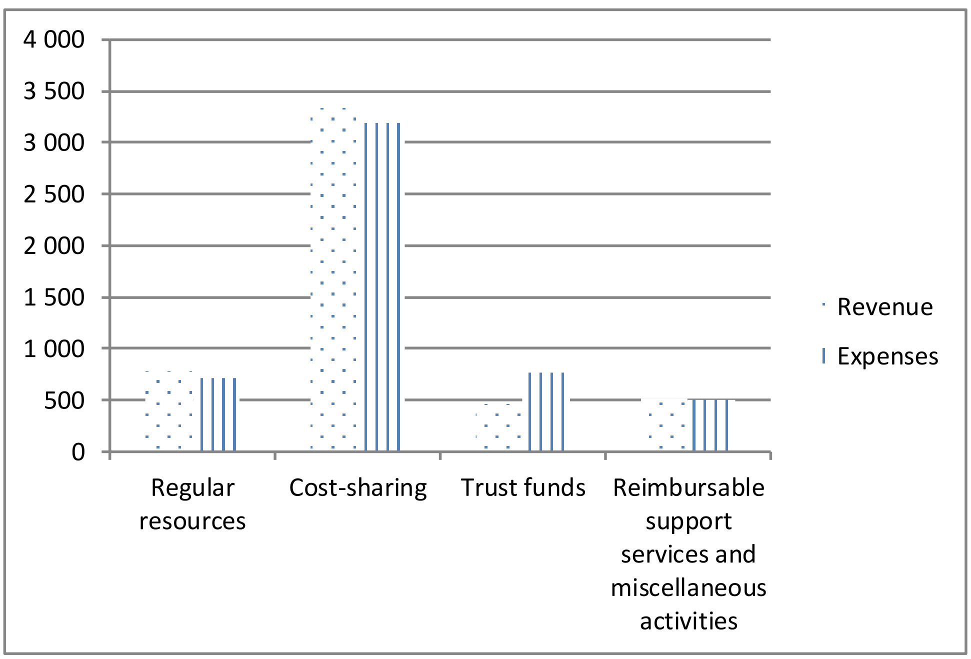
16. Total expenses in 2019 ($4.92 billion) were slightly lower compared with 2018 ($5.10 billion). For the breakdown of expenses by segment, UNDP excludes an elimination of $256.45 million to remove the effect of internal UNDP cost recovery. Cost recovery is used to allocate centrally managed expenses to the appropriate funding source. Before elimination, expenses amounted to $5.18 billion and the breakdown by segment was: regular resources expenses of $716.05 million (13.8 per cent), cost-sharing expenses of $3,188.76 million (61.6 per cent), trust fund expenses of $769.86 million (14.9 per cent) and expenses on reimbursable support services and miscellaneous activities of $505.45 million (9.7 per cent).

17. The classification of the expenses by nature indicates that the largest expense category continued to be contractual services, with expenses of $1,878.74 million (38.2 per cent of overall expenses). An amount of $1,031.87 million (21.0 per cent) was spent on supplies and consumables used, $903.18 million (18.3 per cent) on general operating expenses net of $256.45 million internal cost recovery, $788.26 million (16.0 per cent) on staff costs, $250.58 million (5.1 per cent) on grants and other transfers and $71.06 million (1.4 per cent) on other expenses and on depreciation and amortization.

18. Total expenses by cost classification indicate that $4,323.23 million (83.4 per cent) was spent on programme, $176.14 million (3.4 per cent) on development effectiveness, $40.27 million (0.8 per cent) on United Nations development coordination, $392.03 million (7.6 per cent) on management, $60.54 million (1.2 per cent) on special purpose activities and $187.90 million (3.6 per cent) on other costs. The breakdown of expenses by cost classification excludes an elimination of $256.45 million to remove the effect of internal UNDP cost recovery.

19. Comparative revenues and expenses by segment are shown in figure II.II.

Figure II.II
Overview of comparative revenue and expenses
(Millions of United States dollars)



Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2019.

Ratio analysis

20. The analysis by the Board of the main financial ratios of UNDP (see table II.1 below) shows a slight increase in the current ratio and the quick ratio in 2019 as compared with 2018 and a slight decrease in total assets to total liabilities and the cash ratio in 2019 compared with 2018. The increase in the current ratio and the quick ratio results from an increase in both current investments and non-exchange receivables, which more than offset the decrease in cash. The decline in the total assets to total liabilities results from a decrease in non-current receivables from exchange transactions. The minor decrease in the cash ratio results from an increase in current liabilities that is partially offset by the increase in current investments.

Table II.1
Ratio analysis

Ratio	*31 December 2019*	*31 December 2018 (restated)*
Current ratio[a]		
Current assets: current liabilities	5.13	4.99
Total assets: total liabilities[b]	4.48	4.74
Cash ratio[c]		
Cash plus investments: current liabilities	3.32	3.37
Quick ratio[d]		
Cash plus investments plus accounts receivable: current liabilities	4.95	4.83

Source: Analysis by the Board of Auditors of the UNDP financial statements for the year ended 31 December 2019.

[a] A high ratio, defined as greater than 1:1, indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.

[d] 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 position.

21. The current assets of UNDP as at 31 December 2019 were $7,532.52 million, or 5.13 times the current liabilities of $1,468.04 million, which indicates the Programme's ability to meet its short-term obligations. Similarly, total assets of $12,485.30 million exceeded total liabilities of $2,790.00 million, which indicates a healthy financial position. Assets include contributions committed by donors for future periods.

22. Reserves consist of the operational reserve, the endowment fund and the reserve for special initiatives. UNDP calculated its operational reserve in compliance with the methodology approved by the Executive Board. The operational reserve consists of the operational reserve for regular resources and the operational reserve for other resource activities. As at 31 December 2019, UNDP held a reserve of $286.2 million compared with a reserve of $292.2 million reported on 31 December 2018. The difference of $6.0 million represents an operational reserve transfer to the accumulated surplus of the year.

3. Financial statements and accounting-related matters

Treatment of non-exchange transactions

23. In 2019, UNDP further refined its accounting treatment of non-exchange transactions pursuant to IPSAS 23: Revenue from non-exchange transactions. Under the new policy, receivables and revenue – including multi-year contributions – are recognized in full at the time the agreement is signed, provided that inflows of resources meet the definition of an asset and if no conditions exist. If contribution agreements have conditions, UNDP recognizes a liability and revenue recognition is deferred until such conditions are met.

24. UNDP applied the change in accounting policy retrospectively in accordance with IPSAS 3: Accounting policies, change in accounting estimates and errors. Figures for prior years were restated.

25. The Board welcomes the effort made by UNDP to further review its contribution agreements and, based on the analysis, to refine its policies and procedures and to fully implement the corresponding recommendation of the Board.

Presentation of the financial statements

26. In its statement of financial position, UNDP reported assets and liabilities aggregated in different line items.

27. Assets included the line items "Receivables, other" and "Other assets". The line item "Receivables, other" included various items that were not receivables from non-exchange transactions. The line item "Other assets" also included other receivables, as set out in the notes to the financial statements.

28. Liabilities included the line items "Accounts payable and accrued liabilities", "Payables, Multi-Partner Trust Fund Office and United Nations entities" and "Funds received in advance and deferred revenue". In its notes to the financial statements, UNDP included a further breakdown of the line items in categories and explanations for some of the categories. All of the aforementioned line items included liabilities towards United Nations entities, whereas only the line item "Payables, Multi-Partner Trust Fund Office and United Nations entities" referred directly to United Nations entities.

29. The Board is of the opinion that the current presentation of the financial statements and the notes to the financial statements comply with IPSAS. At the same time, the Board holds that a regrouping of positions and categories and/or more detailed explanations in the notes could further enhance readers' understanding of the financial statements of UNDP.

30. **The Board recommends that UNDP review the presentation of its financial statements and the notes thereto with regard to receivables and liabilities to United Nations entities in order to determine whether a change in presentation could bring further clarity and enhance the value of the financial statements for stakeholders, as well as enhance stakeholders' understanding of the financial statements.**

31. UNDP agreed with the recommendation.

Documentation of investment accounting entries

32. UNDP has outsourced the investment management of its after-service health insurance funds to two external investment managers. The external investment managers are governed by the after-service health insurance investment guidelines, which define investment rules and eligible instruments. Reporting and oversight of

the investment managers occur formally through quarterly after-service health insurance investment committee meetings. A bank has been contracted as custodian for the investments and managed changes in value, interest, etc.

33. The Board noted that investments managed by external managers were not individually reflected within the enterprise resource planning system. Accounting entries for the externally managed investments were entered into the enterprise resource planning system based on reports from the custodian.

34. The Board noted that the documentation of the validation of the values reported, such as market values or changes in fair value, had room for enhancement. In the view of the Board, a well-documented validation of information used in the financial statements is necessary as the responsibility for the correctness of the financial statements lies with the reporting entity. UNDP should be able to show that differences (if any) to its accounting policies result only in immaterial deviations. The Board discussed this matter with UNDP during the audit and UNDP enhanced its documentation of the validation.

Contributions from funding partners for staff assigned to the resident coordinator system

35. Funding partners contribute resources for staff to UNDP through different programmes. During 2019, those resources were contributed through two different programmes: the Junior Professional Officers programme and the special assistant to the resident coordinator programme. In addition, technical experts at the P-4 and P-5 levels were contributed by two funding partners.

36. The Board noted that – pursuant to the agreements – the funding partners reimbursed UNDP for all costs related to those staff members. The reimbursements were based on cost estimates made by UNDP. Once approved by the funding partners, UNDP recorded revenue from voluntary contributions based on those cost estimates. The staff members concerned were on the UNDP payroll and UNDP handled the payment. UNDP recorded the staff costs as expenses.

37. The Board also noted that some of the staff members concerned were assigned to the resident coordinator system. In 2019, the total number of staff concerned was 33 and the total amount of staff costs was $3.788 million. In addition, in 2019, UNDP generated fees of $0.482 million by administering those 33 staff members.

38. As from 1 January 2019, the resident coordinator system was delinked from UNDP. For staff assigned to the resident coordinator system, UNDP initiated the payments but, in the end, did not bear the expenses as the funding partners reimbursed the expenses to UNDP.

39. With regard to staff assigned to the resident coordinator system, the Board is of the opinion that neither revenue nor expenses for staff costs should be recognized by UNDP. There was no inflow of or decrease in economic benefits for UNDP. Moreover, UNDP was not exposed to any risks from the agreements. Thus, the recognition criteria of paragraph 7 of IPSAS 1 (Presentation of financial statements) were not met.

40. **The Board recommends that, in the next financial statements, UNDP derecognize revenue and expenses for staff costs related to staff for whom funding partners contributed resources and who were assigned to the resident coordinator system.**

41. UNDP agreed with the recommendation.

Social security coverage of service contract holders

42. UNDP uses service contracts in country offices and regional centres to hire national personnel for non-core support services in the office or for development projects. The UNDP policy on service contracts stipulates that country offices need to ensure that individuals engaged under service contracts are covered under a pension age plan as appropriate.

43. Coverage may be provided through a private group scheme, a pre-existing private scheme or a national social security scheme. Alternatively, UNDP can provide a lump sum equivalent to 8.33 per cent of the monthly remuneration rate. Service contracts must stipulate the option selected. In countries where a national social security scheme is in place, individuals under service contracts may contribute directly to such a scheme. In order to use this option, the country office must receive adequate evidence that the individual has coverage. The policy does not permit including an amount for social security in the service contract remuneration where no coverage is in place.

44. In one country office visited, the Board noted that a national social security system was established and that all service contract holders contracted by that country office were enrolled in the national social security fund. The country office contributed 10 per cent of the service contract holders' monthly remuneration towards pensions and other social benefits and added another 10 per cent of the monthly remuneration to the service contract holders' salary for social security.

45. Pursuant to the service contracts, service contract holders had to provide evidence of social security coverage upon signature of the contract and at any time during the contract term. Service contract holders also had to provide evidence of the monthly remittance of 20 per cent of the gross salary to the national social security fund. The Board noted that the country office could not provide that evidence because the majority of service contract holders had stopped their monthly remittances to the national social security fund owing to a new local law that was not favoured by many in the country and to which opposition had been raised.

46. The Board noted that the issue had persisted since 2015. The Board holds that the country office cannot determine without evidence from service contract holders whether the 20 per cent, which was added to the monthly remuneration, has been used for insurance coverage with the national social security fund or any other pension scheme.

47. Furthermore, the Board noted that the country office did not use the latest template for service contracts, which is an annex to the policy on service contracts. In the latest service contracts template, the paragraph on social security has been expanded. The paragraph stipulates that UNDP offices have to select one of two options regarding social security: provide a net cash compensation, included in the total remuneration in lieu of direct contributions to health or pension schemes; or provide the base remuneration and contribute directly for social security benefits.

48. The Board holds that service contracts holders are required to provide evidence of their insurance coverage under both the current and the previous service contracts policy if they received cash in lieu of direct contributions to social security schemes.

49. **The Board recommends that UNDP find a solution for the local situation in this country and ensure that the country office request adequate evidence of service contract holders' pension plan coverage and of their monthly remittances to the social security schemes.**

50. **The Board also recommends that UNDP ensure that the country office uses the current service contracts template for new service contracts and update existing contracts that were signed before the new template had been launched.**

51. UNDP agreed with the recommendations.

4. Enterprise risk management

52. Enterprise risk management is a widely used good practice in public and private organizations for improving effectiveness, accountability and efficiency. It is an approach that involves proactively and systematically identifying, monitoring and responding to risks at all levels of the organization to better achieve objectives and protect stakeholders' interests.

53. UNDP applies enterprise risk management and the related policy requires an integrated approach to risk management across the organization. The Board noted that the enterprise risk management policy of UNDP applied an integrated approach, with horizontal integration across all types of risks and vertical integration from projects up to the corporate level.

54. The UNDP enterprise risk management policy is the umbrella framework for risk management in the organization. The policy brings together several prescriptive UNDP policies and procedures that are applied to manage particular categories of risk when relevant. This approach includes, for instance, the UNDP policy against fraud and other corrupt practices (UNDP anti-fraud policy). The scope of the enterprise risk management policy covers risks across all levels of the organization, considering the internal and external context. Ensuring that the overall risk framework is effective, relevant and applied corporately is one of the main responsibilities of the UNDP Risk Committee.

55. The enterprise risk management policy states that potential risks across the enterprise risk management risk categories should be considered to ensure that all relevant risks are identified. Each risk identified, including those identified through relevant prescriptive processes (e.g. fraud risk assessment), is recorded in the risk register and is described in terms of cause, future event/scenario and impact and assigned a category. After this process, the risk treatment also needs to be recorded in the risk register.

Three lines of defence

56. The United Nations System Chief Executives Board for Coordination High-level Committee on Management endorsed the three lines of defence model promulgated by the Institute of Internal Auditors as a reference model on risk management, oversight and accountability for United Nations system organizations (CEB/2014/5). The Board noted that the three lines of defence model had been introduced for UNDP risk management and governance with the revision of the UNDP enterprise risk management policy. The latest revision of the policy became effective in March 2019. The three lines of defence model is an internationally recognized standard that provides a framework for organizations to map out their own processes and identify the relationships and responsibilities of different actors with respect to the different lines of defence.

57. Based on the three lines of defence model, UNDP clarifies and segregates roles and responsibilities on the following three lines: (a) functions that own and manage risks; (b) functions that oversee risks and/or specialize in risk management and compliance; and (c) functions that provide independent assurance.

58. The Board noted that the revised enterprise risk management policy of UNDP stated that the third line of defence was the independent assurance and audit function.

The policy further stated that the UNDP Office of Audit and Investigations and United Nations mechanisms, such as the Board of Auditors and Joint Inspection Unit, played this role.

59. The Board noted that UNDP had revised its enterprise risk management policy and welcomed the application by UNDP of the three lines of defence model to define its enterprise risk management governance structure. At the same time, the Board noted that the enterprise risk management policy included external oversight bodies in the third line of defence. The Board noted that, in line with the reference model, the third line of defence should include internal audit only.

60. The Board acknowledges that external auditors and other external bodies residing outside the UNDP structure can have an important role in the organization's overall governance and control structure. For example, external auditors may provide important observations on and assessments of the organization's controls over financial reporting and related risks. At the same time, the Board holds that external parties, while they contribute valuable information, should not be considered a substitute for the internal lines of defence, as it is an organization's responsibility to manage its risks, not the responsibility of a third party.

61. The Board holds that external oversight bodies such as the Board, in line with their mandate, have an independent assurance role and report their findings and recommendations to Member States. Pursuant to the reference model, external audit is an additional layer for the three lines of defence, providing assurance to the organization's stakeholders that are external to the three lines of defence, such as senior management and governing bodies.

62. **The Board recommends that UNDP revise its enterprise risk management policy to exclude external oversight bodies such as the Board of Auditors from the third line of defence.**

63. UNDP agreed with the recommendation.

Fraud risks assessment through the enterprise risk management of the United Nations Development Programme

64. The Board noted that the assessment of fraud and corruption risks was integrated into the overall risk management process of UNDP. The Board noted that the UNDP enterprise risk management policy listed the UNDP anti-fraud policy as one of many policies and procedures that were applied to manage particular categories of risk. The Board further noted that the UNDP anti-fraud policy expected managers to perform risk assessments to identify potential fraud risks to which their assets, programmes, activities and interests were exposed.

65. Owing to the integrated risk management approach of UNDP, the Board found that the organization's fraud risk assessments should have been carried out using the UNDP risk management approach. The Board holds that the level of exposure to the risk of fraud and corruption is determined mainly by the interaction of environmental and personal factors, together with opportunity and the probability of detection, followed by sanctions.

66. The Board noted that the 2019 year-end assertion checklist included a separate assertion statement that required country offices to confirm compliance with the UNDP anti-fraud policy. The Board also noted that the assertion statement listed key requirements of the UNDP anti-fraud policy and a separate statement related to compliance with the UNDP enterprise risk management policy. However, neither statement explicitly mentioned any provision with regard to the assessment of fraud risks.

67. The Board reviewed the fraud risks reported at the project, programme/unit and corporate levels and found the following: in the Atlas-based project risk register of the four country offices visited, the Board found 1,305 risks recorded for 165 projects. Of those risks, seven (0.5 per cent) related to fraudulent acts and were reported for seven projects (4 per cent).

68. The Board further noted that the UNDP enterprise risk management policy stated that the integrated workplan risk register (recording risks at the programme or unit level) was informed by project-level risk registers and an analysis of cross-cutting programmatic, institutional and contextual risks. For 2019, the Board found that 773 risks at the programme or unit level had been recorded across 160 organizational units. The Board identified 11 risks related to fraudulent acts and noted that 149 (93 per cent) organizational units had not recorded any fraud or corruption risks.

69. Based on two different perception-based indicators, the Board identified 20 country offices that were most exposed to the risk of corruption, meaning that those offices were operating in environments with high perceived levels of corruption. The Board noted that 1 of those 20 country offices had included the risk of corruption in its 2019 risk register, while 2 of them had mentioned corruption as an impact in their risk statements.

70. The Board did not find any fraud risks reported in corporate risk registers in 2018, 2019 and 2020. UNDP stated that there had not been any significant fraud risks that required escalation or inclusion at the corporate level.

71. The Board noted that the Joint Inspection Unit, in its report on fraud prevention, detection and response in United Nations system organizations, had recommended that United Nations system organizations conduct a comprehensive corporate fraud risk assessment as an integral part of their enterprise risk management system or as a separate exercise. Such an assessment should address fraud risks at all levels of their respective organization, including headquarters and field offices, as well as internal and external fraud risks. The assessments should be conducted at least biennially at the corporate level and more frequently, based on individual needs, at the operational level (recommendation 5, JIU/REP/2016/4).

72. The Board was informed that, in May 2016, UNDP had undertaken a review of its corporate fraud risks. That risk assessment had resulted in the development of a fraud risk management framework action plan to address the risks identified. The framework included 19 areas of concern within the UNDP operating environment. The Board obtained an overview of the 19 areas of concern and related actions after the audit was completed. The Board noted that the areas of concern included the observation that offices were not identifying risks associated with fraud in the enterprise risk management tool. The Board further noted that it was stated in the UNDP fraud action plan that better awareness and assessment of such risks would result in more self-reported fraud risks in the enterprise risk management system.

73. The Board did not obtain an assessment of or documentation on the corporate fraud risks identified in May 2016 in line with the enterprise risk management policy applicable at the time. In response to that observation, UNDP stated that if it had undertaken its assessment based solely on the enterprise risk management thresholds, it would have resulted in few, if any, escalated risks, given the low incidence and value of frauds committed relative to the size of UNDP.

74. UNDP informed the Board that, during discussions of management responses to audits and other discussions of audit and oversight measures, matters of fraud prevention had been discussed at meetings of the Organizational Performance Group.

75. Based on the information available, the Board could not conclude whether the corporate fraud risks identified in an initial assessment, carried out by UNDP in May 2016, had been updated or whether UNDP had assessed its corporate fraud risks biennially. Overall, the Board obtained limited indications of the effective integration of the assessment of fraud and corruption risks into the overall enterprise risk assessment process of UNDP.

76. The Board holds that fraud and corruption risks are critical categories of risks that should not be overlooked, in particular in an organization financed mainly by public funds. The Board also holds that UNDP has room for enhancing the assessment of fraud and corruption risks through its enterprise risk management.

77. **The Board recommends that UNDP enhance the awareness of country offices and other units on how to conduct fraud risk assessments in an integrated manner, for example by presenting good practices at regional or annual retreats for its managers.**

78. **The Board recommends that UNDP tighten the assertions by adding an affirmative statement that an office has assessed fraud and corruption risks in an integrated manner as required by the anti-fraud policy and the enterprise risk management policy.**

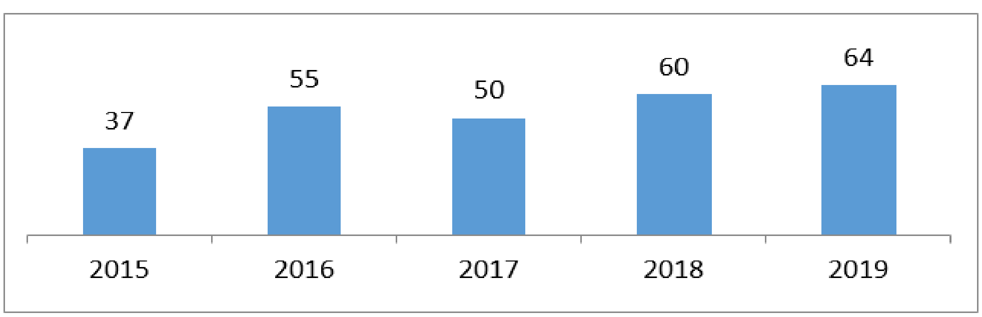
79. UNDP agreed with the recommendations.

5. Fraud risk management

80. In its concise summary of the principal findings and conclusions contained in its reports for the financial periods 2016 (A/72/176) and 2017 (A/73/209), the Board noted that the United Nations and its funds and programmes dealt with contributions raised from the member countries and donations from governmental and non-governmental entities. In the same reports, the Board stated that dealing with money received in good faith made the United Nations and its funds and programmes more responsible and accountable for demonstrating a culture of good and transparent governance and zero tolerance of fraud and corruption.

81. UNDP is a complex, decentralized organization that operates globally with a diverse range of activities, regularly through implementing partners and responsible parties, and often in high-risk and other challenging environments. As a result, UNDP and its operations and programmes face the risks of internal and external fraud and corruption. Owing to its mandate and the nature of its activities, UNDP cannot avoid those risks.

Figure II.III
Number of substantiated investigation cases for fraud-related categories of misconduct



Source: Annual reports of the Office of Audit and Investigations, 2015–2019.

United Nations Development Programme policy on fraud and other corrupt practices

82. The Board noted that, since 2005, UNDP had codified its anti-fraud efforts and that the most recent revision of the UNDP anti-fraud policy had been approved in October 2018. The Board noted that UNDP had integrated its fraud prevention activities within its rules, procedures and business processes such as its enterprise risk management system.

83. The UNDP anti-fraud policy applies to all activities and operations of UNDP, including projects and programmes funded by UNDP and those implemented by UNDP. The Board noted that, in separate sections, the UNDP anti-fraud policy described fraud prevention measures, roles and responsibilities, details on reporting fraud and investigation of allegations, remediation and implementation of lessons learned and reporting on matters of fraud and corruption. In the anti-fraud policy, it was stated that UNDP was committed to preventing, identifying and addressing all acts of fraud and corruption through, among others, enforcing the policy.

84. Based on current good practices for anti-fraud policies, the Board reviewed the UNDP anti-fraud policy and found that UNDP had incorporated leading practices. The Board welcomes that UNDP has in place a corporate anti-fraud policy and considered the policy to be suitable to provide guidance on how UNDP aims to prevent, detect and address fraudulent acts.

Good practices for fraud risk management

85. In its reports on UNDP for 2015, 2016 and 2017, the Board held that UNDP needed to thoroughly review the underlying circumstances that had led to fraud cases, identify possible gaps and develop a comprehensive documented strategy to minimize fraud risks and associated loss.

86. The Board noted, that in previous years, the Board and the Joint Inspection Unit had provided various guidance and recommendations. They included guidance on integrated fraud strategies, including plans for managing fraud risks tailored to the different parts of the organization (A/69/5 (Vol. I), para. 158) and the recommendation to develop wide-ranging strategies for fraud mitigation (A/70/322, para. 51).

87. The Board further noted that the Joint Inspection Unit, in its report on fraud prevention, detection and response in United Nations system organizations (JIU/REP/2016/4), had stated that clear strategies and action plans were needed to operationalize anti-fraud policies and put in place effective anti-fraud measures. Such anti-fraud strategies should be based on the organization's corporate fraud risk assessments and should be an integral part of the overall organizational strategies and operational objectives. Based on the level of fraud risk, proportionate resources should be dedicated to operationalize the strategies and action plans.

Fraud risk management approach of the United Nations Development Programme

88. In May 2016, UNDP reviewed its corporate fraud risks and developed a fraud risk management framework action plan to address those risks. The framework included 19 areas of concern within the operating environment of UNDP. Those areas of concern needed short-term, medium-term and longer-term actions to address the root causes of fraud and breakdown in controls. UNDP initially intended to implement the action plan in line with corporate responsibilities over the following two years with regular reporting to the Organizational Performance Group.

89. The Board was informed that UNDP applied an integrated approach to fraud risk management integrating various elements of fraud prevention into its policies and procedures. UNDP stated that it employed a three-pronged approach with respect

to its anti-fraud policy: (a) the systematic application of an integrated enterprise risk management policy, where units are expected to identify and highlight potential risks (both external and internal) in the organization's planning processes; (b) measures at the corporate level to strengthen fiduciary risk management, including the risk of fraud; and (c) the UNDP anti-fraud policy specifically addressing the risk of fraud by implementing partners.

90. In terms of the current implementation of the fraud risk management framework action plan, UNDP informed the Board that progress had been made and actions were still ongoing. The Board was provided with details on actions implemented in the following five areas: banking actions; financial attestation; fiduciary risk management and harmonized approach to cash transfers; procurement action; and human resources, people and capacity.

91. The Board has not been provided with documented reports to the Organizational Performance Group on the current status of the fraud action plan but UNDP informed the Board that it was committed to providing an update. Given the time elapsed since May 2016, the Board holds that the initial intent of UNDP to implement the plan over the subsequent two years was too optimistic at the time of its endorsement.

92. The Board acknowledges that UNDP applies an integrated approach to fraud risk management that resulted in elements of fraud prevention in different policies and procedures. The Board welcomes that UNDP initially developed a fraud risk management framework action plan in 2016.

93. UNDP informed the Board that it was developing an anti-fraud strategy to help prevent fraud and corruption. At the time of the audit, the draft fraud prevention strategy had not yet been shared with the Board.

94. The Board notes that, at the time of the audit, UNDP did not have a separate strategy document in place to complement the implementation of its anti-fraud policy. At the same time, the Board welcomes the recent efforts of UNDP towards developing such a fraud prevention strategy and encourages UNDP to continue its work on the strategy.

95. The Board holds that a corporate anti-fraud strategy should define the organizational priorities of UNDP in terms of fraud risk management. Those organizational priorities are key to providing orientation to managers required to implement the anti-fraud policy and providing details on the strategic approach for proportionate and cost-effective interventions.

96. The Board noted that the importance of the local context was emphasized in different parts of the UNDP anti-fraud policy. For instance, it was noted that, when developing a new programme or project, it was important to ensure that fraud risks were fully considered in the programme or project design and processes, especially for complex, high-risk programmes or projects or for programmes or projects operating in high-risk environments. In addition, where managers had identified and assessed the risk of fraud and corruption, those risks could be managed by establishing practices and controls to mitigate the risks, by accepting the risks – but monitoring actual exposure – or by designing ongoing or specific fraud evaluation procedures to deal with individual fraud risks. Within UNDP, that may involve applying controls in addition to those specified in the UNDP internal control framework and the operational guide of the internal control framework, which outline the internal control standards to be observed.

97. The above approach suggests that the use of an overall strategy and an action plan at the corporate level may be complemented by local mitigation measures that respond to fraud risks identified at the country office level. In accordance with the integrated approach of UNDP, such local actions would be documented in the

respective programme or unit risk log. However, the Board found hardly any examples of such practice during its audit. In the view of the Board, this observation indicates that such localized actions have barely been developed or that the use of the UNDP risk management framework needs to be strengthened in order to document fraud risk management actions.

98. **The Board recommends that UNDP define its organizational priorities through an organization-specific anti-fraud strategy that should incorporate current good practices.**

99. **The Board recommends that UNDP continue to implement its fraud risk management framework action plan and provide regular updates on its status to the Risk Committee that should be documented in the meeting minutes.**

100. **The Board recommends that UNDP set a realistic time frame for implementing its fraud risk management framework action plan.**

101. **The Board recommends that UNDP enhance the awareness of country offices and other units on how to document fraud risk treatment actions in the corporate risk management tools available, for example by presenting good practices at regional or annual retreats for its managers.**

102. UNDP agreed with the recommendations.

Fraud risk awareness: good practices

103. A strong anti-fraud culture and raising awareness of fraudulent acts are considered to be fundamental to effectively mitigate fraud and corruption risks and to improve an organization's resilience. Key elements include management's credible commitment, awareness-raising measures, and education for staff about the risks of fraud in their areas of responsibility.

104. The Board noted that the Joint Inspection Unit, in its report on fraud prevention, detection and response in United Nations system organizations (JIU/REP/2016/4), had recommended that organizations, on the basis of a comprehensive needs assessment, establish a dedicated anti-fraud training and fraud awareness strategy for all members of the organization. In the same report, the Joint Inspection Unit had identified the following good practices: annual refresher training for all staff to stay well-informed about fraud risks, independent of a staff member's seniority; senior management communicating specific messages of ethics and integrity at least once a year; and multi-element communication and fraud awareness-raising campaigns organized across departments.

105. The Board noted that the UNDP anti-fraud policy stated that UNDP was committed to preventing, identifying and addressing all acts of fraud and corruption against UNDP, among others, through raising awareness of fraud risks. The Board further noted that the anti-fraud policy stated that staff members, non-staff personnel, vendors, implementing partners and responsible parties needed to be aware of their responsibility to prevent fraud and corruption. In that regard, the anti-fraud policy included various provisions related to raising awareness of the policy among internal and external stakeholders. One of the provisions was the expectation that managers act as role models and, through their actions and behaviours, set the tone for the rest of the organization.

Raising fraud risk awareness internally

106. The Board noted that the first dedicated all-staff anti-fraud training at UNDP had been launched in December 2018, together with an email broadcast to all staff to announce the publication of the updated anti-fraud policy. Since that time, the online

anti-fraud training had been available on the UNDP internal Talent Development Centre. Initially, existing staff and service contract holders were to have completed the mandatory training by 30 June 2019.

107. The Board reviewed the status of staff and service contract holders in respect of completing the mandatory online anti-fraud training as of December 2019. The Board noted that 79 per cent of eligible staff had completed the training, which was an acceptable result. The Board further noted that, among eligible middle and senior managers (D-1 grade and above), 48 per cent had completed the anti-fraud training.

Table II.2
Number and proportion of eligible staff and service contract holders who had completed the mandatory online anti-fraud training as of December 2019

Category	*Number of individuals eligible to undertake training*	*Number of individuals who completed "Fraud and corruption awareness and prevention"*
Staff	6 877	5 293 (77%)
Service contract holders	8 335	6 701 (80%)
Total	**15 212**	**11 994 (79%)**

Source: Data provided by UNDP. Board of Auditors analysis excluding United Nations Volunteers.

108. In the country offices visited, the Board noted various good practices to increase compliance with mandatory training requirements. Some country offices encouraged staff by providing them the opportunity to take the outstanding mandatory training courses during retreats. Another frequently used instrument was a reminder from senior management during staff meetings, or personalized reminders. One country office made the completion of mandatory training a prerequisite for all additional training and included such completion as a learning goal in the performance evaluations. Another country office limited access to human resources administrative support if the training was not completed.

109. The Board reviewed the specific fraud risk awareness activities that UNDP had conducted in 2018 and 2019. The Board noted that, in addition to training, UNDP had sent broadcast email messages distributing, for example, the annual report of the Administrator on disciplinary measures and other actions taken in response to fraud, corruption and other wrongdoing. In addition to the dedicated online anti-fraud training, the Board noted that UNDP had stated that it included various anti-fraud elements in its procurement certification training and online ethics training.

110. The Board was informed that awareness was raised through various initiatives of the Ethics Office, for example annual guidance during the holiday season on receiving gifts, ethics brochures and information and additional resources on the ethics intranet and public website and through a dedicated section on fraud in the UNDP Code of Ethics. UNDP further stated that the UNDP Ethics Office played a critical role in raising awareness and providing advice on how to identify and/or avoid fraud and corruption through its various training, outreach and awareness-raising activities.

111. However, the Board also noted during interviews with staff members that knowledge of various provisions of the anti-fraud policy and related expectations towards managers varied.

112. The Board noted the following additional good practices related to fraud risk awareness during its field visits: additional specific anti-corruption training; additional anti-fraud modules included in procurement training; a request made by

senior management to display anti-fraud posters throughout the office; a request that workplans must include ideas or strategies on how the proposed activities would address cross-cutting issues such as corruption; and communication of the anti-fraud policy and a localized anti-fraud policy to all staff. At the same time, the Board noted, in the same country offices, non-compliance with policy provisions related to property, plant and equipment or individual contractors, indicating limited awareness of fraud and corruption risks.

113. The Board acknowledges the various ways in which country offices have raised awareness of fraud and corruption. The Board also welcomes that UNDP has mandatory, dedicated anti-fraud training in place and includes anti-fraud elements in various other kinds of training. At the same time, the Board is of the view that fraud awareness is more effective if there is frequent exposure to anti-fraud topics.

114. The Board holds that fraud awareness could be enhanced through more targeted awareness-raising, for example, whenever pertinent reports, such as the annual report on audit and investigation of the Office of Audit and Investigations, are published. Occasions such as International Anti-Corruption Day, on 9 December, or the International Fraud Awareness Week of the Association of Certified Fraud Examiners provide regular opportunities for related awareness-raising efforts.

115. **The Board recommends that UNDP further enhance its efforts and continue to raise fraud awareness internally.**

116. UNDP accepted the recommendation.

Raising fraud risk awareness with external partners

117. The Board noted that the UNDP anti-fraud policy required managers to make non-staff personnel, vendors, implementing partners and responsible parties contracted or engaged by their respective offices aware of the anti-fraud policy. It was also stated in the policy that vendors were made aware of and accepted that they were subject to the UNDP procurement protest and vendor sanctions policy and the United Nations Supplier Code of Conduct.

118. During its field visits, the Board identified various good practices. They included using pre-bid meetings or training of vendors on electronic tendering to raise the awareness of potential vendors about UNDP rules and regulations, including the anti-fraud policy. With regard to implementing partners, the Board noted the good practice of giving a separate presentation on the anti-fraud policy, including reporting channels, during orientation briefings. The Board further noted the good practice of a national implementation manual for UNDP-funded projects, including a dedicated section on fraud monitoring and mitigation. The Board also noted that in the same manual it was stated that all partners were required to receive a copy of the UNDP anti-fraud policy and information on how to report fraudulent acts.

119. At the same time, the Board identified several enhancement opportunities. The Board noted that the UNDP online transparency portal offered online training courses for the public, including the above-mentioned course on fraud and corruption awareness and prevention. The Board noted that project staff in the country offices visited did not proactively communicate the availability of that anti-fraud training to external stakeholders such as implementing partners.

120. The Board reviewed a purposive sample of 22 local procurement websites to assess whether they made potential vendors aware of the UNDP anti-fraud policy or the zero tolerance of UNDP towards fraud and corruption and whether they included any reference to the UNDP procurement protest and vendor sanctions policy or the United Nations Supplier Code of Conduct. The Board found that none of the local

websites reviewed mentioned the anti-fraud policy or repeated the message of zero tolerance towards fraud and corruption.

121. The Board further noted that 1 out of 22 local procurement websites mentioned the UNDP vendor protest mechanism and that 2 out of 22 included a reference to the United Nations Supplier Code of Conduct. At the same time, the Board noted the good practice that two country offices included a fraud scam warning on their local procurement websites with regard to fake procurement notices circulated on behalf of UNDP. One country office provided a generic email address and stated that offers sent to the private email addresses of any procurement staff would be automatically disqualified. The Board acknowledges that the UNDP anti-fraud policy does not require country offices to include anti-fraud messages on their local procurement websites pages. At the same time, the Board views this as a good practice.

122. The Board noted that suppliers had to accept the general terms and conditions of UNDP when submitting their bids. The Board further noted that the general terms and conditions included details on standards of conduct, including references, among others, to the anti-fraud policy, the United Nations Supplier Code of Conduct and the UNDP policy on vendor sanctions. At the same time, the Board noted that no further information and no hyperlink to those documents was provided. The Board noted that the hyperlink to the United Nations Supplier Code of Conduct on the UNDP corporate procurement notice website did not work throughout the audit.

123. The Board holds that the above-mentioned good practices and enhancement opportunities, if applied across UNDP, are cost-effective measures to communicate the UNDP stand on fraud and corruption as well as to implement the fraud awareness-related provisions of the anti-fraud policy.

124. **The Board recommends that UNDP further enhance its continuous efforts to raise fraud awareness with external partners.**

125. UNDP agreed with the recommendation.

6. Internal controls

Internal control framework

126. In its previous report (A/74/5/Add.1), the Board identified matters of non-compliance with regard to the UNDP internal control framework. The Board noted that, in an inter-office memorandum sent to all resident representatives and bureau deputies in September 2019, UNDP had informed all country offices about those findings. The memorandum required all country offices to review their internal control frameworks and to address the issues described by no later than 1 October 2019. The Board noted that UNDP had added a reference to the memorandum and compliance with it to the checklist for the 2019 annual assertion process. The Board reviewed the same matters during its 2019 audit.

127. With regard to the Board's prior year's finding that requisitions and purchase orders had been approved by the same person exercising both first and second levels of authority in the same transaction, the Board noted, for 2019, 317 transactions above the exception threshold of $5,000 for which the same person had exercised both first and second levels of authority. Those transactions related to purchase orders with a total amount of more than $13.8 million. The Board noted that those matters of non-compliance had stopped after UNDP implemented a new automated control in the enterprise resource planning system, in December 2019. The automated control enforces the segregation of duty between the first and second authority approval at the transaction level.

128. With regard to the Board's prior year's finding that a bank signatory also held the vendor approver role, the Board identified 3 bank signatories, out of a sample of 80 bank signatories, who also held the vendor approver role. Those three bank signatories had approved a total of 266 vendors during 2019. The Board noted that the dedicated section in the UNDP operational guide of the internal control framework on segregation of duty requirements did not include the detail that bank signatories were not supposed to approve vendors in the enterprise resource planning system; that requirement was included in a different subsection, on designating bank signatories. Furthermore, the Board noted that the bank signatory function was not integrated into the role generation and user provisioning system.

129. With regard to the Board's prior year's finding that service contract holders performed internal control functions, the Board identified 44 cases of service contract holders and United Nations Volunteers performing internal control functions that must be held by UNDP staff members only. In eight cases, this included reviews as the second level authority for transactions such as payroll.

130. The Board noted that all country offices in which the matters of non-compliance had occurred had confirmed compliance with the above-mentioned inter-office memorandum during the annual assertion process.

131. The Board noted that, in line with the UNDP internal control framework, certain sensitive roles were not contained in the standard user profiles, given the risks involved. Those roles included the function of overriding match exceptions. The Board found that one service contract holder had been provided the supplementary function of overriding match exceptions.

132. The Board acknowledges that, in some cases, UNDP took immediate action to remove conflicting levels of authority when the Board informed UNDP of its findings during the audit. The Board welcomes the application of an automated control that has effectively stopped violations of the segregation of duty identified by the Board in its previous report. The Board holds that the successful implementation of the automated control demonstrates the effectiveness of such controls. At the same time, the Board notes that all other matters of non-compliance identified in the Board's previous report continued to exist during 2019.

133. The Board was informed that UNDP intended to replace its current enterprise resource planning system. The Board welcomes that intention, as it might offer the opportunity to strengthen effective controls and analytical capacities.

134. **The Board reiterates its recommendation that UNDP review the cases of non-compliance presented by the Board and analyse the reasons for and the circumstances in which bureaux and country offices did not fully comply with the corporate internal control framework.**

135. **The Board recommends that UNDP develop an adequate project outline with appropriate timelines and budgets for the planning phase involved in a complex multi-year project to introduce a new enterprise resource planning system.**

136. **In the meantime, the Board reiterates its recommendation that UNDP, on the basis of the above analysis, further refine its internal control framework and further recommends that UNDP streamline its internal control framework documentation in the operational guide to strengthen its implementation.**

137. UNDP agreed with the recommendations.

Anti-fraud controls

138. The UNDP anti-fraud policy states that a strong internal control system, in which policies and procedures are enforced and internal controls are appropriately implemented, can curtail fraud and corruption. Furthermore, the anti-fraud policy states that UNDP is committed to preventing, identifying and addressing all acts of fraud and corruption through, among others, implementing controls aimed at preventing and detecting fraud and corruption.

139. The anti-fraud policy also states that, where managers have identified and assessed the risk of fraud and corruption, these risks can be managed by establishing practices and controls to mitigate the risks, by accepting the risks – but monitoring actual exposure – or by designing ongoing or specific fraud evaluation procedures to deal with individual fraud risks. The policy further states that, within UNDP, this might involve applying controls additional to those specified in the UNDP internal control framework and the operational guide of the internal control framework.

140. The Board noted that all four country offices visited had applied additional controls. The Board noted that most of these additional controls related to tightening the required minimum controls. In particular, the Board noted the following additional controls: lowering the threshold for the mandatory use of e-tendering; making e-tendering mandatory for all solicitations; lowering the threshold for the mandatory creation of purchase orders; establishing long-term agreements for event management services to reduce the handling of cash related to events; and additional clearance required by the head of the procurement unit for all micro-purchases and clearance of vendor evaluation forms.

141. The Board noted that the country offices visited applied the following additional controls and practices to specifically reduce the risk of fraudulent acts: ensuring that more than one staff member met with suppliers or that other staff members were copied on all communications with suppliers; extending the requirement to fill a conflict of interest form to all service contract holders; monitoring of projects by at least two staff members to address the risk of collusion; not paying fuel suppliers in cash; and reviewing fuel consumption and related mileage monthly.

142 The Board noted that various fraud schemes required that fraudsters maintained a continual presence in their job position to conceal their scheme. Requiring staff members, particularly those working in a position where fraud is more likely to occur, to take annual vacation – during which time others perform their duties – increases the chance of potential fraud schemes being detected and has a strong deterrent effect. Periodically rotating the tasks, assignments or job functions of key employees is another effective fraud-prevention measure. The Board noted that external studies suggested that specific anti-fraud controls such as rotation and mandatory vacation were associated with a 50 per cent reduction in fraud duration.

143. The Board noted that, in two country offices visited, tasks were rotated within procurement teams. At the same time, the Board noted that most of the staff members interviewed in high-risk areas such as procurement were not aware of task or portfolio rotation as a preventive fraud control. The Board noted that monitoring of leave balances was also unknown as a preventive fraud control. The Board was informed that UNDP did not have a procedure or policy in place related to task or portfolio rotation and mandatory vacation.

144. The Board acknowledges that UNDP applies an integrated approach to fraud risk management and welcomes the resulting elements of fraud prevention in different policies and procedures. The Board appreciates that the internal control framework is reviewed periodically, with improvements made to specific controls that help to prevent fraud.

145. At the same time, the Board holds that additional control measures should be implemented in high-risk environments and welcomes that this measure is encouraged in the UNDP anti-fraud policy. In this respect, the Board notes positively the additional controls applied by country offices visited in order to address the risk of fraudulent acts. Despite the various laudable additional fraud prevention efforts, the Board notes that key preventive fraud controls such as rotation of tasks and portfolios or mandatory vacation and vacation monitoring were unknown to most staff.

146. The Board holds that the fact that rotation of tasks and portfolios has been implemented in a few offices shows that the measure is an easy and very cost-efficient anti-fraud control. The Board acknowledges the fact that e-tendering for all tendering has been successfully implemented in a country office located in a country without widespread Internet access.

147. The Board noted that the application of additional fraud controls had primarily been initiated on the basis of managers' experience working in high-risk environments. The Board holds that the current UNDP anti-fraud controls could be enhanced by sharing related good practices and experiences among managers.

148. **The Board recommends that UNDP assess the application of good practices such as rotation of tasks among personnel in contexts where a higher risk of fraudulent acts has been identified.**

149. UNDP agreed with the recommendation.

Implementation of controls related to property, plant and equipment

150. Pursuant to the UNDP policy on property, plant and equipment, all items are subject to a physical verification exercise. This includes the periodic verification of the existence of assets and the reconciliation of physical verification results to the records. The UNDP policy on furniture and equipment includes further requirements for vehicles and other equipment. Pursuant to this policy, the physical verification has to be completed at least quarterly and has to be certified at least annually.

151. In one country office, the Board identified 11 vehicles owned and operated by UNDP that were not recorded in the enterprise resource planning system. The Board also noted that the Office of Audit and Investigations had reported a similar case in a different country office, where four vehicles were not recorded in the enterprise resource planning system.

152. The Board holds that it is important to maintain complete records of all vehicles. In the view of the Board, this is necessary not only to ensure sound accounting records, but also to minimize risks related to the disposal of vehicles.

153. **The Board recommends that UNDP record the vehicles not yet included in the enterprise resource planning system in compliance with IPSAS 17: Property, plant and equipment.**

154. **The Board recommends that UNDP enhance awareness of the importance of fully complying with the requirements in place to physically verify the existence and completeness of vehicles in country offices where matters of non-compliance were identified.**

155. UNDP agreed with the recommendations.

Personnel data administration

156. Country offices and the Global Shared Services Unit shared roles and responsibilities for the administration of human resources. The administrative tasks

included taking hiring decisions, entering personnel data into the enterprise resource planning system and adjusting the information to account for life events.

157. The Board reviewed a sample of data entries for newly hired personnel and for changes in personnel data, such as marital status or number of children. In one country office, the Board noted that there was no documentation on whether supporting documents were reviewed and validated before entry into the enterprise resource planning system. The Board also did not note such a control for changes made to personnel data.

158. The Board noted that the Global Shared Services Unit in Kuala Lumpur did not request any supporting documents from country offices during payroll validation and review. In addition, the Global Shared Services Unit in Kuala Lumpur had no access to supporting documents to verify information received from country offices and relied on the correctness and accuracy of entries made by country offices.

159. **The Board recommends that UNDP establish a detective control at the Global Shared Services Unit level to ensure that information entered by country offices into the enterprise resource planning system is correct and accurate.**

160. UNDP agreed with the recommendation.

7. Vendor management

161. The Board noted that UNDP vendor management was primarily decentralized and delegated to its business units, which were responsible for conducting vendor creation, approval, due diligence and monitoring. Some headquarters units, such as regional bureaux, had an oversight function over country offices, including providing support relating to vendor data management. As part of the ongoing clustering of financial services, the business process of vendor management for country offices of the Regional Bureau for Asia and the Pacific was performed by the Global Shared Services Unit in Kuala Lumpur. The vendor management-related services provided by the Global Shared Services Unit included vendor registration and vendor data management.

162. The Board noted that the UNDP anti-fraud policy stated that UNDP should not award a contract to any vendor that had been debarred by UNDP or another United Nations entity, as indicated on the United Nations ineligibility list, hosted on the United Nations Global Marketplace. The Board identified similar due diligence provisions throughout the UNDP's programme and operations policies and procedures.

Vendor eligibility screening and supporting documents for creation of vendor profiles

163. The Board noted that the eligibility of vendors needed to be confirmed at different steps of the bid evaluation process. The Board also noted additional eligibility checks during vendor profile creation. They included the link to the United Nations ineligibility list in the vendor management module of the UNDP enterprise resource planning system and the requirement to confirm that the ineligibility check has been performed. At the same time, the Board noted that the instructions in the UNDP programme and operations policies and procedures related to the eligibility screening included references to different eligibility lists. In addition, the documents required to support vendor creation requests varied.

164. Only one section in the UNDP programme and operations policies and procedures contained a reference to the ineligibility list on the United Nations Global Marketplace. Other sections contained a reference to a UNDP list of suspended and removed vendors. The Board noted that UNDP had listed its entries in the United Nations ineligibility list on the intranet and an external webpage, with the latter not being updated. The Board noted that no uniform, UNDP-wide checklist for documents

required for the creation of vendor profiles was available in the UNDP programme and operations policies and procedures. The Board identified different checklists on the UNDP intranet and noted that those checklists differed in terms of the requirements to prove an existing business relationship with a supplier. Some checklists required a copy of a valid contract with UNDP or evaluation reports from the solicitation processes. Another checklist required only a proof of business relationship when the vendor name differed from the name of the bank account holder.

165. The Board is of the view that the above might result in an insufficient eligibility screening during the vendor creation process. The Board acknowledges that the checkbox to confirm screening against the United Nations ineligibility list is a consistent reminder in the vendor management module. However, if staff members mix up the various eligibility lists owing to non-streamlined referencing of the lists, they still might check the box on the United Nations Global Marketplace eligibility screening when they may have used only the UNDP list of ineligible vendors.

166. **The Board recommends that UNDP streamline existing referencing on eligibility checks to be performed during vendor creation.**

167. **The Board recommends that UNDP streamline and enhance guidance on required supporting documents for vendor creation.**

168. UNDP agreed with the recommendations.

Inclusion of ineligible vendors in vendor master files

169. During one of its field visits, the Board identified the inclusion of an ineligible vendor in the local vendor master file. The Board found that the vendor had been created despite being under interim suspension pending the outcome of UNDP vendor sanction proceedings. The Board found that an active business relationship had been maintained after the vendor had been debarred by UNDP. Subsequent analysis by the Board revealed the inclusion of additional ineligible vendors in other vendor master files.

170. The Board acknowledges that UNDP took immediate action after the Board shared initial observations on sanctioned vendors included in vendor master files during the audit. The Board welcomes that UNDP immediately implemented the informally shared recommendation to match vendor records in the enterprise resource planning system with the United Nations list of ineligible vendors. The Board noted that a list of sanctioned vendors that existed in 97 business units had been shared with country offices for further review and action, should the vendors be confirmed as ineligible.

171. The Board appreciates that UNDP took immediate action to inform the business units concerned. UNDP stated that it had established an additional verification procedure that included a monthly matching exercise. The Board holds that the above finding was the result of policies and procedures for vendor management that revealed room for enhancement. This included the lack of robust requirements for continuous due diligence and eligibility screening by business units. The above also occurred because the provision of the UNDP vendor sanction policy to periodically verify that no new contracts have been awarded to ineligible vendors and that they are not actively participating in UNDP procurement had not been implemented.

172. The Board is of the view that the current approach of UNDP of informing the business unit concerned only if a vendor had been sanctioned poses a risk, as the same vendor could exist in different vendor master files of other business units. In this regard, the Board notes ongoing discussions within UNDP on considering sending a standardized message to all business units to periodically inform them about newly sanctioned vendors.

173. **The Board recommends that UNDP enhance existing guidance for business units outlining procedures to be performed at regular intervals for vendor monitoring and maintenance of vendor records and continuous due diligence.**

174. **The Board recommends that UNDP implement the recently established process to regularly review its vendor databases to exclude ineligible vendors.**

175. **The Board recommends that UNDP periodically inform all business units about new suspensions or entities and individuals sanctioned on the recommendation of the UNDP vendor review committee.**

176. UNDP agreed with the recommendations.

Pending cases submitted to the vendor review committee

177. The Board noted that an audit by the Office of Audit and Investigations had found, among others, that the vendor review committee had not met regularly during the period 2014–2015. The vendor review committee informed the Board that it had been active from 2017 to March 2019, but that the meetings had been less frequent compared with previous years, owing primarily to staff shortages. The Board noted that, in March 2020, 66 cases submitted to the vendor review committee had been pending.

178. The Board acknowledges the current work of the vendor review committee to address the backlog of pending cases using a priority-driven approach. The Board recognizes that the backlog of cases with the vendor review committee might not be within its purview as the sanctions procedure itself is comprehensive and involves responses by the vendor that might be delayed. At the same time, the Board holds that the primary cause for the backlog of pending cases is the fact that the vendor review committee has not been operating at full capacity owing to staff shortages.

179. The Board is of the view that comprehensive mechanisms to address substantiated fraud cases serve to decide on sanctions following an individual's or a third party's fraudulent behaviour also serve as a deterrent to similar acts being committed in the future. Hence, the Board considers sanctions to be an essential element in establishing a robust anti-fraud culture and commitment to combating fraud.

180. **The Board recommends that UNDP expedite the clearing of the backlog of vendor cases to be reviewed by the vendor review committee.**

181. UNDP agreed with the recommendation.

8. United Nations development system reform

182. The Secretary-General has made proposals to reform the United Nations since the beginning of his term, in January 2017, and Member States requested the United Nations to implement changes across the United Nations system. The changes mainly covered the following three pillars: development, management, and peace and security. Within this wider context, the reform of the United Nations development system is aimed at improving the delivery of the United Nations development system in order to better assist Member States in achieving the Sustainable Development Goals and the 2030 Agenda for Sustainable Development.

183. On 31 May 2018, the General Assembly adopted resolution 72/279, on the repositioning of the United Nations development system. In the resolution, the General Assembly called upon the Secretary-General to design and implement a series of reforms and present them to Member States for review. The Secretary-General presented a report to the Economic and Social Council (A/74/73-E/2019/14), representing the first system-wide stocktaking exercise of the United Nations development system reform process in 2019.

United Nations Development Programme engagement to contribute to the implementation of the United Nations development system reform

184. In its resolution 72/279, the General Assembly requested all United Nations agencies, funds and programmes to contribute to the common objectives of the United Nations development system reform. The United Nations development system reform affected UNDP more than other agencies owing to the previous role of UNDP as the host of the United Nations development system coordination function.

185. UNDP facilitated and administered the separation of the resident coordinator function from that of the UNDP resident representative. The separation entailed the delinking of positions, structures, budgets and processes that had been embedded in the organization since the late 1970s. The reform process was complex for UNDP owing to the associated human resources, legal and financial matters involved. Since 1 January 2019, UNDP has served as the operational service provider for the new resident coordinator system.

186. In its decision 2010/32, the UNDP Executive Board defined cost definitions and classifications for the integrated budget. The cost classifications were harmonized with the United Nations Population Fund (UNFPA) and the United Nations Children's Fund (UNICEF). One cost classification category is United Nations development coordination. It comprises activities and associated costs supporting the coordination of the development activities of the United Nations system. The expenses of UNDP in that category were significantly lower in 2019 than in 2018 ($40 million compared with $125 million) because the resident coordinator function had been separated from UNDP on 1 January 2019. Remaining expenses related, for instance, to reimbursements to United Nations Headquarters for the provision of common services, the provision of services to the reformed United Nations resident coordinator system and contributions to United Nations system coordination at the headquarters and country office levels.

United Nations Development Programme contributions to resident coordinator system funding

187. In its resolution 72/279, the General Assembly emphasized that adequate, predictable and sustainable funding of the resident coordinator system was essential to delivering a coherent, effective, efficient and accountable response in accordance with national needs and priorities. Also in that resolution, the General Assembly decided to provide sufficient funding in line with the report of the Secretary-General (A/72/684-E/2018/7) on an annual basis starting from 1 January 2019 through: (a) a 1 per cent coordination levy on tightly earmarked third-party non-core contributions to United Nations development-related activities, to be paid at source; (b) doubling the current United Nations Sustainable Development Group cost-sharing arrangement among United Nations development system entities; and (c) voluntary, predictable, multi-year contributions to a dedicated trust fund to support the inception period.

Administering the 1 per cent coordination levy

188. For UNDP, the aggregated amount of all levies received and transferred to the United Nations Secretariat was $1.92 million for 2019, but the total amount of the levy collected for 2019 was $2.68 million. Previously, UNDP had estimated that approximately $2 million to $3 million would be generated from levy collection in 2019. Thus, for UNDP, the total amount of levy collected was within initial expectations.

189. On 12 March 2019, the United Nations Secretariat provided guidance on the payment of the 1 per cent levy on tightly earmarked third-party non-core contributions

to United Nations development-related activities. It was specified in the guidance that the United Nations Secretariat and the respective funding partner would formally agree on the application date of the levy. In addition, the individual United Nations entities were requested to administer the levy if funding partners agreed to pay the levy through the United Nations entity ("agency administered option") and to transfer the levy to the Development Coordination Office of the United Nations Secretariat.

190. In the case of the "agency administered option" for the levy, the agency administering the levy needs to implement the rules and procedures set by the United Nations Secretariat for levy collection. For instance, the agencies have to implement a number of exemptions for the levy application included in the United Nations Secretariat guidance. These exemptions apply, for instance, to contribution agreements with the purpose of funding activities that the United Nations entity has classified as humanitarian assistance and that are mapped to Organization for Economic Cooperation and Development (OECD) Development Assistance Committee codes 720, 730, 740 and 930. The guidance also excludes contributions to an entire country programme, joint programming or programmes of less than $100,000. The levy also does not apply to new contribution agreements if the new agreement is subsequently amended and the amendment is below 20 per cent of the initially agreed budget on which the original levy calculation was made. In such cases, no revision of the levy has to take place. The United Nations Secretariat guidance also contains frequently asked questions and a checklist on how to determine whether an agreement is subject to the levy.

191. Many accounting systems of United Nations organizations did not facilitate a solution according to which the levy could be transferred to the United Nations Secretariat at the time of the signature of a contribution agreement, as originally intended. Accordingly, the United Nations Secretariat permitted agencies to submit consolidated reports and agreed to pay the levy in tranches rather than upfront.

192. The Board noted that UNDP had established internal guidance, processes and communication channels to manage the levy collection and transfer. The Board further noted that UNDP monitored the process of levy collection and continuously engaged with the Development Coordination Office and Resident Coordinator Offices on levy matters. The Board also found that UNDP had established a levy helpdesk and a Yammer page to disseminate information and to respond to queries from country offices and regional bureaux. In addition, the Board noted that the date for actual application of the levy differed among funding partners and corresponded with the activation dates provided by the Development Coordination Office to UNDP in the course of 2019. The Board further noted that UNDP maintained a list of all signed agreements subject to the levy and the levy amounts collected. However, despite all of those efforts to operationalize the collection of the levy, administering the levy was not without challenges for UNDP during 2019.

193. In March and April 2020, UNDP conducted a survey of resident representatives, seeking their feedback on their early experiences implementing various elements of the United Nations development system reform. Despite the onset of the COVID-19 crisis, 87 out of 128 resident representatives responded to the survey. The Board noted that, at the country level, UNDP resident representatives reported that local funding partners were not sufficiently familiar with the levy (50 per cent of country offices) and felt that the Resident Coordinator Offices had not effectively supported solicitation of the levy with the local donor community (40 per cent of country offices). The Board further noted that 54 per cent of UNDP country operations reported that the levy had been collected from within the contribution, rather than added to the contribution amount, making fewer resources available for programme activities.

194. The Board's own analysis confirmed that, in practice, the collection of the levy reduced the funds available for programming. The Board noted that, while the levy should be an additional 1 per cent of the contribution amount, during the negotiations, funding partners decided to deduct the levy from the initially envisaged contribution amount. Consequently, the final contribution amount was lowered so that the initially envisaged contribution amount could cover both the levy and the contribution. The Board observed that, in one case, the levy had not been calculated using the United Nations Secretariat guidance as, in that case, the agreement showed that the levy had been deducted from the amount agreed.

195. In addition, it seems to the Board that the United Nations Secretariat guidance does not explicitly address the question of how to deal with contribution agreements that amended existing agreements and, at the same time, significantly increased funds contributed to an existing project. Therefore, the Board holds that the United Nations Secretariat guidance is open to interpretation when applying the levy on amendments for existing contribution agreements.

196. The Board also noted that UNDP might enhance its documentation with regard to the exemptions applied by UNDP for a specific contribution agreement. For instance, one country office documented that the office had applied the exemption for humanitarian assistance but had not stated in the documentation to which specific OECD Development Assistance Committee code it had mapped the funded project. However, the latter was a requirement according to the United Nations Secretariat guidance.

197. UNDP informed the Board that the 1 per cent levy should also steer donor behaviour towards less-earmarked funding options. In that regard, UNDP mentioned that an increase in core resources or pooled funds was expected to be achieved as a result of the levy. The Board noted that feedback from the country level indicated that only 8 per cent of UNDP country offices had observed funding partners contributing more resources to pooled funding mechanisms and that 44 per cent of country offices stated that such a trend had not been observed. The Board holds that it may add value to further monitor donor behaviour towards less-earmarked funding options (core resources or pooled funds) in order to assess if that assumption materializes.

198. In 2019, UNDP estimated the cost for administering the levy at $421,707 and the total amount of the levy collected for 2019 was $2.68 million. Based on the estimate, UNDP had to spend an additional amount of 16 per cent of the levy collected to be able to collect the levy in 2019. The Board is concerned that the administrative costs for the funding instrument "levy" are too high compared with the levy income (cost-benefit).

199. UNDP informed the Board that it expected some of these challenges to fade as country offices and funding partners at the country level became more familiar with the levy and the process for collecting it.

200. **The Board recommends that UNDP continue to provide feedback to and to engage with the Development Coordination Office on 1 per cent levy matters (including challenges observed at the country level and questions on interpretation of the United Nations Secretariat guidance).**

201. **The Board further recommends that UNDP develop a standardized template and encourage its use among country offices in order to state the reasons why a specific contribution agreement was exempted from the levy in line with the United Nations Secretariat guidance checklist.**

202. UNDP agreed with the recommendations.

Doubling of cost-sharing contributions

203. In its decision 2018/16, the Executive Board of UNDP requested UNDP to double its contribution for the year 2019 to the existing United Nations Sustainable Development Group cost-sharing arrangement, in accordance with General Assembly resolution 72/279. In early November 2019, UNDP also paid its doubled cost-sharing contribution for the year 2020, in the amount of $10,291,362, to ensure that resident coordinators had the necessary resources to fulfil their coordination mandate unimpeded in 2020.

United Nations Development Programme contributions to joint funding mechanisms for the United Nations development system

204. The United Nations established the Joint Sustainable Development Goals Fund to support countries as they accelerate their progress towards achieving the Sustainable Development Goals. The fund is an inter-agency, pooled mechanism for strategic financing and integrated policy support and operates through a series of calls through the United Nations system.

205. The Board noted that UNDP supported the Fund's governance architecture by chairing the Fund's operations steering committee and by supporting the financial architecture through hosting the Joint Sustainable Development Goals Fund in the Multi-Partner Trust Fund Office.

United Nations Development Programme engagement to contribute to the funding compact targets

206. In his report on repositioning the United Nations development system (A/72/684-E/2018/7), the Secretary-General suggested that the percentage of core budgets allocated to individual entities across the United Nations development system should increase from the current level of 21.7 per cent of total contributions to at least 30 per cent in the subsequent five years. Also in that report, the Secretary-General requested the support of Member States to improve the quality of their earmarked non-core funding by doubling inter-agency pooled funds over the subsequent five-year period and increasing entity-specific thematic funds. Both Member States and entities of the United Nations development system are expected to take concrete steps to address the decline of core contributions and the growing imbalance between core and non-core resources on a continuous basis.

207. The Board noted that UNDP had analysed funding compact commitments to determine UNDP-specific targets. UNDP informed the Board that it had taken steps to operationalize the funding compact commitments by establishing baselines for each commitment area by identifying staff members to monitor and report on the progress made.

208. The Board acknowledges the progress that UNDP has made in some of these areas. In 2019, about 10.8 per cent of non-core resources for UNDP were channelled through inter-agency pooled funds, which was an increase from 8 per cent in 2018 and exceeded the 10 per cent funding compact target. The Board noted that UNDP had identified and implemented a number of measures to achieve that target. The Board found that UNDP had developed guidance for country offices on how to engage with pooled funds. The Board further noted that UNDP had increased the visibility of contributors to inter-agency pooled fund in its reports and revised advocacy materials.

209. The Board noted that, in 2019, UNDP accounted for $617 million core resources based on deposits for voluntary contributions received and $4,829 million total revenues (based on the financial statements). The percentage of core resources

received from voluntary contributions represented 13 per cent of the total revenues of UNDP.

210. The Board further noted that UNDP had conducted three structured funding dialogues in 2019. The Board noted that those dialogues had covered funding topics such as transparency, quality and the predictability of funding. The Board found that the funding dialogues had allowed UNDP to provide detailed information to the Executive Board on the funding situation and challenges. UNDP had also conducted joint funding dialogues with UNFPA, UNICEF and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and had established a collaboration mechanism for joint briefings and dialogues.

211. The Board found that UNDP contributed to system-wide reporting through surveys undertaken by the Department of Economic and Social Affairs of the Secretariat, such as the advanced unedited version of the Secretary-General's report on the implementation of the funding compact by the United Nations development system and Member States. The Board also noted the contribution of UNDP to the Development Coordination Office standardized system-wide annual reporting on the funding compact commitments in February 2020, in which agencies reported on selected entity-specific indicators.

212. The Board acknowledges the active engagement of UNDP with Member States in the funding dialogues and its achievements in restructuring those dialogues. The Board is of the opinion that UNDP initiated key steps to operationalize funding compact commitments for UNDP and, in particular, acknowledges the achievements related to pooled funding. At the same time, the Board noted that the UNDP 2019 milestone for core resources from voluntary contributions was significantly below the target of 30 per cent for the United Nations development system. The Board holds that, for some of the ambitious targets such as the increase in core contributions and an increase in expenditure for joint activities, UNDP might need to further enhance efforts to diversify its strategy by defining annual targets and measures.

213. **The Board encourages UNDP to continue to further enhance its system to operationalize, monitor and report on funding compact commitments.**

214. UNDP agreed with the recommendation.

Separation of the Resident Coordinator function and related processes

215. As from 1 January 2019, the resident coordinator function has been separate from the UNDP resident representative function. The Board noted that the Office of Audit and Investigations had conducted a performance audit of the UNDP operational delinking process that did not result in any high-priority recommendations. The Office of Audit and Investigations expected the process and transition phase to be completed by the end of 2021.

216. The Board noted that UNDP had facilitated and administered the delinking throughout all relevant operational areas based on a corporate checklist. Those areas included the internal control framework, the enterprise resource planning system, finance, human resources, assets, general administration, procurement, office space, information and communications technology, security, local service-level agreements and resource management. The Board further noted that UNDP had established a dashboard on the United Nations development system reform progress for tracking the delinking action status.

217. The Board reviewed the implementation checklist completion status provided by UNDP in April 2020. The Board found an average completion rate of 97.8 per cent. The Board was further informed that the separation had been finalized in many critical areas, with a few areas requiring follow-up to ensure full completion of the process.

Closure of projects

218. Pursuant to the UNDP corporate guidance on project closure, country offices had to identify Resident Coordinator Office system projects to be operationally or financially closed in 2018 and to close the projects as required in accordance with the relevant policies of UNDP. The Board found that UNDP had subsequently reemphasized that requirement in June 2019.

219. The Board reviewed the status of project closure for Resident Coordinator Office system projects. The Board noted that UNDP had finalized project closure for 82 per cent of legacy projects previously funded from the UNDP integrated budget and for which actions were required in accordance with the country office implementation checklist. UNDP further informed the Board that the Development Coordination Office had requested UNDP to keep an additional 18 projects of the former Resident Coordinator Office active. Those projects related to the Delivering Together Facility. UNDP stated that that was due to the non-utilization of the resources allocated within the projects for which expenditure had been incurred during 2019.

220. The Board noted 27 coordination projects funded from other local cost-sharing resources that had not yet been closed. The Board was informed that the closure of those projects was more complex and required a longer duration owing to necessary consultations with local funding partners, the reconciliation of balances, the closing of commitments and the clearing out of balance sheet items.

United Nations Development Programme transition arrangements for staff for the resident coordinator system in 2019

221. The Board was informed that, in 2019, UNDP country offices administered legacy Resident Coordinator Office staff of the former Development Operations Coordination Office who were funded from the United Nations special purpose trust fund institutional budget. As at 31 December 2019, those staff consisted of 25 National Officers and 22 International Professional Officers. UNDP informed the Board that it had extended the contracts of those staff members at the request and with the authorization of the Development Coordination Office. Although those positions were to have been abolished as at 31 December 2019, the staff members remained, as approved by the Development Coordination Office.

222. The Board was informed that UNDP had jointly agreed with the United Nations Secretariat to administer some staff members of various programmes mentioned in paragraphs 35–39 above. UNDP informed the Board that those staff members had mainly been recruited and selected prior to the separation date. UNDP further explained that the rationale behind the agreement was to ensure continuity in service provision to the staff members involved and continuity in donor funding. The Board was also informed that UNDP intended to administer those staff members through UNDP appointments until donor funding was exhausted.

Assessment

223. The Board acknowledges the continuous commitment of UNDP to finalizing the administrative steps initiated to accomplish the delinking targets. The Board holds that UNDP managed to finalize the majority of the work. The Board wishes to encourage UNDP to continue its efforts and follow up on all open items in order to finalize all administrative transitional arrangements to fully complete the separation process.

224. **The Board recommends that UNDP continue to monitor open Resident Coordinator Office projects identified and expedite project closure to the extent possible.**

225. **The Board recommends that UNDP continue to monitor and report the number of staff members provided under transition arrangements to the resident coordinator system and document when those transitional arrangements cease to exist.**

226. UNDP agreed with the recommendations.

Service provision for the resident coordinator system

227. From January 2019 onwards, UNDP provided operational support to the independent and reinvigorated resident coordinator system and was serving as the principal operational service provider. On 21 December 2018, UNDP and the United Nation Secretariat signed a memorandum of understanding on that service provision.

228. In 2019, UNDP received $145,880,000 from the special purpose trust fund for its services, of which UNDP expensed $120,887,252. The Board was further informed that UNDP, in agreement with the Development Coordination Office, had established a contingency fund for unforeseen or unplanned 2020 expenditure from the 2019 balance. UNDP further explained that the unspent balance from 2019 had been carried over into 2020 and made available as part of the 2020 opening balances for the special purpose trust fund.

229. The Board noted that, on 23 December 2019, UNDP and the United Nations Secretariat had signed an amended memorandum of understanding on the service provision in 2020 with a budget of $131,300,086.

230. The Board also noted that UNDP had developed and rolled out the resident coordinator system service portal in June 2019 to ensure transparent and seamless global service delivery to Resident Coordinator Offices. The Board noted that the overall number of requests processed amounted to about 20,000 in less than one year. At the time of the audit, UNDP had also planned a survey to be conducted jointly with the Development Coordination Office on all aspects of the operational services provided, including areas for improvement in terms of client-service provider relationship.

231. The Board acknowledges the continuous efforts of UNDP to collect feedback on service provision and to conduct a joint survey with the Development Coordination Office on all aspects of service provision. The Board holds that the survey is an important tool for gathering information on opportunities for adjustments in order to enhance the UNDP service offer. The Board further holds that it might be an opportunity to identify areas where country offices might need enhanced support from headquarters.

232. **The Board recommends that UNDP use the results from the joint survey with the Development Coordination Office to assess and, if needed, to refine its service offer to the resident coordinator system and its operational support to country offices.**

233. UNDP agreed with the recommendation.

234. The Board noted that UNDP strongly encouraged country offices to establish local service-level agreements to operationalize the implementation of the corporate memorandum of understanding. Service-level agreements ensure a uniform approach to providing services and adapting to the local context. Service-level agreements establish agreed key performance indicators, timelines, inputs and cost recovery rates and provide for a proper client-management relationship and seamless service

provision. The Board noted that, as at 16 June 2020, 97 out of 128 country offices had signed local service-level agreements.

235. The Board acknowledges that UNDP encourages local service-level agreements to define key performance indicators for service delivery. The Board holds that such agreements are an essential element of a successful client-service provider relationship and should be established for all country offices.

236. **The Board recommends that UNDP continue to follow up on signing local service-level agreements for service provision to the Resident Coordinator Office.**

237. UNDP agreed with the recommendation.

United Nations Development Programme service provision of staff for the resident coordinator system in 2019

238. The Board was informed that, as at 31 December 2019, UNDP managed the contracts, payroll, benefits and entitlements for 730 Resident Coordinator Office staff members and had newly recruited 279 National Officers for Resident Coordinator Offices. As at 16 June 2020, as reported by UNDP, the total number of National Officers recruited was 327.

239. The Board was further informed that UNDP additionally administered other contractual modalities such as service contracts for the resident coordinator system under arrangements for locally mobilized resources. According to UNDP, those arrangements were based on the memorandum of understanding with the Secretariat.

United Nations Development Programme staff contributions to the resident coordinator system in 2019

240. The Board was informed that UNDP had seconded 59 senior UNDP staff members to the United Nations Secretariat for resident coordinator duties as of December 2019. The Board also noted that UNDP administered additional staff capacities and contractual operations for the resident coordinator system. They are separate arrangements under bilateral, global, regional or multiple projects that were in place before the separation process and will continue to be in place in the future. The Board further noted that such positions included technical positions such as a peace and development adviser, a transition specialist and a gender adviser to the Resident and Humanitarian Coordinator.

United Nations Development Programme contributions to knowledge management and enhanced capacities of the United Nations development system

241. In its resolution 72/279, the General Assembly called upon the entities of the United Nations development system to strengthen capacities, resources and skill sets to support national Governments in achieving the Sustainable Development Goals and build capacities and expertise across United Nations agencies, funds and programmes. In addition, Member States have asked UNDP to act as the support platform of the United Nations development system, providing an integrator function to support countries in their efforts to implement the 2030 Agenda.

242. The Board noted that UNDP supported that collective effort through its integration offer. The integration offer comprises a programmatic function offered to a country to co-create and operationalize development solutions across sectors in pursuit of common goals. The integrated offer focuses on four related entry points, which are integrated policy and programming, data and analytics, Sustainable Development Goals financing, and investments in learning and innovation.

243. UNDP informed the Board that UNDP had reconfigured its internal policy capacity into the Global Policy Network to deliver on the “integrator” mandate. UNDP expects the Network to scale up support to United Nations country teams and Governments to design and implement innovative integrated policy solutions. The Network is designed to respond to complex development challenges (enhanced Sustainable Development Goal integration).

244. The Board further noted that UNDP worked together with sister agencies to further advance the mainstreaming, acceleration and policy support common approach adopted by the United Nations Development Group in October 2015. The Board also learned that UNDP hosted the joint team and intended to continue its engagements as an essential support for Sustainable Development Goal integration. UNDP also stated its intent to enhance the service offer of the Global Policy Network to support countries and the wider United Nations system in integrated implementation of the Sustainable Development Goals through a global project.

245. The Board was informed that UNDP was contributing to the development of an executive-level foundational training course on the 2030 Agenda (Sustainable Development Goal primer). UNDP had led – in cooperation with the Development Coordination Office – the drafting of the course in 2019. The Board was informed that UNDP had led the drafting of most of the content, particularly the more technical chapters, on integration, supporting Governments towards achieving the Sustainable Development Goals and finance. The Board was further informed that the United Nations Secretariat had endorsed the outline and several drafts of the chapters and modules.

Management and accountability framework

246. The management and accountability framework is a key element of the reinvigorated resident coordinator system and the framework for management and accountability within United Nations country teams. The dual accountability system has been planned to ensure that country representatives remain fully accountable to their respective entities on individual mandates, while periodically reporting to the resident coordinators on their activities and the contributions made to the results of the United Nations development system at the country level. The framework seeks to identify relevant roles and responsibilities of United Nations development system members, hold members to account and monitor their commitments.

247. The Board noted that UNDP participated as a member of the design team that was headed by the Development Coordination Office and was responsible for developing the revised country-level chapter of the management and accountability framework. The Board also noted that the Development Coordination Office had circulated the country-level chapter in its final version of April 2019 to resident coordinators and United Nations country teams.

248. During its field visits, the Board found that country office staff members had noted room for interpretation in the management and accountability framework with regard to Sustainable Development Goal integration and mainstreaming and resource mobilization. UNDP informed the Board that, during the management and accountability framework drafting process, it had become evident that several United Nations country teams were developing localized versions of the framework. Those versions were often inconsistent with the framework agreed with the United Nations Sustainable Development Group. Once the framework had been adopted, it was agreed that the document provided sufficient detail to not warrant local versions. The Development Coordination Office communicated to resident coordinators that local management and accountability frameworks were discouraged as a practice. In May 2019, UNDP developed and disseminated a management and accountability

framework reference document for country offices to enable a consistent understanding and interpretation of the framework.

249. The Board noted that the review of the country-level management and accountability framework initially planned for the third quarter of 2019 had not yet been conducted. The Board noted that, in early 2020, UNDP had conducted a survey in order to collect feedback from country operations on matters relevant to the reform process, including experience with the framework. UNDP informed the Board that it would use the findings to furnish its contributions to the management and accountability framework review by the United Nations Sustainable Development Group scheduled for mid-2020.

250. The Board acknowledges that, in July 2019, UNDP aligned the resident representative job description with the management and accountability framework requirements. The Board noted that, in 2020, UNDP had invited all resident coordinators to comment on the performance of the UNDP resident representatives as members of the United Nations country teams in 2019. For the performance measurement of resident representatives, UNDP further identified a mandatory performance goal and reform-related thematic indicators. A relevant thematic indicator referred, for example, to contributions to joint United Nation country teams' objectives. UNDP assigned those goals and indicators to all resident representatives for the performance in 2020 in order to contribute to the successful achievement of the United Nations country team results.

251. The Board holds that UNDP has demonstrated its commitment to the management and accountability framework. The Board was also pleased to note the efforts of UNDP to collect feedback on the implementation of that framework and to gain feedback from resident coordinators on UNDP contributions to joint results at the country level.

252. **The Board recommends that UNDP use the feedback obtained on the management and accountability framework to inform its contribution to the revision of the country-level framework in order to ensure that accountability is strengthened**.

253. UNDP agreed with the recommendation.

United Nations Sustainable Development Cooperation Framework

254. In its resolution 72/279, the General Assembly stated that the United Nations Development Assistance Framework, subsequently renamed the United Nations Sustainable Development Cooperation Framework, was the most important instrument for the planning and implementation of United Nations development activities in each country, in support of the implementation of the 2030 Agenda. The Framework guides the entire programme cycle of collective United Nations support for achieving the 2030 Agenda.

255. The Board noted that, throughout 2019, UNDP had actively participated in the inter-agency workstream led by the Development Coordination Office and established to develop the United Nations Sustainable Development Cooperation Framework and in the six working groups for developing the companion pieces.

256. The Board noted that UNDP had modified its programme appraisal process and shifted the quality control process conducted by the headquarters Programme Appraisal Committee to the starting stage of designing the United Nations Sustainable Development Cooperation Framework. The Board further noted that the new UNDP appraisal process was to assess the quality of UNDP inputs to the Framework theory of change. At the time of the audit, UNDP was testing the new approach.

257. The Board noted that, in January 2020, UNDP had revised the country programme document template and aligned its guidance to the United Nations Sustainable Development Cooperation Framework.

258. The Board noted that UNDP had incorporated the new United Nations Sustainable Development Cooperation Framework guidance and companion pieces into the standard programme management approaches and training. The Board was informed that 80 staff members had completed the pilot project for the customized training on 31 December 2019. By the end of April 2020, more than 500 staff members across the organization had completed or nearly completed the course. UNDP informed the Board that it intended to train a total of 1,200 staff members by 2021.

259. The Board was pleased to note the engagement of UNDP in developing guidance on the United Nations Sustainable Development Cooperation Framework. The Board holds that the alignment of the UNDP programming process clearly demonstrates that UNDP has handled related risks and opportunities proactively. The Board further holds that the training interventions for staff will further enhance staff knowledge and the capabilities of the Framework. Thus, the Board is of the opinion that UNDP has finalized important preparatory steps to actively contribute to an enhanced system-wide analysis, planning and reporting process.

United Nations Development Programme contributions to the United Nations Business Innovations Group

260. In his report on repositioning the United Nations development system (A/72/684-E/2018/7), the Secretary-General reiterated his commitment to advancing common business operations in United Nations country teams. It was stated in the report that a stronger focus on common business operations could yield substantial savings that could be redeployed to programmes, allowing for the better integration of technologies and application of advanced management practices. In its resolution 72/279, the General Assembly welcomed measures by the Secretary-General to advance common business operations, where appropriate.

261. In July 2018, the Business Innovations Group was established as an inter-agency project team to design and pilot concepts and methodologies to advance the Secretary-General's targets. The Board noted that UNDP had actively engaged in the inter-agency project team throughout 2019. The Board further noted that, in 2019, UNDP had seconded a staff member as a full-time member of the project team at the D-1 level and had assigned technical staff members to participate in all workstreams.

262. The Board noted that UNDP had signed the principle of mutual recognition statement in November 2018. The statement was aimed at facilitating active collaboration across agencies and reducing transaction costs for Governments and collaborating agencies.

263. The Board was informed that the project team had developed client satisfaction principles and costing and pricing principles. UNDP informed the Board that it was engaging with the Development Coordination Office on the client satisfaction principles but that it did not agree to the costing and pricing principles as the methodology used was not holistic and transparent.

264. The Board noted that UNDP actively contributed to the development of the business operations strategy established as the results-based framework on joint business operations. The framework is aimed at eliminating duplication, leveraging the common bargaining power of the United Nations and maximizing economies of scale. The Board also noted that UNDP had developed and refined a dedicated business operations strategy online platform, for which UNDP bore the cost. At the

time of its mission, the Board was informed that the strategy had been rolled out under the guidance of the Development Coordination Office and was expected to be used by all United Nations country teams by 2021.

265. The Board was informed that, under the workstream common premises, the project team and the Development Coordination Office were establishing a new inter-agency database of United Nations premises and buildings. UNDP informed the Board that it continuously strived to share its premises in order to achieve better synergies, coordination, financial savings and overall efficiencies. UNDP also informed the Board that it had a total of 505 premises. That number included 246 offices that could be potentially shared with other agencies. Owing to their operational nature (including security requirements), UNDP considered those premises to be suitable for sharing.

266. The Board was further informed that UNDP actually shared 184 out of those 246 offices (74.8 per cent of all premises suitable for sharing). Those 184 offices also represented 36.4 per cent of all premises held by UNDP. In addition, UNDP informed the Board that it shared 69 offices that it considered as not suitable for sharing (13.7 per cent of all premises held by UNDP). Moreover, UNDP informed the Board that after duly weighing costs and benefits, UNDP often led the process of establishing common premises and managed the process in cooperation with sister agencies.

267. The Board was informed that UNDP was a major provider of common services in the areas of administration, information and communications technology, human resources, procurement and logistics to other United Nations country team members.

268. The Board acknowledges the commitment of UNDP to actively participating in all workstreams established under the Business Innovations Group and its contributions to the Group’s work. At the same time, the Board holds that the work has not yet been completed.

269. **The Board recommends that UNDP continue its participation in the inter-agency dialogue on the client satisfaction principles as well as the costing and pricing principles and, in cooperation with other stakeholders, explore options on how the inter-agency dialogue on the costing and pricing principles may be enhanced in order to address existing concerns of United Nations entities that have not agreed with the principles.**

270. UNDP agreed with the recommendation.

United Nations Development Programme participation in the multi-country office review and the regional review

271. In its resolution 72/279, the General Assembly requested the Secretary-General to conduct a review of the configuration, capacity, resource needs, role and development services of multi-country offices to improve their contribution to country progress in achieving the 2030 Agenda.

272. The Board noted that UNDP participated in and co-chaired, along with the United Nations Environment Programme, the inter-agency working group of the United Nations Sustainable Development Group on the multi-country office review. The Board was informed that the working group had proposed actions that were submitted to the United Nations Secretariat and that UNDP was committed to upgrading its support offer to small island developing States.

273. In its resolution 72/279, the General Assembly emphasized the need to address gaps and overlaps at the regional level. Also in that resolution, the Assembly requested the Secretary-General to implement measures to optimize functions and

enhance collaboration at the regional and subregional levels. The Secretary-General was also requested to provide options for longer-term reprofiling and restructuring of the regional assets. The Secretary-General constituted an internal review team with all regional commissions and different entities of the United Nations Sustainable Development Group to ensure robust discussions on the way forward and strong ownership across the United Nations system.

274. The Board noted that UNDP had participated in the United Nations Secretariat's internal review team for the regional review and had helped to develop the concept of regional collaborative platforms proposed by the Secretary-General. UNDP and the respective regional commission had co-chaired each of the five established regional task teams to operationalize the Secretary-General's recommendations in the regions. The Board was informed that thematic areas covered the establishment of knowledge management hubs, shared rosters of expertise, regional results reports, consolidation of data and statistics capacities and the establishment of common back offices at the regional level.

Management of risks related to the United Nations development system reform

275. The Board noted that, in January 2018, five months before the adoption of resolution 72/279, UNDP had undertaken a preliminary risk scoping on the Secretary-General's reform proposals on the repositioning of the United Nations development system. In the scoping paper, UNDP had assessed the potential risks that the organization could encounter as a result of potential reform-related changes for senior management as a starting point for discussion and further refinement. The Board was informed that the scoping paper was not intended as input for any formal enterprise risk management mechanisms. Instead, the paper served as an early warning mechanism to the internal steering committee (anchor group).

276. The Board noted that UNDP had discussed and managed United Nations development system reform-related risks at different levels of the organization. Its high-level Risk Committee was chaired by the Associate Administrator and comprised all bureau directors. The Committee had studied the corporate risk log and identified reform-related potential risks inherent in the United Nations development system. Regional bureau directors represented their respective regions and flagged country office issues and possible risks as necessary. The risk log was monitored and managed by the Risk Committee.

277. The Board noted that the corporate risk registers in 2018, 2019 and 2020 had identified strategic, financial or operational United Nations development system-related risks, causes and subsequent management treatment of United Nations development system-specific risks. The Board further noted that risk registers at headquarters and regional bureaux also included risks that were directly and/or indirectly linked to the United Nations development system reform. In addition, UNDP informed the Board that details of risk mitigation were also defined in the integrated workplans of the bureaux.

278. The Board reviewed the risk registers for the four country offices visited. The Board noted that three out of the four country offices included risks in their risk registers that were indirectly linked to the United Nations development system reform. The risks identified were all related to the reduction of core and non-core resources for development activities and the decline in official development assistance support.

279. In its Executive Group meetings, UNDP had a standing agenda item on various elements of the United Nations development system reform. The Board learned from the minutes of the Operational Performance Group that UNDP discussed United Nations development system reform-related risks at that level in order to steer the

reform process. In addition, the Board noted that, throughout 2018, 2019 and 2020, the anchor group protocols had reflected the discussions of the anchor group members on United Nations development system reform-specific risks under several agenda items related to different reform workstreams. The Board also noted that the anchor group regularly discussed country-level United Nations development system reform-related topics brought up by the regional bureau representatives and the resident representatives. UNDP described the informal anchor group risk management as being additional and complementary to risk management in the official structure.

280. The Board noted that the United Nations development system reform-related risk assessment had been established as an integrated mechanism whereby information from the country level was fed into the corporate structure through the regional bureau directors and the anchor group and vice versa. The Board noted that, in addition to the formal risk management mechanisms, UNDP discussed reform-related risks within its steering committee for the United Nations development system. The Board holds that this risk management approach is agile, functional and integrated into the UNDP enterprise risk management system.

281. The Board further noted that management actions had been successfully implemented in 2019 and had enabled UNDP, in 2019 and 2020, to close several United Nations development system reform-related risks identified in 2018 and 2019. The Board also noted that United Nations development system-related risks had been identified at all levels of the organization. Thus, the Board holds that UNDP managed the reform-related risks in an integrated manner.

Other management arrangements for the United Nations system development reform

282. UNDP has taken steps to ensure that it repositions itself within the reforming United Nations development system. The UNDP strategic plan for the period 2018–2021 served as the guiding document for those repositioning efforts. In 2018, UNDP initiated reform processes covering programmatic and operational activities that it pursued throughout 2019.

283. The Board noted strong and clear messages from the Administrator to UNDP staff and the Executive Board throughout the entire process that stated that UNDP, as a central protagonist of the reform, was fully committed to the Secretary-General's reform vision.

284. The Board further noted that UNDP had established an internal support structure and steering mechanism to engage in a strategic, timely and coordinated manner to implement its contributions to the reform process. The Board noted that UNDP had set up various communication channels and formats to engage internal and external stakeholders on reform topics.

285. The Board found that UNDP was actively engaged on all reform inter-agency workstreams, in close collaboration with the Development Coordination Office, throughout 2019. The Board noted that UNDP maintained information on the status of those reform areas in the various units. The Board further noted that UNDP provided aggregated information on the progress of those workstreams to the Executive Board on a regular basis.

286. The Board noted that UNDP established internal feedback mechanisms on reform issues through its steering committee and targeted outreach to country offices. In March 2020, UNDP had also conducted a survey for resident representatives. The Board noted that the survey results indicated both positive initial effects and challenges of the reform.

287. The Board holds that UNDP has steered the reform process contributions effectively and has implemented them in a coordinated manner across the

organization. The Board further holds that the clear affirmation of the Secretary-General's vision by the Administrator supported the reform process. At the same time, the Board holds that a more comprehensive mapping of the internal targets of UNDP might be useful and further enhance transparency on UNDP engagement with and contributions to the reform process.

288. **The Board recommends that UNDP consider further streamlining the mapping of its contributions to the United Nations development system reform process and continue its strong engagement in all inter-agency workstreams for the United Nations development system reform.**

289. **The Board further recommends that UNDP use the opportunities and challenges identified in surveys related to the United Nations development system reform to further refine its support to the country level on reform-related matters.**

290. UNDP agreed with the recommendations.

C. Disclosures by management

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

291. The Administration informed the Board, in accordance with UNDP financial rule 126.17, that UNDP had write-offs of $43,254.81 in 2019.

2. Ex gratia payments

292. As required by UNDP financial rule 123.01, the Administration reported that there were no ex gratia payments for the period under review.

3. Cases of fraud and presumptive fraud

293. 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 irregularities (including those resulting from fraud). The Board's work, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud remains with management.

294. During the audit, the Board made enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risk of fraud, including any specific risks identified by management or brought to its attention. The Board also enquired, including to the Office of Audit and Investigations, as to whether management had knowledge of any actual, suspected or alleged fraud.

295. In 2019, UNDP reported 105 cases of fraud or presumptive fraud to the Board. Of those 105 cases, UNDP had resolved 7 cases, while 98 cases were still pending. The cases involved misrepresentation, forgery and false certification, misuse of official resources, procurement fraud, entitlements fraud, improper recruitment, theft and embezzlement, abuse of authority and other failures to comply with obligations.

D. Acknowledgement

296. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator of the United Nations Development Programme and his staff.

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

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

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

21 July 2020

Annex

Status of implementation of recommendations up to the year ended 31 December 2018

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
1.	2018	A/74/5/Add.1, chap. II, para. 41	The Board recommends that the United Nations Development Programme (UNDP) continue to refine its policies and procedures and to review its contribution agreements in order to establish an enhanced basis for decision-making on recognition of non-exchange transactions in line with IPSAS 23.	UNDP has updated its policies and procedures for non-exchange transactions in line with IPSAS 23. Contribution agreements were reviewed and the methodology was shared with the Board. The resulted change in accounting policy was applied retrospectively. Hence, this recommendation has been fully implemented.	The Board noted that UNDP had updated its policies and procedures for non-exchange transactions in line with IPSAS 23. The Board further noted that UNDP had recorded revenue in the 2019 financial statements in line with the updated IPSAS 23 policy. Therefore, the Board considers this recommendation to be implemented.	X			
2.	2018	A/74/5/Add.1, chap. II, para. 47	The Board recommends that UNDP enhance the process for manual recording of exchange transactions at the country office level in order to ensure that revenue is recorded in the period in which UNDP rendered the services, as required under an accrual basis of accounting.	UNDP has implemented this recommendation. In 2019, UNDP included confirmation of recording of exchange revenue in the annual assertion that is required to be certified by country offices.	The Board noted that UNDP had included the confirmation of recording exchange revenue in the annual assertion that is required to be certified by country offices. However, the Board noted various cases of services rendered by UNDP that were not recorded under an accrual basis of accounting. Therefore, the Board considers this recommendation to be under implementation.		X		
3.	2018	A/74/5/Add.1, chap. II, para. 48	The Board recommends that UNDP ensure that country offices enhance the process for collecting payments so that payments are collected in a timely manner.	UNDP has implemented this recommendation through the issuance of a global communication to all regional bureaux and country offices highlighting the importance of billing and collecting payments in a timely manner, in addition to the guidance included in the financial closure instructions sent to all	The Board noted that some country offices had still billed counterparts on a yearly basis in 2019. However, the Board further noted that UNDP had raised awareness among country offices through an internal communication during the year. The internal communication recommended billing on a daily, monthly or at least quarterly basis. The Board further noted	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				offices. This is supplemented by the requirement for offices to confirm the recording of exchange revenue during the submission of the annual assertion.	the intent and first steps of country offices to follow the internal communication. Therefore, the Board considers this recommendation to be implemented.				
4.	2018	A/74/5/Add.1, chap. II, para. 49	The Board recommends that UNDP ensure that country offices provide on-the-job training so that personnel have the sustainable awareness required to accurately record exchange transactions in accordance with UNDP policies and instructions.	In 2020, UNDP will train staff to pursue collection efforts and book revenue in line with UNDP policies and procedures.	The Board noted the plan of UNDP to train staff members on the recognition of exchange transactions in accordance with UNDP policies and instructions in 2020. However, owing to the ongoing status, the Board considers this recommendation to be under implementation.		X		
5.	2018	A/74/5/Add.1, chap. II, para. 54	The Board recommends that UNDP, on the basis of an analysis of the effects on the financial statements, raise the threshold for the recognition of property, plant and equipment as an asset in order to reduce the administrative burden.	UNDP has raised the threshold for the recognition for property, plant and equipment to $5,000 and this has been reflected in the updated policies and procedures. This was implemented on 1 January 2020.	The Board noted that, since 1 January 2020, the UNDP policies for the recognition of property, plant and equipment had referred to the updated threshold of $5,000. The Board considers this recommendation to be implemented.	X			
6.	2018	A/74/5/Add.1, chap. II, para. 60	The Board recommends that UNDP ensure that required changes of signatories are followed up with banks.	UNDP has implemented a process to ensure that required changes of signatories are followed up with banks.	The Board noted that UNDP had included the listing of signatories for each bank account in the enterprise resource planning system. The Board also noted that UNDP had sent out requests to banks to confirm the signatory panel. If the banks did not respond, UNDP had followed up on the matter several times until signatories were changed by the banks.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
					In addition, in its annual closing instructions, UNDP had included a paragraph stipulating that each country office had to obtain a confirmation from the bank including the listing of signatories. This list is to be uploaded to the financial closure page. The Board considers this recommendation to be implemented.				
7.	2018	A/74/5/Add.1, chap. II, para. 75	The Board recommends that UNDP review the cases of non-compliance presented by the Board and analyse the reasons for and the circumstances in which bureaux and country offices did not fully comply with the corporate internal control framework.	UNDP has reviewed the cases of non-compliance and has updated its control in Atlas to address this recommendation.	The Board noted that UNDP had implemented an automated control in Atlas. The automated control addressed only one control finding, but not several other findings referred to in the Board's previous report. The Board noted that those findings continued during 2019 (see chap. II, para. 132, of the present report). Therefore, the Board considers this recommendation to be under implementation.		X		
8.	2018	A/74/5/Add.1, chap. II, para. 76	The Board recommends that UNDP, on the basis of the above analysis, further refine its internal control framework to strengthen its implementation.	An instruction was issued for every country office to review its internal control framework and adjust it, if necessary, to prevent conflicts between the first and second authority of any value, as well as the issue of assignment of control functions to non-staff. In addition, a new control has been put into place in the enterprise resource planning system that will enforce the segregation of duty between	The Board noted the implementation of the new automated control in the enterprise resource planning system to enforce segregation of duty and prevent users from approving a purchase order when they had approved the requisition. With the outstanding update of the internal control framework, the Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				the approvers of requisitions and purchase orders. UNDP deems this recommendation to be implemented.					
9.	2018	A/74/5/Add.1, chap. II, para. 77	The Board recommends that UNDP consider the feasibility of incorporating more automated controls into its enterprise resource planning system or supplementary related information technology systems to enhance compliance with the corporate internal control framework.	The enterprise resource planning system will be upgraded during the period 2020–2021. As part of this upgrade, UNDP will consider more automated controls as it re-architectures, and potentially changes, Argus flow and function.	The Board noted that UNDP had responded to the recommendation contained in chapter II, paragraph 75, of its report for 2018 (A/74/5/Add.1) with the implementation of an automated control in the enterprise resource planning system. With that implementation, UNDP showed that, in principle, automated controls were feasible in Atlas. Thus, with regard to that aspect, the Board considered the recommendation to be implemented. In addition, the Board noted that UNDP intended to move to a new enterprise resource planning system; this recommendation is also overtaken by events. Therefore, the Board considers this recommendation to be implemented.	X			
10.	2018	A/74/5/Add.1, chap. II, para. 85	The Board recommends that UNDP assess whether and what internal financial control procedures could be introduced by UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation to evidence	The clustering project has dedicated teams for business integration and the internal control framework ensuring that appropriate mechanisms for control and monitoring are embedded in the processes. The existing documentation of controls, as specified in the internal control framework, and embedded in the policies	The Board noted the efforts of UNDP to enhance data quality and limit risks of errors by means of having standardized control procedures and appropriate documentation in place to provide evidence that control procedures had been performed. However, the Board noted several cases which highlighted errors in or a lack of documentation, such as		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
			that control procedures have been performed.	and procedures content, sets out the policy framework for appropriate documentation. UNDP deems this recommendation to be implemented.	missing documentation of verification and validation of personnel data or vehicles owned and operated by UNDP that were not recorded in Atlas. Therefore, the Board considers this recommendation to be under implementation.				
11.	2018	A/74/5/Add.1, chap. II, para. 93	The Board recommends that UNDP ensure that country offices either establish their own standard template with minimum documentation requirements for programmatic output verification or use the template provided by UNDP.	The UNDP monitoring policy states that output progress and/or completion must be verified at least annually and a corporate template is provided for verification. Compliance with the policy could be assured through improvements to the corporate planning system.	In the view of the Board, a more standardized documentation process could enhance knowledge-sharing and ease progress evaluation. It could also ensure documentation of procedures, conclusions and follow-up actions. The Board considers this recommendation to be under implementation.		X		
12.	2018	A/74/5/Add.1, chap. II, para. 100	The Board recommends that UNDP (a) analyse policy options to ensure timely certification of combined delivery reports and (b) ensure that country offices and implementing partners sign combined delivery reports within the given time limit.	UNDP has implemented this recommendation by digitizing the combined delivery report process. In May 2020, UNDP launched a new portal – combined delivery report bridge – to automate the combined delivery report process. Upon communication of the financial closure each quarter by the Office of Financial Resources Management, combined delivery reports will be automatically generated and delivered to the bridge platform for access by UNDP offices and implementing partners that are required to certify the	The Board noted that UNDP had addressed the recommendation by launching the new portal – combined delivery report bridge – in 2020. The portal enables country offices to track the status of combined delivery reports and to better analyse delays in the certification of reports. This can enhance communication with the implementing partner. The Board also noted that UNDP planned to establish further functionalities of the portal in the future. The policy on combined delivery reports has been	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	*Board's assessment* Implemented	Under implementation	Not implemented	Overtaken by events
				reports. Offices are required to use the combined delivery report bridge platform, which allows offices to deliver combined delivery reports electronically by email to implementing partners and automatically tracks the delivery, acceptance and rejection of dispatched combined delivery reports.	updated to reflect the obligatory use of the portal. The Board also noted improved compliance with the timely certification of combined delivery reports. The Board considers this recommendation to be implemented.				
13.	2018	A/74/5/Add.1, chap. II, para. 111	The Board recommends that UNDP update its policy on the harmonized approach to cash transfers to specify that the harmonized approach to cash transfers SharePoint site should be used for the mandatory planning of all microassessments and assess options for including the documentation of the required review of microassessment plans on the SharePoint site.	The policy on harmonized approach to cash transfers has been updated to address this recommendation.	The Board noted that UNDP had included a paragraph in the harmonized approach to cash transfers policy that the harmonized approach to cash transfers monitoring platform should be used to generate the microassessment plan. The Board also noted that UNDP had assessed possibilities to include the required review of microassessment plans on the harmonized approach to cash transfers monitoring site. According to information provided by UNDP, the functionality could not be included in the most recent version but might be included in a future version. For the time being, the reviews of microassessments are signed and uploaded to the monitoring site in line with existing policy. The Board considers the recommendation to be implemented.	X			

						Board's assessment			
Number	*Audit report year*	*Paragraph reference*	*Recommendations of the Board of Auditors*	*United Nations Development Programme response as at 28 May 2020*	*Assessment by the Board as at 31 May 2020*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
14.	2018	A/74/5/Add.1, chap. II, para. 116	The Board recommends that UNDP ensure that country offices document the review of and conclusions drawn from microassessments.	The policy on harmonized approach to cash transfers has been updated to address this recommendation.	In the view of the Board, the requirement already existed in the policy but was not complied with. The Board noted that regional bureaux provided guidance and support to the country offices on the implementation of the harmonized approach to cash transfers. This includes guidance on audits and on the completeness of microassessments carried out. The Board also noted that UNDP followed up quarterly on potential issues with regard to the harmonized approach to cash transfers implementation at the country offices. However, the Board again noted various cases of non-compliance with this requirement. The Board considers the recommendation to be under implementation.		X		
15.	2018	A/74/5/Add.1, chap. II, para. 124	The Board recommends that UNDP update its policy on the harmonized approach to cash transfers to specify that the harmonized approach to cash transfers SharePoint site should be used for the mandatory planning of all assurance activities and that UNDP ensure the review of annual assurance activity plans.	The policy on harmonized approach to cash transfers has been updated to address this recommendation.	The Board noted that UNDP had updated the harmonized approach to cash transfers policy to address the recommendation to use the harmonized approach to cash transfers monitoring platform for planning assurance activities. The Board considers this part of the recommendation to be implemented. The Board also noted that UNDP provided guidance and		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
					training to regional bureaux for the oversight of implementation of the harmonized approach to cash transfers. However, the Board also noted various cases of non-compliance with the requirement to review annual assurance activity plans. The Board considers this part of the recommendation to be under implementation.				
16.	2018	A/74/5/Add.1, chap. II, para. 125	The Board recommends that UNDP revise its policy on the harmonized approach to cash transfers and clarify that management in country offices is required to conduct a control designed to review the completeness of assurance activities performed and the completeness of follow-up actions taken.	The policy on harmonized approach to cash transfers has been updated to address this recommendation.	The Board noted that UNDP had updated the harmonized approach to cash transfers policy in February 2020 to reflect the following changes: • The harmonized approach to cash transfers focal point should ensure that the planned activities in the assurance plan are completed and the harmonized approach to cash transfers monitoring platform is updated to reflect the results; • Issues noted and actions taken with regard to issues identified are to be reviewed by the Head of Office and uploaded to the harmonized approach to cash transfers monitoring platform. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
17.	2018	A/74/5/Add.1, chap. II, para. 129	The Board recommends that UNDP strengthen oversight and monitoring functions for the harmonized approach to cash transfers framework.	Oversight of the country office harmonized approach to cash transfers implementation is the responsibility of regional bureaux. During 2019, bureaux included programme and project management-related issues, including harmonized approach to cash transfers compliance, at the regional operation managers workshops to supplement their ongoing oversight of country offices based on results reflected in the harmonized approach to cash transfers dashboard. UNDP deems this recommendation to be implemented.	The Board noted that UNDP provided guidance and training to regional bureaux on the implementation of the harmonized approach to cash transfers. The Board also noted that UNDP included non-compliance with the harmonized approach to cash transfers policies in quarterly one-pagers to country offices and in bureau reviews. However, the Board did not note a function for the oversight or monitoring of compliance with the harmonized approach to cash transfers requirements. The Board considers the recommendation to be under implementation.		X		
18.	2018	A/74/5/Add.1, chap. II, para. 140	The Board recommends that UNDP review its policies and guidelines with regard to the use of P-6 and P-7 grades in order to provide guidance on the circumstances in which these grades may be used.	UNDP has reviewed and updated its policies and guidelines with regard to the use of P-6 and P-7 grades.	The Board noted that UNDP had issued guidelines on the use of P-6 and P-7 level positions to supplement its job evaluation policy. The Board considers the recommendation to be implemented.	X			
19.	2018	A/74/5/Add.1, chap. II, para. 146	The Board recommends that UNDP enhance its policies and guidelines on strategic placements in order to require adequate documentation when using strategic placements.	UNDP has reviewed and updated its policies and guidelines on strategic placements with regard to the requirement for adequate documentation when using strategic placements.	The Board noted that UNDP had issued a guideline on strategic placements. This guideline stipulates the proper documentation of the strategic placement process. The Board considers the recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
20.	2018	A/74/5/Add.1, chap. II, para. 157	The Board recommends that UNDP, as part of its "People for 2030" strategy, review the policies on service contracts and individual contracts in order to establish clear criteria for assessing what constitutes a staff task and function and which tasks and functions may be transferred to contractual modalities other than regular staff contracts.	As part of its "People for 2030" strategy, UNDP is in the process of developing multiple options for changes to its contract modalities to enable it to hire personnel under the appropriate contractual modality needed for UNDP to effectively fulfil its mandate.	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. The Board considers the recommendation to be under implementation.		X		
21.	2018	A/74/5/Add.1, chap. II, para. 161	The Board recommends that UNDP review its policy on service contracts in order to clarify recurring matters of non-compliance and consider amending the requirements defined in the policy that UNDP does not intend to implement.	UNDP is in the process of reviewing its policy on service contracts. A dedicated senior adviser was appointed in November 2019 and is driving forward the changes to service contracts modalities. An implementation plan has been agreed with the aim of launching a new policy by the third quarter of 2020.	The Board noted that UNDP intended to introduce a new policy on service contracts by the third quarter of 2020 as part of its "People for 2030" strategy. The Board considers the recommendation to be under implementation.		X		
22.	2018	A/74/5/Add.1, chap. II, para. 168	The Board recommends that UNDP review its policy on service contracts, including the requirements for waiving competitive recruitment and the use of such waivers.	UNDP is in the process of reviewing its policy on service contracts. A dedicated senior adviser was appointed in November 2019 and is driving forward the changes to service contracts modalities. An implementation plan has been agreed with the aim of launching a new policy by the third quarter of 2020.	The Board noted that UNDP intended to introduce a new policy on service contracts by the third quarter of 2020 as part of its "People for 2030" strategy. The Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
23.	2018	A/74/5/Add.1, chap. II, para. 173	The Board recommends that UNDP review the responsibilities and monitoring function for the service contract modality as part of implementing the "People for 2030" strategy and define how much monitoring or oversight from headquarters is feasible and reasonable.	As part of implementation of the "People for 2030" strategy, UNDP is reviewing various aspects of the service contractor modality, including appropriate usage, compensation, recruitment and career progression. A dedicated senior adviser was appointed in November 2019 and is driving forward the changes to service contracts modalities. An implementation plan has been agreed with the aim of launching a new policy by the third quarter of 2020.	The Board noted that UNDP intended to introduce a new policy on service contracts by the third quarter of 2020 as part of its "People for 2030" strategy. The Board considers this recommendation to be under implementation.		X		
24.	2018	A/74/5/Add.1, chap. II, para. 191	The Board recommends that UNDP review its policy on individual contracts in order to clarify recurring matters of non-compliance and strengthen oversight by the procurement committees.	UNDP views individual contractors as an important part of its workforce and is reviewing changes to their usage along with other contract modalities as part of implementing the "People for 2030" strategy. This recommendation is being addressed by UNDP as appropriate in the context of this exercise.	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. This strategy also includes a review of the use of individual contractors. The Board considers this recommendation to be under implementation.		X		
25.	2018	A/74/5/Add.1, chap. II, para. 192	The Board recommends that UNDP ensure that country offices and units with identified cases of non-compliance provide on-the-job training so that personnel have the sustainable awareness required to properly procure and manage individual contracts in accordance with	UNDP views individual contractors as an important part of its workforce and is reviewing changes to their usage along with other contract modalities as part of implementing the "People for 2030" strategy. This recommendation is linked to the response to recommendation 24 above. The country offices	The Board noted that UNDP envisaged implementing its "People for 2030" strategy over a period of three years, from 2019 to 2021. This strategy also includes a review of the use of individual contractors. Furthermore, the Board acknowledges that the country offices in which non-compliance was identified were contacted and that the		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			the policy on individual contracts.	identified in this recommendation were contacted and the issues noted were discussed, with an emphasis on the need for compliance.	need for compliance with the policy on individual contracts was discussed. The Board considers this recommendation to be under implementation.				
26.	2017	A/73/5/Add.1, chap. II, para. 24	UNDP also agreed with the Board's recommendation that the UNDP Egypt and South Africa country offices: (a) continue to liaise with the key counterparts consisting of implementing partners and the United Nations country team so that the counterparts are fully engaged in the United Nations Development Assistance Framework process to smooth implementation of the Framework by conducting annual reviews and responding on time to recommendations of evaluations; (b) formulate strategies to ensure that the results of current Development Assistance Framework evaluations and reviews are used to design the next Framework; and (c) ensure that the conclusions and recommendations from annual and midterm reviews of country programmes enable timely updating and revision of the country programme documents.	In June 2020, the UNDP Executive Board adopted the new country programme document for South Africa for the period 2020–2025. The country programme document was submitted following receipt of the letter of endorsement from the Government of South Africa on 5 May 2020.	In its report for 2018 (A/74/5/Add.1) the Board closed parts (a) and (b) of this recommendation as they had been overtaken by events. For the country office in Egypt, the Board considers part (c) of the recommendation to be implemented. Also for part (c), the Board noted that the country office in South Africa had evaluated the country programme document for the period 2013–2017 and had liaised with counterparts in order to prepare the United Nations Sustainable Development Cooperation Framework and the country programme document for the period 2020–2025. With the presentation to the Executive Board in June 2020, the Board considers the recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
27.	2017	A/73/5/Add.1, chap. II, para. 35	UNDP agreed with the Board's recommendations that country offices: (a) continue consultation with implementing partners such that combined delivery reports are signed on time by UNDP and the implementing partners in compliance with the programme and operations policies and procedures; (b) ensure the follow-up requests to the implementing partners are conducted on time and evidence of the follow-up is uploaded to the combined delivery report library in the corporate planning system; and (c) certify the combined delivery reports on time when implementing partners are not responding after a reasonably extended period.	The recommendation noted in 2017 was with respect to the issues below, which have been addressed. (a) Combined delivery reports for the second quarter uploaded after delays and combined delivery reports for the third quarter not sent to implementing partners on time: all combined delivery reports are now sent on time to implementing partners following strengthened communication between the Office of Financial Resources Management, regional bureaux and country offices on when the combined delivery reports are available to be sent. All combined delivery reports are now uploaded on time. (b) No follow-up sent to implementing partners: this recommendation has been addressed through a change in policy in 2018, whereby follow-up requests are only required to be sent once and no response is deemed as an affirmative response. In addition, in May 2020, UNDP launched a new portal (combined delivery report bridge) to automate the combined delivery report process. Upon communication of the financial closure of each	The Board noted that UNDP had addressed this recommendation by launching the new portal (combined delivery report bridge) in 2020. The portal enables country offices to track the status of combined delivery reports and to better analyse delays in the certification of reports. This can enhance communication with the implementing partner. The Board also noted that UNDP planned to establish further functionalities of the portal in the future. The policy on combined delivery reports has been updated to reflect the obligatory use of the portal. The Board also noted improved compliance with the timely certification of combined delivery reports. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				quarter by the office of financial resource management, combined delivery reports will be automatically generated and delivered to the platform for access by UNDP offices and implementing partners who are required to certify the reports. Offices are required to use the platform, which allows offices to deliver combined delivery reports by email to implementing partners and automatically tracks the delivery, acceptance and rejection of dispatched combined delivery reports.					
28.	2017	A/73/5/Add.1, chap. II, para. 41	UNDP agreed with the Board's recommendation to ensure that country offices review and update project risks, issues and monitoring logs and document information in Atlas on time as the primary source of project information.	UNDP will continue to monitor compliance with these requirements through its annual project quality analysis process. UNDP has started to develop a collaborative digital workspace for programming. This workspace will help managers see where their programming stands across the full life cycle to better monitor performance and highlight what needs to be done so that it can be addressed before becoming an audit issue.	The Board noted the efforts of UNDP and the training undertaken. However, the digital workspace is not yet in use and it remains to be seen whether it will help project managers update risks, issues and monitoring logs in Atlas. The Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Board's assessment: Under implementation	Board's assessment: Not implemented	Board's assessment: Overtaken by events
29.	2017	A/73/5/Add.1, chap. II, para. 47	The Board recommends that the UNDP country offices, in consultation with the implementing partners: (a) analyse the project documents with respect to their relevance and timing and consider revising them owing to the lapse of time; and (b) consider setting the time frame for implementing partners to approve the project documents.	The recommendation noted in 2017 was with respect to one regional bureau. The regional bureau in question has strengthened its function of programme quality assurance at all stages of project cycle – design, implementation, and closure – through a dedicated quality assurance team (senior programme coordinator, regional results-based management specialist and programme monitoring associate). All regional and global projects implemented by the bureau are reviewed at least once a year through their respective project boards for relevance, timing, quality of programming and risk management. Approvals of the project documents are closely followed up to the extent possible by project designers, the respective regional hub's policy team, as well as the quality assurance team, and the respective partnership focal point. Any delays in the signing of the project documents are monitored by the quality assurance team, and, if necessary, escalated to the attention of the senior management of the regional hub.	The Board noted that UNDP had addressed this recommendation by strengthening quality assurance in the specific regional bureau. In the view of the Board, the annual review and the follow-up to the approvals of project documents are adequate measures to ensure the relevance of project documents. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
30.	2017	A/73/5/Add.1, chap. II, para. 52	UNDP agreed with the Board's recommendation to: (a) provide further guidance to the country office concerning implementation of the harmonized approach to cash transfers framework; and (b) continue to advocate to the Government and development partners on the importance of implementing the framework in the country office.	UNDP has performed a harmonized approach to cash transfers macroassessment for the country office. Given that the value of nationally implemented projects in the country office is below the threshold for performing other harmonized approach to cash transfers activities, UNDP has fully complied with the harmonized approach to cash transfers requirements for this country office. UNDP deems this recommendation to be implemented.	The Board noted that UNDP – according to information on the harmonized approach to cash transfers monitoring site – had followed up with the Government that did not consent to conducting a macroassessment. In addition, the macroassessment is usually based on assessments by supranational organizations and no recent assessment was available. The Board also noted that the country office in Turkmenistan did not engage any implementing partners that received cash transfers of more than $300,000. The Board considers this recommendation to be overtaken by events.				X
31.	2017	A/73/5/Add.1, chap. II, para. 57	UNDP agreed with the Board's recommendation that the Turkmenistan, South Africa, Turkey and Paraguay country offices encourage the working groups on the harmonized approach to cash transfers to be active and perform their duties to facilitate planning and implementation of the harmonized approach to cash transfers framework in the respective countries through regular meetings and activities, which should be documented.	The Turkey country office has reactivated its working groups on the harmonized approach to cash transfers. Evidence of the reinstatement of the working group for the Turkey country office has been uploaded in the form of the working group's annual workplan for 2019, as well as meeting minutes.	In its report for 2018 (A/74/5/Add.1), the Board noted that the country offices in Paraguay, South Africa and Turkmenistan had reactivated their harmonized approach to cash transfers working groups. The Board noted that those country offices had continued activities of the working groups through 2019. The Board noted that the country office in Turkey had reinstated the working group and conducted meetings in 2019. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	*Board's assessment*			
						Implemented	Under implementation	Not implemented	Overtaken by events
32.	2017	A/73/5/Add.1, chap. II, para. 61	UNDP agreed with the Board's recommendation that the South Africa country office use public expenditure and financial accountability reports as a source of information and liaise with other United Nations agencies to conduct macroassessments for the harmonized approach to cash transfers to align with their country office programme cycles, as required by the programme and operations policies and procedures on the harmonized approach to cash transfers and the United Nations Development Group harmonized approach to cash transfers framework.	Given the resident coordinator reform, this is no longer the responsibility of the country office. Therefore, UNDP recommends that this recommendation is closed and considered "overtaken by events".	The Board noted that, in line with the harmonized approach to cash transfers policy, the responsibility for the macroassessment lies with the Resident Coordinator and the harmonized approach to cash transfers inter-agency focal point. Given the United Nations development system reform, the Resident Coordinator is no longer part of UNDP. Thus, the Board considers this recommendation to be overtaken by events.				X
33.	2017	A/73/5/Add.1, chap. II, para. 79	The Board recommends that UNDP document its annual process performed to evidence the review of useful lives of assets, and specify in the policy guidelines the manner in which the review of the useful lives of assets will be performed and documented.	UNDP has documented its process of the review of the annual useful life of assets through the development of a policy guidance note on this topic.	The Board noted that UNDP had performed an annual fixed assets useful live report. The report had not identified changes in the asset usage pattern. The Board considers this recommendation to be implemented.	X			
34.	2017	A/73/5/Add.1, chap. II, para. 88	UNDP agreed with the Board's recommendation that the Malawi, Paraguay and South Africa country offices ensure that, in future, evaluations of service contractors are completed on time, ideally one month prior to the expiration of contracts in accordance with	The new UNDP policy on service contracts will link the evaluations to the annual performance management cycle. The timely completion of the evaluations will be part of the corporate-wide performance management cycle and the policy is	The Board noted that UNDP intended to introduce a new policy on service contracts by the third quarter of 2020 as part of its "People for 2030" strategy. The Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			policy, to give reasonable time for the office to make relevant and timely decisions regarding service contracts.	expected to be in place in the third quarter of 2020, for the performance cycle starting 2021.					
35.	2017	A/73/5/Add.1, chap. II, para. 92	UNDP agreed with the Board's recommendation that the Turkmenistan country office: (a) align the job descriptions for the hired service contract individuals with the service contract user guide; and (b) ensure that the service contract holders do not perform internal control functions to compensate for the absence of staff.	The country office in Turkmenistan has implemented this recommendation and reviewed its usage of service contracts, giving due consideration to the alignment of job descriptions.	The country office in Turkmenistan provided the terms of reference for the finance assistant position and the service evaluation form for this specific service contract holder for the period from 31 December 2017 to 31 December 2018. The country office also provided the country office's Argus roles from 2018 and May 2019. According to the review, no service contract holders at the country office in Turkmenistan performed internal control functions. The country office in Turkmenistan took the measures as requested. The Board considers this recommendation to be implemented.	X			
36.	2017	A/73/5/Add.1, chap. II, para. 97	The Board reiterates its previous recommendation that UNDP ensure all staff members complete mandatory training courses on time.	Accountability for completion of mandatory courses lies with the Head of Office. The role of the Office of Human Resources is to ensure that the courses are available to staff on demand, track completion rates and troubleshoot problems that staff may have in completing courses. The Office has established a mechanism to enable staff to complete the mandatory courses. The Office of	In the audit for 2018, the Board acknowledged the efforts of UNDP to achieve higher completion rates of mandatory training courses, as well as the positive trend evidenced by the mandatory course completion statistics for 2017 (36 per cent) and 2018 (71 per cent) provided to the Board during the audit of the UNDP 2018 financial statements. The Board further noted that the overall completion rate had increased in 2019 (81 per cent).	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
				Human Resources continues to review compliance with the completion of mandatory training on an annual basis and reminders are sent to offices with low completion rates. The UNDP People Development Governance Group has prepared the People Development Strategy for 2020. A key focus area in the Strategy is a review of the mandatory courses to ensure their relevance and completion. UNDP, through the People Development Governance Group, is currently reconsidering the targets for the completion of the mandatory courses. A more appropriate target at any given time might be 85–90 per cent, given the significant personnel turnover.	Therefore, the Board considers this recommendation to be implemented.				
37.	2017	A/73/5/Add.1, chap. II, para. 102	UNDP agreed with the Board's recommendations that country offices: (a) encourage staff to exercise their leave within the period in which leave is earned; and (b) ensure the implementation of the leave plan so that the office operates efficiently at all times and ultimately to reduce cases of forfeited untaken leave days.	UNDP will continue to remind staff to take leave. However, in the light of the travel restrictions imposed by a growing number of countries in an effort to contain the spread of the coronavirus disease (COVID-19), an exception to the current policy has been approved and staff members are permitted to carry forward the annual leave balance in excess of	The Board acknowledges that staff members have had difficulties taking their annual leave owing to the COVID-19 travel restrictions. However, those restrictions have only been in place since 2020. The Board noted that UNDP introduced a mandatory performance goal for all supervisors related to effective people management but that, despite those efforts, a high number of staff members had		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				the maximum allowed beyond 31 March 2020 under the following conditions: (a) All excess days must be used by 31 March 2021; (b) Should the staff member separate from service, any payment of the annual leave that may be due shall not exceed the maximum allowed under the United Nations Staff Regulations and Rules. At the same time, UNDP has introduced a mandatory performance goal for all supervisors related to effective people management, of which one indicator is: "Support to supervisees in maintaining their health and well-being (e.g. encourage supervisees to use leave, prevent situations where staff lose annual leave, encourage awareness and use of flexible working arrangements, etc.)"	an annual leave balance of 60 days and above as at 31 December 2019. The Board considers this recommendation to be under implementation.				
38.	2017	A/73/5/Add.1, chap. II, para. 108	The Board recommends that UNDP: (a) conduct an asset and liability management study to review the appropriateness of the funding plan and other valuation assumptions; and (b) update its policy for funding of end-of-service liabilities to specify the frequency of asset and	UNDP conducted the asset and liability management study in 2019 and updated its policy accordingly.	The Board noted that UNDP had conducted an asset and liability management study in July 2019. According to the asset and liability management study, the current rate of contributions is consistent with the UNDP funding targets. UNDP has updated its policy on the funding of end-of-service-liabilities. The policy states that	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
			liability management studies as the current policy is silent in this area.		a full asset and liability management study must be completed at least every three years. The Board considers this recommendation to be implemented.				
39.	2017	A/73/5/Add.1, chap. II, para. 123	UNDP agreed with the Board's recommendation that country offices ensure: (a) that United Nations agencies sign the memorandum of understanding for the occupancy and use of United Nations common premises; and (b) that all amounts due for payments or refunds between agencies are settled on time in accordance with the memorandum of understanding.	For part (a), UNDP finalized the process with the revised memorandum of understanding on common premises. The one country office noted in the recommendation has implemented the memorandum of understanding with the other agencies and has signed an agreement with the Government. The other country office stated that, after relocation to new premises, there was no common premises management among United Nations agencies. For part (b), in the finalized memorandum of understanding on common premises, UNDP has agreed on the following process to ensure that all amounts due for payments or refunds between agencies are settled on time: (a) On or before 1 December of each year, the lead agency shall estimate the total amount necessary to pay the common area services and	The Board noted that the country office in Turkmenistan had implemented the memorandum of understanding and that for the country office in Turkey no common premises remained after relocation. The Board further noted that the process for payments or refunds had been included in the memorandum of understanding. The Board considers the recommendation to be implemented.	X			

						Board's assessment			
Number	*Audit report year*	*Paragraph reference*	*Recommendations of the Board of Auditors*	*United Nations Development Programme response as at 28 May 2020*	*Assessment by the Board as at 31 May 2020*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				other costs and expenses determined by the lead agency under this agreement, which will be required during the ensuing calendar year for the rendering of all services, together with a reasonable amount considered by the management committee to be necessary for a reserve of contingencies and replacements, and shall, on or before 15 December, notify each agency as to the amount of such estimate with reasonable itemization thereof. On or before 1 January of the ensuing year, and on or before the first day of each and every subsequent month of said year, each agency shall pay to the lead agency one twelfth of that agency's share of the assessment pursuant to this paragraph, plus the applicable monthly base cost; (b) On or before 31 January of each year, the lead agency shall supply to all agencies an itemized accounting of the monthly base cost, common area expenses and other costs and expenses for the preceding calendar year actually incurred and paid, together with a tabulation of the amounts collected by the lead agency and					

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				showing the net amount over or short of the actual expenditure plus reserves. This report should be prepared by service-providing agency or agencies.					
40.	2017	A/73/5/Add.1, chap. II, para. 136	UNDP agreed with the Board's recommendation that: (a) country offices implement the design of the electronic fund transfer interface in accordance with Atlas banking system guidelines to eliminate manual intervention and prevent unauthorized access to electronic fund transfer files residing in the network by encryption; and (b) establish a mechanism of keeping backups of electronic fund transfer files for reconciliation of records.	The South Africa country office established a business process for using an e-banking facility for the purpose of transmitting pre-approved universal flat file payment.	The Board noted that the South Africa country office had implemented a business process for using an e-banking facility. Therefore, the Board considers this recommendation to be implemented.	X			
41.	2017	A/73/5/Add.1, chap. II, para. 142	UNDP agreed with the Board's recommendation that the South Africa and Egypt country offices: (a) strengthen controls over information security to ensure that the disaster recovery and business continuity plans are tested on time and test results are documented; and (b) review and update the business continuity plan on time.	The Egypt country office updated and tested its disaster recovery and business contingency plans in March 2020.	The Board noted the country disaster recovery and business contingency plans of the South Africa and Egypt country offices. The Board also noted that a disaster recovery test had been performed successfully. Therefore, the Board considers the recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
42.	2017	A/73/5/Add.1, chap. II, para. 160	UNDP agreed with the Board's recommendation to ensure that the South Africa country office establish a backup Internet link and increase Internet bandwidth.	The country office has established a backup link and increased bandwidth. A secondary Internet link has also been established.	The Board noted the upgrade of the primary link and the establishment of the backup Internet link. Therefore, the Board considers this recommendation to be implemented.	X			
43.	2016	A/72/5/Add.1, chap II, para. 44	The Board recommends that UNDP (a) introduce a clause in the cooperation agreements on the communication obligations of all parties involved in programme implementation, including measures for motivating implementation of those obligations, and (b) increase follow-up with counterparts so as to ensure that appropriate measures are taken to address the recurrence of delayed certification of combined delivery reports by both UNDP and implementing partners.	The recommendation issued in 2016 was around the delays in signing first quarter, second quarter and third quarter combined delivery reports and the intent was to ensure the timely closure of those combined delivery reports. As a direct response to the recommendation, UNDP policies and procedures on combined delivery reports were updated in 2016 to reflect the following changes: (a) First quarter combined delivery reports are no longer issued; (b) Fourth quarter combined delivery reports are mandatory. In May 2020, UNDP launched a new portal (combined delivery report bridge) to automate the combined delivery report process. Upon communication of the financial closure of each quarter by the Office of Financial Resources Management, combined delivery reports will be	In its report for 2018 (A/74/5/Add.1), the Board noted that part (a) of the recommendation had been overtaken by events. The Board noted that UNDP had addressed part (b) of the recommendation with the launching of the new portal (combined delivery report bridge) in 2020. The portal enables country offices to track the status of combined delivery reports and to better analyse delays in the certification of reports. This can enhance communication with the implementing partner. The Board also noted that UNDP planned to establish further functionalities of the portal in the future. In 2019, the policy on combined delivery reports was updated to reflect the obligatory use of the portal. The Board also noted improved compliance with the timely certification of combined delivery reports in 2019. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				automatically generated and delivered to the combined delivery report bridge platform for access by UNDP offices and implementing partners that are required to certify the reports. Offices are required to use the platform, which allows offices to deliver combined delivery reports by email to implementing partners and automatically tracks the delivery, acceptance and rejection of dispatched combined delivery reports.					
44.	2016	A/72/5/Add.1, chap II, para. 51	The Board recommends that UNDP ensure (a) timely review and updating of project risks, issues and monitoring logs and document this in Atlas as the primary source of project information and (b) that project boards conduct regular meetings as a means of continuously monitoring project implementation.	UNDP has started to develop a collaborative digital workspace for programming. This workspace will help managers see where their programming stands across the full life cycle to better monitor performance and highlight what needs to be done so that it can be addressed before becoming an audit issue. These measures build on previous enhancements, including the end-to-end rewrite of programming policies and procedures, the introduction of new quality standards for programming, a new monitoring policy and improvements introduced through the new United Nations Sustainable Development Cooperation Framework.	The Board noted the efforts undertaken by UNDP. However, the digital workspace is not yet in use and it remains to be seen whether it will help project managers update risks, issues and monitoring logs in Atlas. Owing to the ongoing process, the Board considers this recommendation to be under implementation.		X		

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
45.	2016	A/72/5/Add.1, chap II, para. 69	UNDP agreed with the Board's recommendation that it (a) take proactive measures to ensure that all operationally closed projects are financially closed within 12 months, in accordance with the programme and operations policies and procedures, which would entail obtaining in a timely manner donors' approvals on refunds or reprogramming of unspent amounts; and thoroughly review and effect all transactions related to projects before they are financially closed; and (b) ensure that all asset balances are cleared before projects are financially closed.	From 2017 to the present, UNDP has implemented multiple measures to ensure the timely closure of projects. These measures include: (a) Introducing systems and tools such as a project workbench in the enterprise resource management system and SharePoint reports that provide real-time information on projects due for closure; (b) Provision of routine quarterly reminders on progress to country offices; (c) Mainstreaming project closure in the financial reviews of bureaux. The total value of projects not closed on time as of March 2020 was 0.75 per cent of total programme delivery.	The Board noted the efforts undertaken by UNDP and that UNDP continuously followed up on the matter with country offices and regional bureaux to ensure timely project closure. The Board also noted that the number of projects that have been operationally closed for more than 12 months has decreased over time, especially with regard to project volume. The Board trusts that UNDP will continue to follow up on projects to ensure closure of projects in line with the UNDP programme and operations policy. With the constant implementation of these measures, the Board considers this recommendation to be implemented.	X			
46.	2016	A/72/5/Add.1, chap II, para. 101	The Board recommends that UNDP strengthen reviews and monitoring of the purchase orders and accounts payable to ensure that (a) expenses recorded in the general ledger, commitment control and projects are accurate, complete and recorded in the correct accounting period; and (b) pending transactions (i.e., purchase orders, vouchers and general ledger journal entries with an	UNDP has put processes in place to address this recommendation and progress is reported and monitored quarterly. With respect to open purchase orders, UNDP launched a PowerBI dashboard at the end of 2018 that reports and tracks fully matched purchase orders that need to be closed. Country offices and their respective bureaux use the dashboard to monitor	The Board noted that UNDP had put review and monitoring procedures into place to address this recommendation. The Board also noted that outstanding transactions with regard to accounts payable and purchase orders had been significantly reduced. The Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
			accounting date on or before the last day of the month being closed) are cleared in accordance with year-end closure instructions.	and close the fully matched purchase orders. As a result of the follow-up and monitoring actions in place since late 2018, the number of open fully matched purchase orders in the enterprise resource planning system from 2012–2016 (period when the audit issue was raised) decreased from 47,403 as of May 2018 to 9,676 as of 6 April 2020, or an 80 per cent decrease. The Office of Financial Resources Management regularly reports on payments on hold as part of the country office and bureau quarterly review process. As a result of the monitoring and follow-up, the number of non-zero payment vouchers on hold in the enterprise resource planning system raised in 2019 and prior years was 277 as of 2 April 2020, down from 941 vouchers as of 18 May 2018 (70 per cent decrease). Pending general ledger journal entries is an indicator in the finance dashboard that rolls up into the Comptroller's performance index, which is presented to country offices in quarterly one-pagers and during quarterly bureau financial reviews. The					

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				quarterly and year-end financial closure instructions include instructions to all UNDP offices to delete any pending general ledger journal entries or, if required, to get the general ledger journal entries approved and posted. As a result of the monitoring and follow-up there are no pending pre-2020 general ledger journal entries.					
47.	2016	A/72/5/Add.1, chap II, para. 107	The Board recommends that UNDP ensure that future service contract evaluations are completed on time, ideally one month prior to the contract's expiration, pursuant to policy, so as to provide offices with a reasonable amount of time for decision-making.	The new UNDP policy on service contracts will link the evaluations to the annual performance management cycle. The timely completion of the evaluations will be part of the corporate-wide performance management cycle and the policy is expected to be in place in the third quarter of 2020, for the performance cycle starting 2021.	The Board acknowledges that UNDP intends to introduce a new policy on service contracts by the third quarter of 2020 and that the new policy will link evaluations to the annual performance management cycle. The Board considers this recommendation to be under implementation.		X		
48.	2016	A/72/5/Add.1, chap II, para. 116	The Board recommends that UNDP ensure that all staff members complete mandatory training courses on time.	Accountability for completion of mandatory courses lies with the Head of Office. The role of the Office of Human Resources is to ensure that the courses are available to staff on demand, track completion rates and troubleshoot problems that staff may have in completing courses. The Office has established a mechanism to enable staff	In the audit for 2018, the Board acknowledged the efforts of UNDP to achieve higher completion rates of mandatory training courses, as well as the positive trend evidenced by the mandatory course completion statistics for 2017 (36 per cent) and 2018 (71 per cent) provided to the Board during the audit of the UNDP 2018 financial statements. The Board further noted that the overall	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
				to complete the mandatory courses. The Office of Human Resources continues to review compliance with the completion of mandatory training on an annual basis and reminders are sent to offices with low completion rates. The UNDP People Development Governance Group has prepared the People Development Strategy for 2020. A key focus area in the Strategy is a review of the mandatory courses to ensure their relevance and completion. UNDP, through the People Development Governance Group, is currently reconsidering the targets for the completion of the mandatory courses. A more appropriate target at any given time might be 85–90 per cent, given the significant personnel turnover.	completion rate had increased in 2019 (81 per cent). Therefore, the Board considers this recommendation to be implemented.				
49.	2016	A/72/5/Add.1, chap II, para. 120	UNDP agreed with the Board's recommendation that it introduce a schedule that ensures easy reconciliation of the differences in respect of individual asset additions between the note in the financial statements on property, plant and equipment; and the in-service report.	A schedule to reconcile asset additions between the in-service report and the note to the financial statements on property, plant and equipment has been developed and incorporated into the enterprise resource planning system.	The Board noted that UNDP had developed a schedule in Atlas to reconcile asset additions between the in-service report and the note to the financial statements on property, plant and equipment. Therefore, the Board considers this recommendation to be implemented.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment: Implemented	Under implementation	Not implemented	Overtaken by events
50.	2015	A/71/5/Add.1, chap. II, para. 41	UNDP agreed with the Board's recommendation that: (a) in future, UNDP plan ahead regarding the changes needed in project settings, such as the rates of the general management support fee, to minimize delays in signing quarterly combined delivery reports; (b) it submit the combined delivery reports in a timely manner, duly signed by UNDP and implementing partners, in compliance with the programme and operations policies and procedures; and (c) it liaise with implementing partners on their accountability regarding the timely signing of combined delivery reports when delays are encountered.	This recommendation, issued in 2015, was around the delays in signing first quarter and second quarter combined delivery reports and the intent was to ensure timely closure of first quarter and second quarter combined delivery reports. In 2016, UNDP updated its policies and procedures on first quarter and second quarter reports to reflect the following changes: (a) second quarter and third quarter combined delivery reports are not mandatory; and (b) fourth quarter combined delivery reports are mandatory.	The Board noted that part (a) of the recommendation had been implemented in 2016. The Board noted that UNDP had addressed parts (b) and (c) of the recommendation by launching the new portal (combined delivery report bridge) in 2020. The portal enables country offices to track the status of combined delivery reports and to better analyse delays in the certification of reports. This can enhance communication with the implementing partner. The Board also noted that UNDP planned to establish further functionalities of the portal in the future. The policy on combined delivery reports has been updated to reflect the obligatory use of the portal. The Board also noted improved compliance with the timely certification of combined delivery reports. The Board considers this recommendation to be implemented.	X			
51.	2015	A/71/5/Add.1, chap. II, para. 72	UNDP agreed with the Board's recommendations that it: (a) enhance and document the follow-up mechanisms, including feedback from all delayed participating organizations, for future improvements; (b) introduce measures to	As a direct response to close the parts (a) and (b) of the recommendation, UNDP has established a process and mechanism to close multi-partner trust fund office projects through the following measures:	Part (c) of the recommendation was withdrawn by the Board in 2017. The Board noted that UNDP had addressed the recommendation and included project closure in quarterly reports sent to country offices and regional bureaux.	X			

Number	Audit report year	Paragraph reference	Recommendations of the Board of Auditors	United Nations Development Programme response as at 28 May 2020	Assessment by the Board as at 31 May 2020	Board's assessment			
						Implemented	Under implementation	Not implemented	Overtaken by events
			accelerate the operational and financial closure of all overdue projects; and (c) as the largest United Nations fund administration service provider, propose the idea of common policies and procedures around inter-agency pooled funding mechanisms to harmonize practices so as to enhance accuracy in reporting and timing of issuing reports.	(a) Senior management follow up; (b) Improved guidance and tools on the intranet on project closure: (c) Accountability through periodic reporting on project closure to country offices.	The Board also noted that the number and percentage of multi-partner trust fund office projects that were not closed in time had decreased significantly. At the beginning of 2019, projects with 20 per cent of overall value had not been closed in time. That had been reduced to 9 per cent as of February 2020, with ongoing progress. The Board also noted that more than 60 per cent of projects not closed in a timely manner were related to one country office. According to UNDP, a consultant had been hired to address the issue. The Board trusts that UNDP will continue to monitor projects not closed in time and follow up on the matter with country offices and regional bureaux. The Board considers this recommendation to be implemented.				
Total					**51**	**29**	**20**	**0**	**2**
Percentage					**100**	**57**	**39**	**0**	**4**

Chapter III
Financial report for the year ended 31 December 2019

A. Introduction

1. The financial report should be read in conjunction with the United Nations Development Programme (UNDP) audited financial statements and the accompanying notes for the year ended 31 December 2019. All amounts are expressed in United States dollars, which is the functional currency of the Programme. The financial statements are prepared for the calendar year 2019 in accordance with International Public Sector Accounting Standards (IPSAS). The financial report provides readers of the financial statements with a better understanding of the financial performance and position of UNDP.

2. The financial statements aggregate all operations of UNDP at the organizational level. While this aggregate view of the organization is useful for overall performance and position analysis, readers are reminded to consider the segment reporting: statements of financial position and performance (note 6) and programme expenses by geographical region (note 36.3), which segregate operations by segments based on management reporting and by geographical region.

About the United Nations Development Programme

3. UNDP was established by the General Assembly in 1965 through its resolution 2029 (XX). UNDP is politically neutral, and its cooperation is impartial. UNDP works, primarily through its global network of offices and partners, with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone.

What the United Nations Development Programme offers

4. Anchored in the 2030 Agenda for Sustainable Development and committed to the principles of universality, equality and leaving no one behind, the UNDP vision for the strategic plan, 2018–2021, is to help countries to achieve sustainable development by eradicating poverty in all its forms and dimensions, accelerating structural transformations for sustainable development and building resilience to crises and shocks.

5. In addition, UNDP administers:

- *United Nations Volunteers programme*. The United Nations Volunteers programme is an organization that promotes volunteerism to support peace and development worldwide. The operations of United Nations Volunteers are reflected in the financial statements of UNDP. During 2019, 8,282 United Nations Volunteers from 162 countries supported partner United Nations entities in their peace and development activities in 154 countries of assignment.

- *Junior Professional Officers programme*. UNDP manages the Junior Professional Officers programme on behalf of 12 United Nations entities, as well as other programmes.

- *Multi-Partner Trust Fund Office*. UNDP houses the Multi-Partner Trust Fund Office, a United Nations centre of expertise on pooled financing mechanisms. It supports development effectiveness and United Nations coordination through the efficient, accountable and transparent design and administration of innovative pooled financing mechanisms.

- *United Nations Office for South-South Cooperation*. UNDP hosts the United Nations Office for South-South Cooperation, established pursuant to General Assembly resolution 3251 (XXIX), in which the Assembly endorsed "the establishment of a special unit within the United Nations Development Programme to promote technical co-operation among developing countries". The mandate of the special unit is to promote, coordinate and support South-South and triangular cooperation globally and within the United Nations system.

Financial objectives

6. The financial objective of UNDP is to ensure that all the resources, including financial resources, entrusted to the organization are managed efficiently and effectively in order to achieve the expected development results. Within this objective lie key criteria and benchmarks, including:

(a) Accurate and timely reporting of results to the Executive Board and UNDP partners and other governing bodies;

(b) Establishing and maintaining a sound set of internal financial control mechanisms;

(c) Meeting the minimum regular resources liquidity requirement range approved by the Executive Board (i.e., three to six months of expenses);

(d) Producing annual IPSAS-compliant financial statements.

7. The financial reporting objective of UNDP is to provide users of the financial statements with transparent, comprehensive and understandable financial information for decision-making and to increase the use and consumption of financial information.

New revenue recognition accounting policy

8. In 2019, UNDP refined its accounting policy for recognizing revenue from voluntary contributions (non-exchange transactions), as described in note 4, Significant accounting policies, in chapter IV. Revenue from non-exchange transactions is now recognized in full, including for multi-year contributions, at the time that the contribution agreement is signed, where no performance conditions are present. The new policy provides more relevant information since it better reflects the substance of the underlying transaction, while also further simplifying the accounting for voluntary contributions. The new policy was applied retroactively to 2018 for comparative purposes and, as a result, any non-exchange revenue amounts for 2018, including in the charts, are marked as restated where applicable. Further details are included in note 5, Change in accounting policy and reclassification of comparatives, in the UNDP financial statements.

B. Summary of financial results and highlights

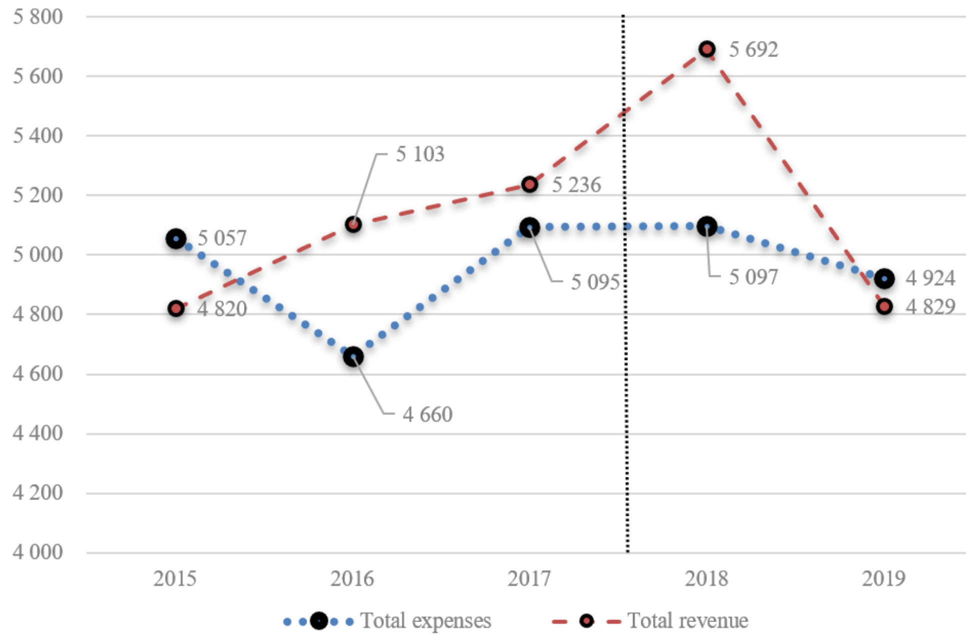
9. In 2019, UNDP reported total annual revenues of $4,829 million (2018 (restated): $5,692 million) and managed total assets of $12,485 million (2018 (restated): $12,204 million). UNDP received total contributions of $4,473 million (2018 (restated): $5,360 million), comprising $694 million (2018 (restated): $889 million) in regular resources and $3,779 million (2018 (restated): $4,471 million) in other resources.

Highlights from fiscal year 2019 compared with 2018 include:

- Decrease in total revenue by $863 million (or 15 per cent)
- Decrease in total expenses by $173 million (or 3 per cent)

- Decrease in programme expenses by $86 million (or 2 per cent)
- Decrease in staff costs by $77 million (or 9 per cent)
- Decrease in contractual services by $89 million (or 5 per cent)
- Increase in investments, excluding investments for the Multi-Partner Trust Fund Office, of $753 million (or 13 per cent)

Figure III.I
Total revenue and expenses in 2015–2019
(Millions of United States dollars)



Note: In 2019, UNDP changed its accounting policy for revenue recognition. The 2018 amounts were restated to reflect this change in policy. See note 5, Change in accounting policy and reclassification of comparatives, in the UNDP financial statements.

C. Financial performance[1]

Revenue analysis

10. The activities of UNDP are funded mainly by voluntary contributions to regular (core) resources and other (non-core) resources.

11. The total revenue in 2019 was $4,829 million, a decrease of $863 million, or 15 per cent, from the total revenue of $5,692 million in 2018 (restated).

12. The main sources of revenue of UNDP in 2019 were as follows:

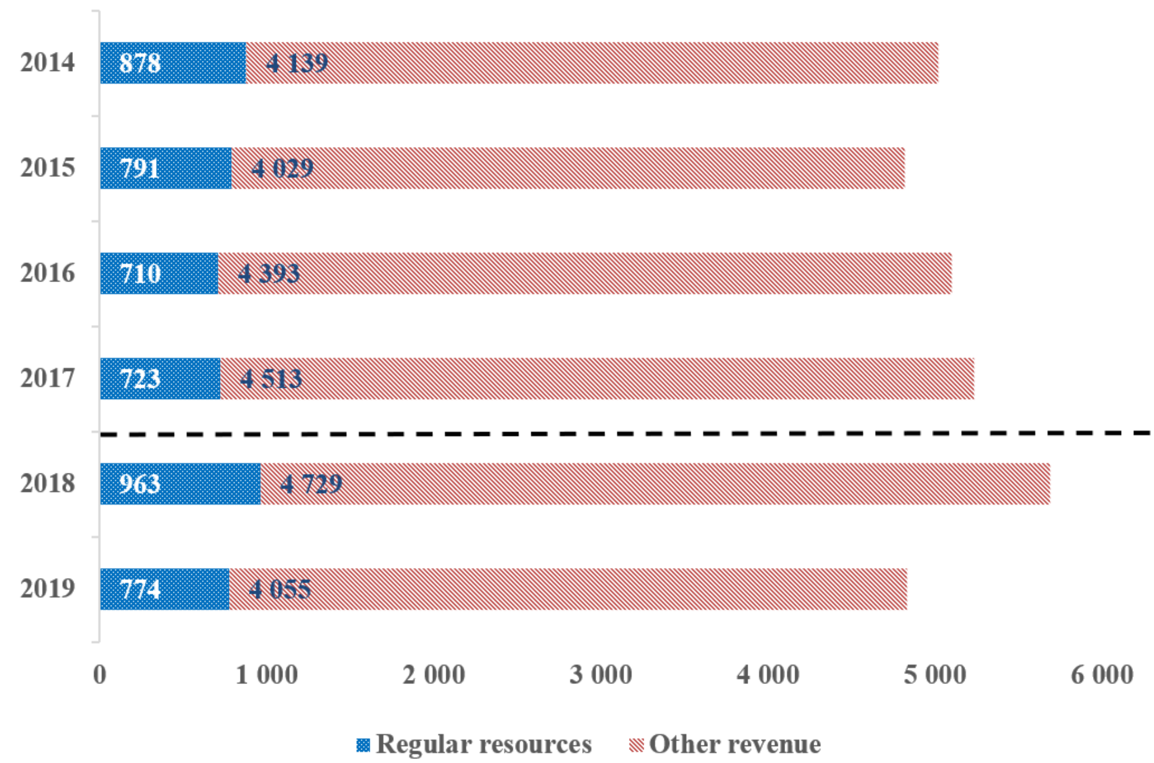
- $4,473 million, or 93 per cent, from voluntary contributions (2018 (restated): $5,360 million, or 94 per cent)
- $356 million, or 7 per cent, from exchange, investment and other revenue ($332 million, or 6 per cent, in 2018)

[1] References to “core” signify the “regular resources” segment, while references to “non-core” signify “cost-sharing”, “trust funds” and “reimbursable support services” segments in aggregate.

Revenue by segment

13. The proportion of the Programme's non-core contributions to core contributions increased slightly in 2019. In 2019, total revenue from regular resources was $774 million (representing 16 per cent of the total revenue) and other revenue was $4,055 million (representing 84 per cent of the total revenue). The proportion in 2019 was similar to that reported in 2018: 17 per cent from regular resources and other revenue of 83 per cent.

Figure III.II
Trend of regular resources and other revenue, 2014–2019
(Millions of United States dollars)

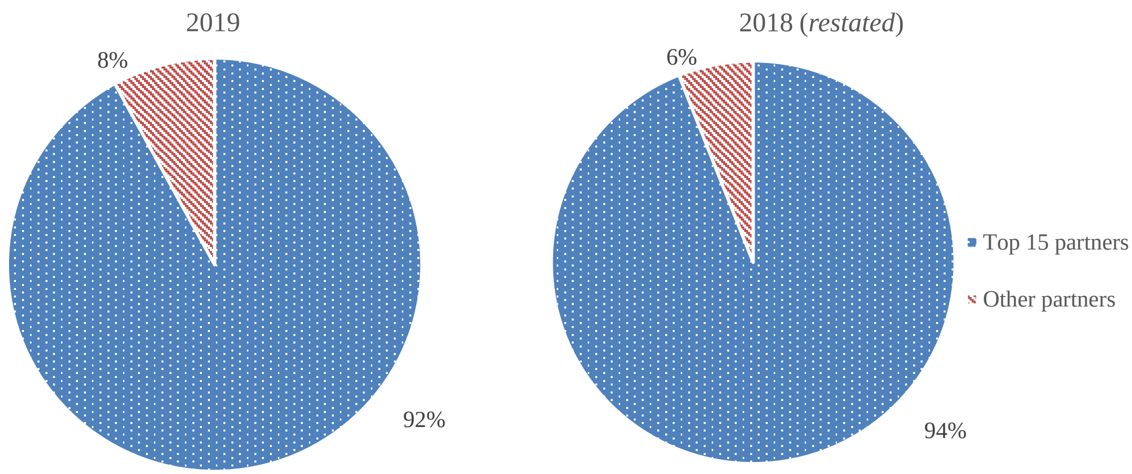


Note: In 2019, UNDP changed its accounting policy for revenue recognition. The 2018 amounts were restated to reflect this change in policy. See note 5, Change in accounting policy and reclassification of comparatives, in the UNDP financial statements.

14. Within cost-sharing revenue totalling $3,340 million, third-party cost-sharing provided 74 per cent of the revenue and government cost-sharing provided 25 per cent of the revenue. South-South cooperation provided 1 per cent of total cost-sharing revenue.

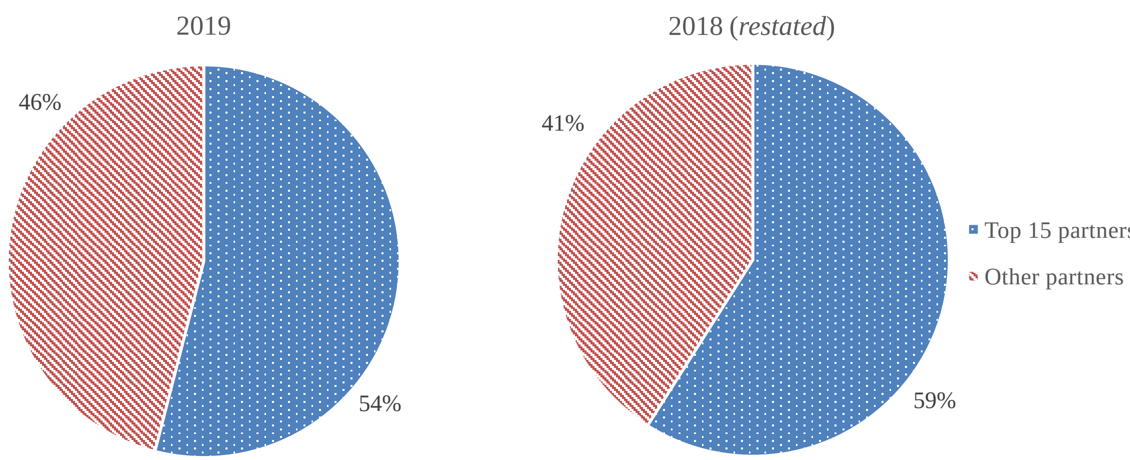
15. Both the core and non-core funding bases are concentrated in a few funding partners (i.e., donors). In 2019, 92 per cent of core revenue was received from 15 partners, which is consistent with the prior year (2018 (restated): 94 per cent) (see figure III.III). In 2019, the largest donor for core funding accounted for 27 per cent (2018 (restated): 19 per cent) of total core contributions.

Figure III.III
Core revenue concentration, 2018–2019
(Percentage)



16. For non-core revenue, the concentration of contributions from the largest 15 partners decreased from 59 per cent in 2018 (restated) to 54 per cent in 2019 (see figure III.IV). In 2019, the largest donor for non-core funding accounted for 7 per cent (2018 (restated): 8 per cent) of total non-core contributions.

Figure III.IV
Non-core revenue concentration, 2018–2019
(Percentage)



17. An analysis of revenue by segment, excluding the elimination of internal UNDP cost recovery, shows that cost-sharing is the largest source of revenue, providing 66 per cent of the revenue of UNDP in 2019, followed by regular resources (15 per cent), reimbursable support services and miscellaneous activities (10 per cent) and trust funds (9 per cent).

18. Overall, 2019 revenue proportions by segment were relatively consistent with the prior year, with a slight increase in cost-sharing (non-core) (3 per cent) offset by the decrease in trust funds (2 per cent) from 2018.

Figure III.V
Composition of total revenue in 2018–2019 by segment
(Percentage)

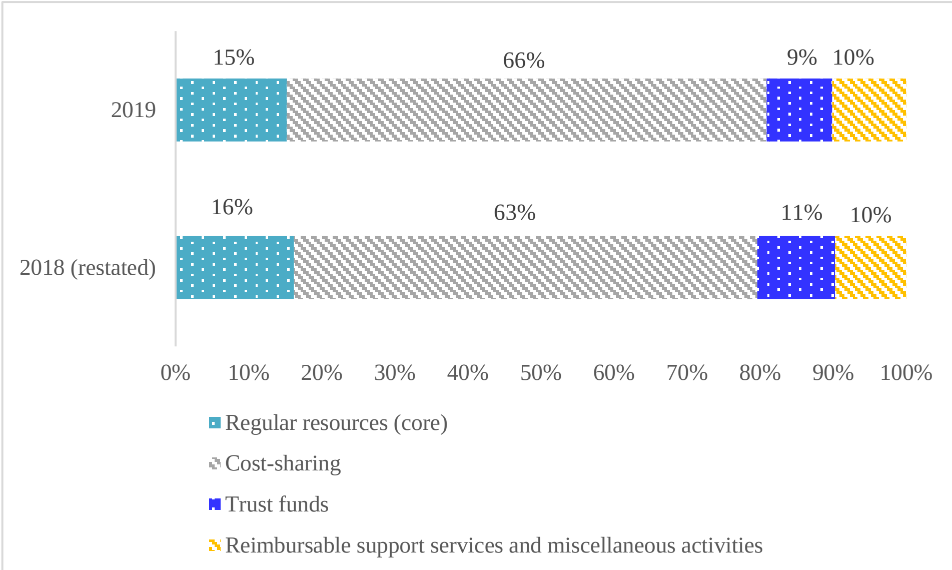
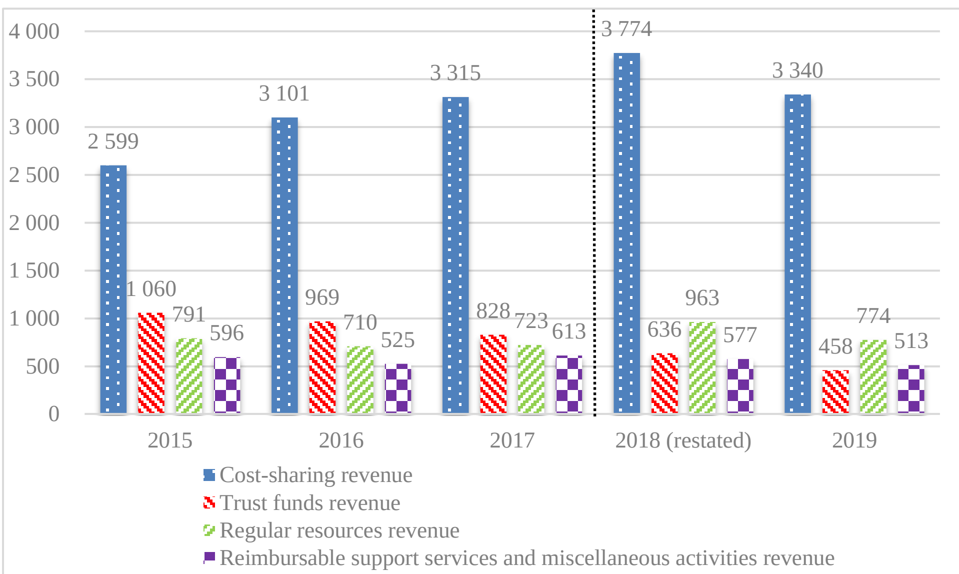


Figure III.VI
Composition of total revenue in 2015–2019 by segment
(Millions of United States dollars)



Note: In 2019, UNDP changed its accounting policy for revenue recognition. The 2018 amounts were restated to reflect this change in policy. See note 5, Change in accounting policy and reclassification of comparatives, in the UNDP financial statements.

Expense analysis

19. In 2019, UNDP expenses were $4,924 million, a decrease of $173 million, or 3 per cent, from 2018 (2018: $5,097 million).

20. The largest expense category by nature continues to be contractual services, which totalled $1,879 million in 2019 (2018: $1,968 million), representing 38 per

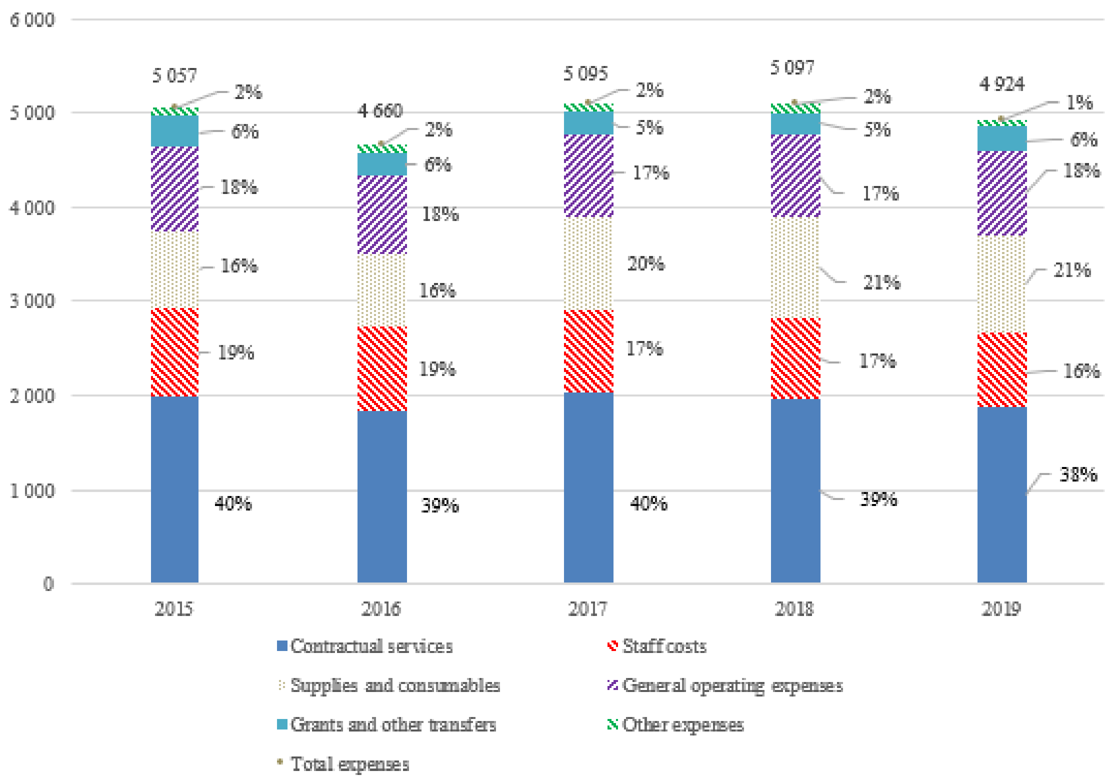
cent of total expenses. The remaining expenses in 2019 by nature are: supplies and consumables totalling $1,032 million (2018: $1,059 million); general operating expenses totalling $903 million (2018: $877 million); staff costs totalling $788 million (2018: $865 million); expenses for grants and other transfers totalling $251 million (2018: $234 million); and other expenses totalling $71 million (2018: $94 million).

21. Government entities and private, financial, academic and civil society organizations contributed to the achievement of the Programme's sustainable development results and implemented $1,755 million (2018: $1,883 million) of total programme expenditures incurred in 2019.

Figure III.VII

Composition of total expenses in 2015–2019 by nature

(Millions of United States dollars)



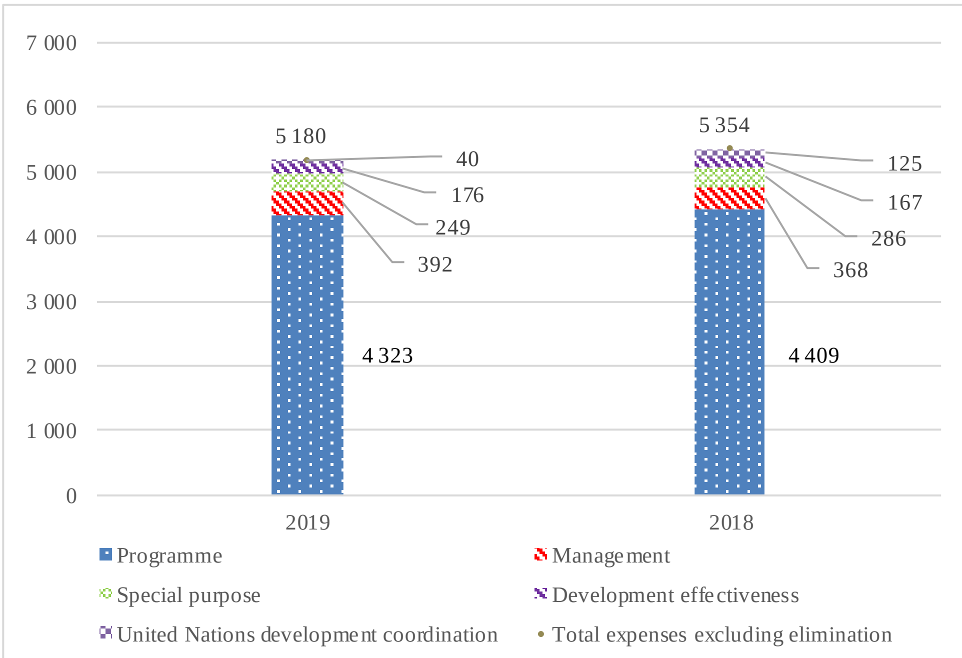
Expenses by cost classification

22. In its decision 2010/32, the UNDP Executive Board endorsed the cost definitions and classification of activities and associated costs in four broad categories, as follows: (a) development activities, which encompass subcategories for programme activities and development effectiveness activities; (b) United Nations development coordination activities; (c) management activities; and (d) special purpose activities, encompassing investments in programmatic and institutional activities relating to United Nations Volunteers and the United Nations Capital Development Fund, as well as capital investments and other related expenditure.

23. In 2019, of total UNDP expenses of $5,180 million (excluding the effect of the eliminations of internal cost recovery; 2018: $5,354 million), $4,323 million (83 per cent; 2018: $4,409 million) was spent on programme activities, $176 million (3 per cent; 2018: $167 million) was spent on development effectiveness, $40 million (2 per

cent; 2018: $125 million) was spent on United Nations development coordination, $392 million (7 per cent; 2018: $368 million) was spent on management and $249 million (5 per cent; 2018: $286 million) was spent on special purpose and other activities to support operations administered by UNDP. There was an increase in resources spent on programme activities and a slight decrease in resources spent on development effectiveness activities, resulting in the overall increase in resources spent on development activities.

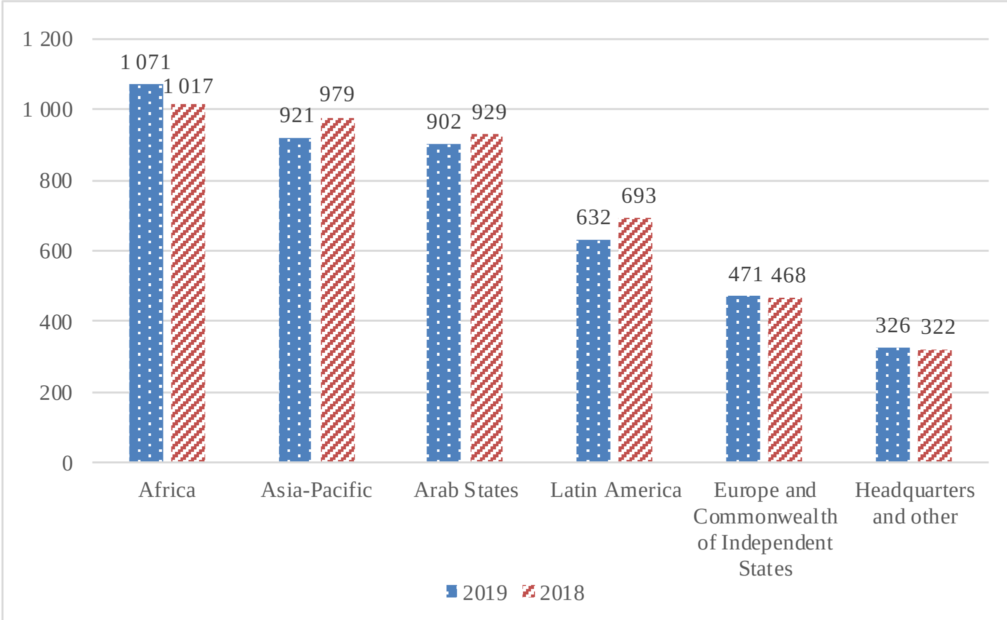
Figure III.VIII
Composition of total expenses in 2018–2019 by cost classification
(Millions of United States dollars)



Programme expenses by geographical region

24. In 2019, of total UNDP programme expenses of $4,323 million (excluding the effect of eliminations), the African region continues to have the largest proportion, amounting to $1,071 million (25 per cent), as shown in figure III.IX.

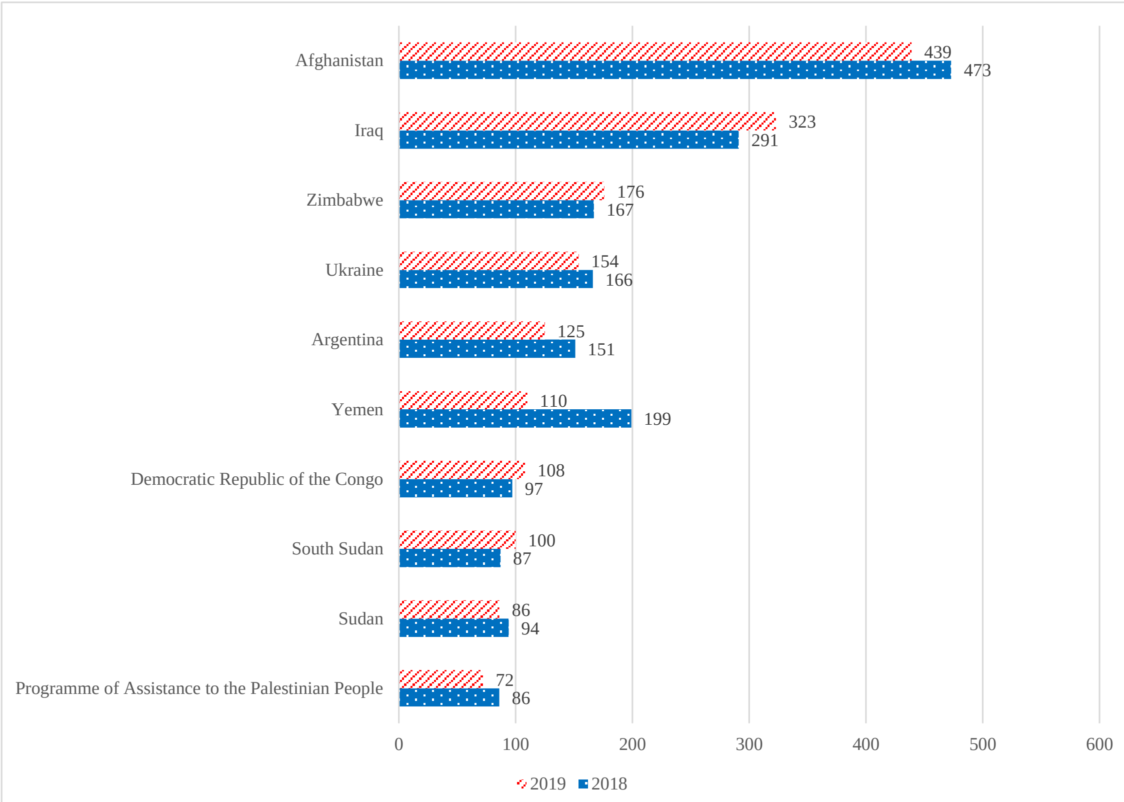
Figure III.IX
Programme expenses in 2018–2019 by geographical region
(Millions of United States dollars)



Programme expenses by country office

25. A total of 39 per cent of UNDP programme expenses ($1,693 million) was attributed to the 10 largest country offices. These comprise the offices in Afghanistan, Iraq, Zimbabwe, Ukraine, Argentina, Yemen, the Democratic Republic of the Congo, South Sudan and the Sudan and the Programme of Assistance to the Palestinian People.

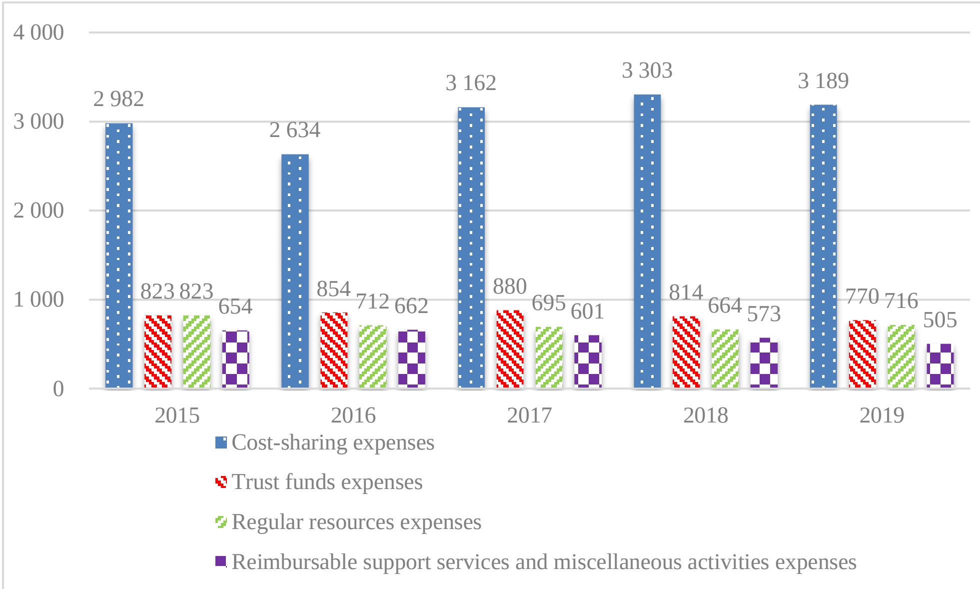
Figure III.X
Programme expenses in 2018–2019 by the top 10 country offices
(Millions of United States dollars)



Expenses by segment

26. Of the total expenses for 2019, 62 per cent was funded from cost-sharing, 15 per cent from trust funds, 14 per cent from regular resources and 9 per cent from reimbursable support services and miscellaneous activities.

Figure III.XI
Total expenses in 2015–2019 by segment
(Millions of United States dollars)



27. Within cost-sharing expenses, totalling $3,189 million, 74 per cent was spent on third-party cost-sharing and 26 per cent on government cost-sharing. South-South cooperation continued to account for less than 1 per cent of total cost-sharing expenses.

D. Surplus/deficit

28. In 2019, UNDP had a deficit of revenue over expenses of $94.5 million, compared with a surplus of $594.8 million in 2018 (restated). The decrease of $689.3 million as compared with 2018 (restated) is the result of the combined effect of the change in the revenue recognition policy and the fact that UNDP funding is received on a cyclical basis: at times multi-year agreements with donors are signed and the revenue for these multi-year agreements is recorded upfront, provided certain criteria are met. Further details of the impact are included in note 5, Change in accounting policy and reclassification of comparatives, in chapter IV.

E. Budgetary performance

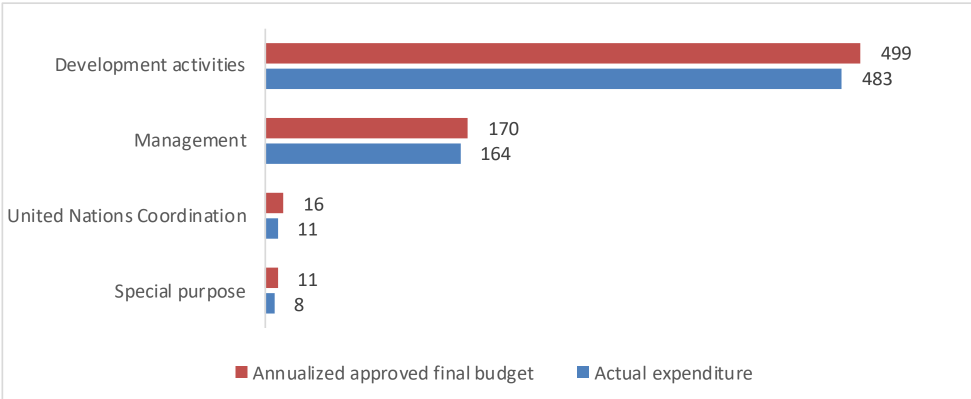
29. The integrated resources plan and the integrated budget set out the estimated financial resources for the new strategic plan, covering both regular (core) and other (non-core) resources for 2018–2021. The integrated resources plan includes regular and other resources and encompasses the integrated budget, which covers regular resources only.

30. In its decision 2017/31, the Executive Board approved a four-year integrated budget covering 2018–2021, with estimates provided for the four annual periods.

31. The budget of UNDP is prepared on a modified cash basis and is presented in the financial statements as statement V, comparison of budget and actual amounts (regular resources). In order to facilitate a comparison between the budget and the

financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is also included in note 7.

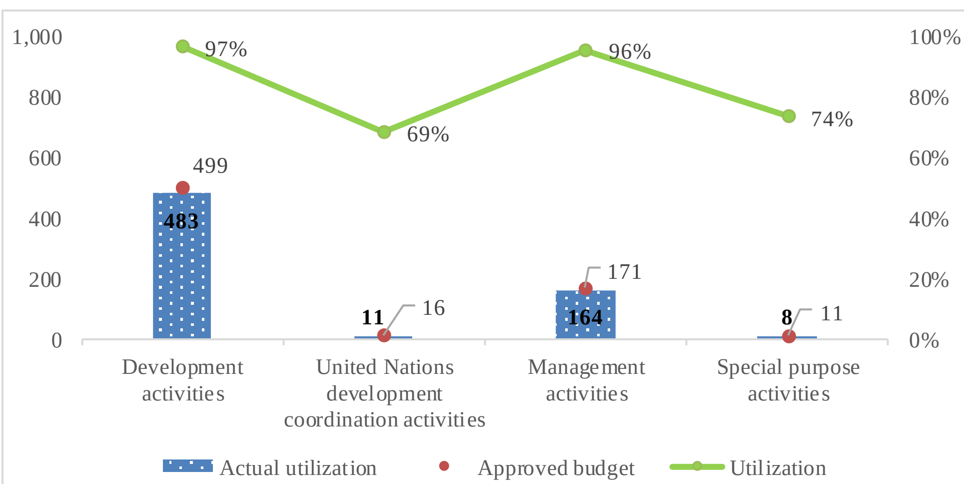
Figure III.XII
Budget utilization rates for 2019
(Millions of United States dollars)



32. Actual utilizations are lower than the annualized budget for 2019, as UNDP revised the annual spending limits. As in 2018, during 2019 UNDP revised the annual spending limits downwards, noting the uncertainty of voluntary contributions to regular resources. This resulted in lower overall budget expenditure as compared with the annualized budget for 2019. Regular resources for programmatic and institutional components not protected by Executive Board decisions 2013/4, 2013/28 and 2017/31 were reduced.

33. Actual utilization rates by cost classification category are shown in figure III.XIII below.

Figure III.XIII
2019 budget versus actual utilization
(Millions of United States dollars and utilization in percentages)



F. Financial position

Assets

34. At year-end 2019, UNDP held assets of $12,485 million (2018 (restated): $12,204 million), which comprised investments, including investments for the Multi-Partner Trust Fund Office of $7,123 million (2018: $6,237 million), cash and cash equivalents of $813 million (2018: $1,067 million) and non-exchange receivables of $4,051 million (2018 (restated): $4,423 million). The majority of investments and cash and cash equivalents will be used for development activities funded via cost-sharing and trust funds.

35. Overall, assets increased by $281 million, or 2 per cent, over the prior year. The change is attributable mainly to a decrease in receivables from non-exchange transactions ($372 million), a decrease in cash and cash equivalents ($254 million) and an increase in investments by $886 million.

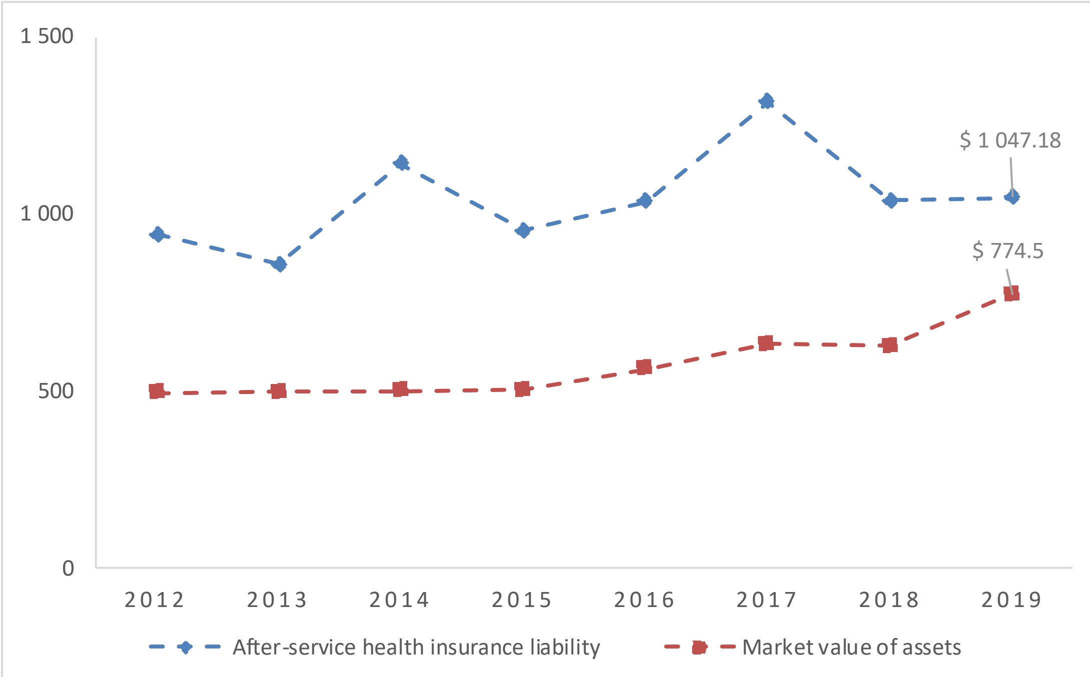
Liabilities

36. The total liabilities of UNDP increased by $215 million, or 8 per cent, from $2,575 million in 2018 (restated) to $2,790 million in 2019. The change is attributable mainly to payables for the Multi-Partner Trust Fund Office, which increased by $150 million.

37. The after-service health insurance benefit is valued at $1,047 million (2018: $1,037 million). The increase of $10 million in the after-service health insurance liability in 2019 is largely due to the decrease in valuation discount rates because of improved market yields during the year and to a change in actuarial assumptions.

38. UNDP holds $775 million in cash and investments to fund after-service health insurance liabilities (74 per cent funded). The Programme maintains a 15-year full funding strategy, which is informed by a periodic asset-liability study.

Figure III.XIV
After-service health insurance liability and market values of earmarked assets in investments
(Millions of United States dollars)



Liquidity

39. UNDP exceeded the minimum liquidity requirement for regular resources mandated by the Executive Board with 6.61 months of average expenditures (2018: 7.61 months).

Net assets/equity

40. Net assets/equity reached $9,695 million, comprising accumulated surpluses of $9,409 million and reserves of $286 million. As a result of the change in revenue recognition policy detailed in note 5, Change in accounting policy and reclassification of comparatives, accumulated surpluses now include receivables from non-exchange transactions (net of past due receivables) of $3,947 million at 31 December 2019 (2018 (restated): $4,280 million) (see note 10, Receivables: non-exchange transactions). Under its Financial Regulations and Rules, UNDP is permitted to spend only when the cash is received.

41. In 2019, $6 million (2018: $10 million) was released to the accumulated surpluses from the operational reserve, in accordance with the operational reserve formula approved by the Executive Board in decision 1999/9.

42. During 2019, net assets/equity increased by $66 million as a result of the combined effect of the following factors: (a) a deficit of $95 million; (b) change in fair value of available-for-sale investments of $92 million; (c) actuarial gains of $44 million; and (d) change in value of funds with specific purposes of $24 million.

43. In 2019, the total accumulated resource balance stood at $9,409 million (2018 restated: $9,337 million). Of that total, $8,653 million represented the accumulated

non-core programme resource balance,[2] which decreased by 1 per cent from 2018 (2018 restated: $8,767 million). The accumulated resource balance results from revenue received by UNDP for multi-year programmes and projects that will be implemented in future periods.

Financial position by segment

44. The financial position of UNDP by segment and UNDP in aggregate, as included in note 6 to the financial statements, on segment reporting, is summarized in table III.1.

Table III.1
Summary financial position by segment as at 31 December 2019
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total UNDP*
Total assets	3 118.5	6 355.3	1 894.9	1 116.6	12 485.3
Percentage of total UNDP assets	25	51	15	9	100
Total liabilities	2 218.8	116.8	25.9	428.5	2 790.0
Percentage of total UNDP liabilities	80	4	1	15	100
Net assets/equity	899.7	6 238.5	1 869.0	688.1	9 695.3
Percentage of total UNDP assets/equity	9	64	19	8	100

Summary financial position by segment as at 31 December 2018 (restated)
(Millions of United States dollars)

	Regular resources (restated)	*Cost-sharing (restated)*	*Trust funds (restated)*	*Reimbursable support services and miscellaneous activities (restated)*	*Total UNDP (restated)*
Total assets	2 762.9	6 187.4	2 203.9	1 049.9	12 204.1
Percentage of total UNDP assets	23	50	18	9	100
Total liabilities	2 043.2	100.2	23.1	408.5	2 575.0
Percentage of total UNDP liabilities	79	4	1	16	100
Net assets/equity	719.7	6 087.3	2 180.7	641.3	9 629.0
Percentage of total UNDP assets/equity	7	63	23	7	100

G. Accountability, governance and risk management

45. Accountability and governance of UNDP has four main facets:

(a) UNDP governing bodies and governance committees: the General Assembly (including the Fifth Committee), the Economic and Social Council and the Executive Board;

[2] Accumulated non-core programme resources include cost-sharing and trust funds segment results.

(b) UNDP accountability to its development partners and beneficiaries: funding partners, programme governments, United Nations partners, implementing partners and project beneficiaries;

(c) Institutional oversight mechanisms of UNDP: (i) independent external oversight: the Advisory Committee on Administrative and Budgetary Questions, the Board of Auditors, the Joint Inspection Unit and the Audit and Evaluation Advisory Committee; (ii) independent internal oversight: the Office of Audit and Investigations, the Ethics Office and the Independent Evaluation Office;

(d) UNDP internal accountability: the Administrator and Associate Administrator, the Executive Office, the Executive Group (including the Risk Committee), the Organizational Performance Group, regional and headquarters bureaux, regional centres and country offices.

46. The system of internal controls is designed to ensure that effective controls and risk management are integrated into normal business processes and is aligned with the strategic objectives of the organization.

Internal controls

47. The development mandate of UNDP requires it to operate and maintain a presence in high-risk environments where there is a high level of inherent risk, including risk to the security of its employees and other assets of the organization. This requires UNDP to maintain the highest standards of internal control.

48. Internal control is a key responsibility of UNDP management and is a process integral to the Programme's management of its operations. It is the responsibility of UNDP management at all levels to:

(a) Establish a strong control environment and culture that promotes effective internal controls;

(b) Identify and assess risks that may affect the achievement of objectives and implement appropriate risk mitigation strategies;

(c) Establish appropriate policies and procedures, systems, monitoring and other control activities that promote and maintain a strong internal control environment;

(d) Monitor the effectiveness of internal controls.

49. The effective application of internal controls within UNDP is achieved through the following institutionalized processes:

(a) "Front-line" controls: These functions are carried out by all organizational personnel at field, regional and headquarters offices. This is done by applying existing policies and procedures in their daily work to ensure that objectives are met and resources entrusted to UNDP are properly managed;

(b) Oversight controls: These controls are designed to monitor the operational effectiveness of "front-line" controls and mitigate related risks and are exercised by regional offices and headquarter divisions. They include functions such as financial performance monitoring, planning and budgeting processes, quality management and assurance, results and performance management, etc.;

(c) Independent internal oversight controls: These controls are performed internally within UNDP and are designed to provide independent and objective assurance on the efficiency and effectiveness of processes and controls put in place by management. They are undertaken by the Office of Audit and Investigations, the

Independent Evaluation Office and the Ethics Office, which issue annual reports to the Executive Board of UNDP;

(d) External oversight: Internal oversight is supplemented by external bodies, which include the UNDP Executive Board, the Audit and Evaluation Advisory Committee, the external auditors (Board of Auditors) and regulatory authorities.

Enterprise risk management

50. In 2018, UNDP launched its updated enterprise risk management policy to become a more effective and more agile organization that incorporates responsible risk-taking into its decision-making processes. The revisions to the enterprise risk management policy focus on enhancing the following:

(a) Importance of cultivating a risk culture within the organization to enable responsible risk-taking and risk-informed decision-making;

(b) Unity in the approach and methodology used for risk management across programming and operations (including through a common risk register);

(c) Fostering opportunity management, foresight and innovation, rather than an approach that focuses only on avoiding harm and reacting to issues as they arise;

(d) Greater alignment between risk categories and programming quality criteria, ensuring that risk management and quality assurance go hand-in-hand;

(e) Maintaining a simplified risk assessment at the project level, while ensuring alignment with the enterprise risk management methodology;

(f) Importance of aligning risk reporting with the existing reporting cycles within the organization;

(g) Emphasizing the “three lines of defence” for risk management and governance.

51. The enterprise risk management methodology consists of six key elements in line with the international standard on risk management established by the International Organization for Standardization, ISO 31000:2018: communication and consultation; establishing scope, context, criteria; risk assessment; risk treatment; monitoring and review; and recording and reporting.

Financial risk management

52. The operations and decentralized business model of UNDP exposes it to a variety of financial risks, including credit risk arising from the failure of counterparties to meet contractual obligations; liquidity risk due to failure to maintain adequate funds to meet current obligations; and market risk from unfavourable movements in exchange rates, interest rates and/or prices of investment securities. The Financial Regulations and Rules of UNDP and its policies and procedures require offices to implement effective controls and financial risk management procedures to manage the risks.

53. The financial risk management relating to cash and investments is carried out by a central Treasury Division, which oversees and monitors cash transfers and liquidity in local offices. The Division invests funds received from funding partners based on investment guidelines approved by the UNDP Investment Committee. The Committee, comprising senior management of UNDP, meets quarterly to review investment performance and confirm compliance with the investment guidelines. The principal objectives of the UNDP investment guidelines are:

(a) Safety: preservation of capital, provided through investing in high-quality fixed-income securities, emphasizing the creditworthiness of the issuers;

(b) Liquidity: flexibility to meet cash requirements through investments in highly marketable fixed-income securities and through structuring maturities to align with liquidity requirements;

(c) Revenue: maximization of investment return within safety and liquidity parameters.

54. UNDP investments relating to after-service health insurance are outsourced and managed by two external fund managers under established after-service health insurance investment guidelines, which are reviewed on a periodic basis by the after-service health insurance investment committee. The guidelines identify eligible instruments for global equities and fixed-income investments and specify asset class limits. Reporting and oversight of the investment managers occurs formally through quarterly after-service health insurance investment committee meetings and monthly financial reporting by the investment managers.

55. UNDP is exposed to currency risk arising from financial assets and liabilities that are denominated in foreign currency. The Programme's transactions are denominated primarily in United States dollars, but certain donor contributions are received in other currencies. The Treasury Division actively manages the Programme's net foreign currency exposure in eight major currencies against the United States dollar using various financial instruments. The exposure of UNDP to currency and other financial risks is disclosed in note 31.

Accounting matters

Critical accounting estimates

56. Preparing financial statements in accordance with IPSAS requires UNDP to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include:

- Revenue recognition
- Actuarial measurement of employee benefits
- Selection of useful lives and the depreciation/amortization method for property, plant and equipment and intangible assets
- Valuation of investment assets
- Impairment losses on assets
- Classification of financial instruments
- Contingent assets and liabilities

57. UNDP management periodically discusses the development, selection and disclosure of critical accounting policies and estimates. While the estimates and assumptions are based on knowledge of current events and actions that may be undertaken in the future, actual results may ultimately differ from these estimates and assumptions. The significant accounting policies are disclosed in note 4 to the financial statements.

Changes in accounting policies in 2019

58. IPSAS 23: Revenue from non-exchange transactions: In 2019, UNDP further refined its accounting policy for receivables from non-exchange transactions. Under the previous policy, UNDP recognized revenue from non-exchange transactions based on payment plan due dates included in the donor agreements, which served as a proxy for identifying the period in which programmatic activities were being carried out. Under the new policy, provided that inflows of resources meet the definition of an asset, revenue from non-exchange transactions is recognized in full, including for multi-year contributions, at the time that the contribution agreement is signed, where no performance conditions are present. If contribution agreements with performance conditions beyond the control of UNDP are identified, revenue recognition is deferred until such conditions are met. This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The restatement of comparative amounts has therefore been performed for prior year periods. The new policy provides for more reliable information since it better reflects the substance of the underlying transaction.

Adoption of new accounting standards

59. In August 2018, the IPSAS Board published IPSAS 41: Financial instruments to replace IPSAS 29: Financial instruments: recognition and measurement. The new standard establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29. UNDP will be adopting the new standard, as required, effective 1 January 2022. UNDP is assessing the impact of this new standard on its financial statements.

60. In February 2019, the IPSAS Board published its strategy and workplan, 2019–2023, and announced that it would focus the majority of its efforts on setting standards on public sector specific issues while still maintaining convergence with the International Financial Reporting Standards and developing guidance to meet users' broader financial reporting needs.

61. In February 2020, The IPSAS Board approved exposure draft 70: Revenue with Performance Obligations and agreed on an exposure period of six months from the date of publication. Exposure draft 70 is based on International Financial Reporting Standard 15: Revenue from Contracts with Customers and has been expanded to apply to binding arrangements which are not necessarily contractual. Exposure draft 70 has a broadened scope with a greater emphasis on the transfer of goods or services to third-party beneficiaries. Exposure draft 71, Revenue without Performance Obligations was also approved and updates IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). It addresses revenue that arises from binding arrangements with present obligations which are not performance obligations and revenue not related to binding arrangements. The related exposure draft 72: Transfer expenses was also approved and relates to transactions where an entity transfers resources to another party without directly receiving anything in return. The accounting for transfer expenses with performance obligations mirrors the accounting for revenue with performance obligations in exposure draft 70.

62. These exposure drafts have been issued and are currently available for public comment. Implementation dates have not been specified yet and it is unlikely that the project will be finalized before the end of 2020.

Transactions with related parties

63. UNDP transacts with related parties and discloses information on key management personnel in note 32 to the financial statements. Further information is as follows:

- United Nations and other United Nations entities: UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring and evaluating these activities.
- Key management personnel: The leadership structure of UNDP consists of an Executive Group of 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the UNDP mandate. Collectively, the Executive Group comprises four tiers: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); and a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and a Chief of Staff and Director (Chief of Staff and Director, Office of the Administrator (ex officio)).
- Other related parties: UNDP is a co-sponsoring organization of the Joint United Nations Programme on HIV/AIDS (UNAIDS), an innovative joint effort of the United Nations system to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Audit services and fees

64. The following table discloses fees charged to UNDP by the Board of Auditors. The fees paid to the Board by UNDP are those related to the statutory audit.

Table III.2
Audit fees
(Thousands of United States dollars)

	2019	*2018*
Audit fees	1 123	1 259

H. Achievements in 2019 and future developments

Strategic plan, 2018–2021

65. Anchored in the 2030 Agenda for Sustainable Development and committed to the principles of universality, equality and leaving no one behind, the UNDP vision for the strategic plan, 2018–2021,[3] is to help countries to achieve sustainable development by eradicating poverty in all its forms and dimensions, accelerating structural transformations for sustainable development and building resilience to crises and shocks.

[3] Executive Board of UNDP, document DP/2017/38.

66. The strategic plan, 2018–2021, reinforces the commitment of UNDP to working in partnership with Governments, civil society and the private sector, as a catalyst and facilitator of support from the United Nations system, as mandated by the General Assembly.

67. The strategic plan describes how UNDP will better adapt to the range of country contexts in which it works, framed through:

(a) The three broad development settings to which the Programme's approach responds, namely:

(i) Eradicating poverty in all its forms and dimensions, and keeping people out of poverty;

(ii) Accelerating structural transformations for sustainable development, especially through innovative solutions that have multiplier effects across the Sustainable Development Goals;

(iii) Building resilience to crises and shocks, in order to safeguard development gains;

(b) Six signature solutions that define the core work of UNDP:

(i) Keeping people out of poverty;

(ii) Strengthening effective, inclusive and accountable governance;

(iii) Enhancing national prevention and recovery capacities for resilient societies;

(iv) Promoting nature-based solutions for a sustainable planet;

(v) Closing the energy gap;

(vi) Strengthening gender equality and the empowerment of women and girls;

(c) The two platforms through which UNDP will deliver its work:

(i) Country support platforms for the Sustainable Development Goals;

(ii) A global development advisory and implementation services platform;

(d) An improved business model to underpin its efforts.

Reflecting on the achievements of 2019

68. In 2018, UNDP embarked on a major shift in the way it works. In line with repositioning the United Nations development system and the results of 15 years of evaluation, UNDP reinvigorated its human development and multidimensional poverty approaches and partnerships, and designed and applied new ways to be creative, collaborative and courageous in advancing integrated progress towards the Sustainable Development Goals – from the Global Policy Network and accelerator labs to country support platforms.

69. UNDP achieved this while powering United Nations reform, taking over 4,000 legal, financial and security steps to delink the resident coordinator and resident representative roles.

70. Of every dollar spent, 91 cents went to programmes and services to achieve development results, up from 90 cents in 2018 and 88 cents in 2017.

71. Prompted by the United Nations reform process, UNDP facilitated a rapid transition to the new coordination function by providing operational support and seconding 63 staff as resident coordinators, while recruiting a new cadre of 127 resident representatives, gender-balanced and geographically balanced, within a year.

UNDP set in motion substantial changes to country office planning, human resources management and operational services for clients, enhancing its contribution to more effective United Nations country teams. Early feedback suggests that 73 per cent of its partners are confident that UNDP is supporting resident coordinators to strategically reposition the United Nations system at the country level.

72. Beyond reform, UNDP served as the operational backbone of the United Nations: disbursing $3 billion in payroll expenses, over half on behalf of partner agencies; providing $95 million in travel services and $618 million in procurement; and managing more than 200 shared services.

73. UNDP remains one of the world's most transparent organizations, with a score of 95.4 per cent on the 2018 Aid Transparency Index, a rise of 2.1 percentage points over the previous index in 2016. The next such index score is expected to be published in the second half of 2020. By opening its books in this way, UNDP increased accountability to its donors and partners.

Chapter IV

Financial statements for the year ended 31 December 2019

United Nations Development Programme

I. Statement of financial position as at 31 December 2019

(Thousands of United States dollars)

	Reference	*31 December 2019*	*31 December 2018 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	526 830	737 005
Cash and cash equivalents, Multi-Partner Trust Fund Office	Note 8	285 682	329 550
Investments	Note 9	3 647 499	3 028 641
Investments, Multi-Partner Trust Fund Office	Note 9	419 921	298 363
Receivables, non-exchange transactions	Note 10	2 314 774	1 797 981
Receivables, other	Note 11	69 926	95 777
Advances issued	Note 12	256 682	210 078
Loans to Governments	Note 15	507	507
Inventories	Note 13	9 127	6 639
Other current assets	Note 14	1 573	1 524
Total current assets		**7 532 521**	**6 506 065**
Non-current assets			
Investments	Note 9	2 887 018	2 752 927
Investments, Multi-Partner Trust Fund Office	Note 9	168 541	157 226
Loans to Governments	Note 15	3 518	4 025
Receivables, non-exchange transactions	Note 10	1 736 674	2 624 643
Property, plant and equipment	Note 16	150 056	149 415
Intangible assets	Note 17	6 870	9 697
Other non-current assets	Note 14	99	64
Total non-current assets		**4 952 776**	**5 697 997**
Total assets		**12 485 297**	**12 204 062**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 18	188 448	189 088
Advances payable	Note 19	41 294	33 957
Funds received in advance and deferred revenue	Note 20	17 850	16 478
Funds held on behalf of donors	Note 20	9 134	14 422
Payables, Multi-Partner Trust Fund Office and United Nations entities	Note 21	963 035	824 744
Employee benefits	Note 22	240 901	219 655
Other current liabilities	Note 23	7 374	4 190
Total current liabilities		**1 468 036**	**1 302 534**

United Nations Development Programme

I. Statement of financial position as at 31 December 2019 (continued)

	Reference	*31 December 2019*	*31 December 2018 (restated)*
Non-current liabilities			
Payables, Multi-Partner Trust Fund Office	Note 21	168 541	157 226
Funds received in advance and deferred revenue	Note 20	11 290	9 045
Employee benefits	Note 22	1 141 860	1 105 863
Other non-current liabilities	Note 23	265	354
Total non-current liabilities		**1 321 956**	**1 272 488**
Total liabilities		**2 789 992**	**2 575 022**
Net assets/equity			
Reserves	Note 24	286 160	292 160
Accumulated surpluses	Note 25	9 409 145	9 336 880
Total net assets/equity		**9 695 305**	**9 629 040**
Total liabilities and net assets/equity		**12 485 297**	**12 204 062**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

II. Statement of financial performance for the year ended 31 December 2019

(Thousands of United States dollars)

	Reference	*2019*	*2018 (restated)*
Revenue			
Voluntary contributions	Note 26	4 472 557	5 359 876
Revenue, exchange transactions	Note 27	141 038	145 647
Investment revenue	Note 28	167 171	134 206
Other revenue	Note 29	48 364	51 879
Total revenue		**4 829 130**	**5 691 608**
Expenses			
Contractual services	Note 30	1 878 736	1 967 504
Staff costs	Note 30	788 260	865 059
Supplies and consumables used	Note 30	1 031 866	1 058 874
General operating expenses	Note 30	903 177	876 995
Grants and other transfers	Note 30	250 579	233 922
Other expenses	Note 30	51 776	74 967
Depreciation and amortization	Note 30	19 279	19 506
Total expenses		**4 923 673**	**5 096 827**
Surplus/(deficit) for the year		**(94 543)**	**594 781**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

III. Statement of changes in net assets/equity for the year ended 31 December 2019

(Thousands of United States dollars)

	Reserves	*Accumulated surpluses*	*Total net assets/equity*
Balance at 31 December 2018	**292 160**	**5 086 083**	**5 378 243**
Change in revenue recognition policy (note 5)	–	4 250 797	4 250 797
Balance at 31 December 2018 (restated)	**292 160**	**9 336 880**	**9 629 040**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(6 000)	6 000	–
Funds with specific purposes (note 25)	–	24 108	24 108
Changes in fair value of available-for-sale investments	–	92 477	92 477
Actuarial gains/(losses)	–	44 223	44 223
Surplus/(deficit) for the year	–	(94 543)	(94 543)
Total changes in net assets/equity	**(6 000)**	**72 265**	**66 265**
Balance at 31 December 2019	**286 160**	**9 409 145**	**9 695 305**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2019

(Thousands of United States dollars)

	Reference	2019	2018 (restated)
Cash flows from operating activities			
Surplus/(deficit) for the year	Note 5	(94 543)	594 781
Adjustments to reconcile deficit for the year to net cash flows			
Depreciation and amortization		19 279	19 506
Impairment		1 884	(53)
In-kind contributions (donated goods)		(122)	(42)
Amortization of premium/(discount) on investments		(18 977)	(11 115)
(Gains)/losses on foreign exchange translation		20 873	17 450
Losses on disposal of property, plant and equipment		1 970	4 617
Changes in assets			
(Increase)/decrease in receivables, non-exchange transactions[a]	Note 5	353 931	(895 549)
(Increase)/decrease in receivables, other[b]		(112 875)	(119 598)
(Increase)/decrease in advances issued		(50 009)	(58 148)
(Increase)/decrease in inventories		(2 488)	7 013
(Increase)/decrease in other assets		(84)	(870)
Changes in liabilities, net assets/equity			
(Decrease)/increase in accounts payable and accrued liabilities		(692)	(22 217)
(Decrease)/increase in advances payable		7 337	2 508
(Decrease)/increase in funds received in advance and deferred revenue	Note 5	3 617	672 162
(Decrease)/increase in funds held on behalf of donors		(5 288)	(3 681)
(Decrease)/increase in payables, Multi-Partner Trust Fund Office and United Nations entities		149 606	281 317
(Decrease)/increase in employee benefits		101 710	79 537
(Decrease)/increase in other current liabilities		3 184	(5 672)
(Decrease)/increase in funds with specific purposes		24 108	9 414
Cash flows from/(used in) operating activities		**402 421**	**571 360**
Cash flows from investing activities			
Purchases of investments		(6 739 539)	(4 885 431)
Maturities of investments		6 134 362	4 584 937
(Increase)/decrease in investments, Multi-Partner Trust Fund Office		(130 127)	(129 059)
(Increase)/decrease in investments managed by external investment manager		(39 069)	(193 859)
Interest and dividends received		138 951	101 143
(Increase)/decrease in loans to Governments		507	539
Purchases of property, plant and equipment		(22 225)	(18 454)
Disposals of property, plant and equipment		2 761	4 043
Purchases of intangible assets		(642)	(2 565)
Disposal of intangible assets		2	(229)
Cash flows from/(used in) investing activities		**(655 019)**	**(538 935)**

United Nations Development Programme

IV. Cash flow statement for the year ended 31 December 2019 (continued)

	Reference	*2019*	*2018 (restated)*
Cash flows from financing activities			
Finance lease repayment		–	(10)
Cash flows from/(used in) financing activities		**–**	**(10)**
Increase/(decrease) in cash and cash equivalents, including Multi-Partner Trust Fund Office		**(252 598)**	**32 415**
Effect of exchange rate changes on cash and cash equivalents		**(1 445)**	**(11 796)**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: beginning of year		**1 066 555**	**1 045 936**
Cash and cash equivalents, including Multi-Partner Trust Fund Office: end of year	Note 8	**812 512**	**1 066 555**

[a] This amount includes an adjustment for foreign exchange translation of $(16.554) million.

[b] This amount includes an adjustment for interest and dividends received of $138.951 million in cash as well as an adjustment for foreign exchange translation of $(0.225) million.

The accompanying notes form an integral part of these financial statements.

The cash flow statement for the 2018 comparative year has been restated as a result of the change in the Programme’s revenue recognition policy in 2019 (see note 5).

United Nations Development Programme

V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2019

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference: final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	394 850	394 850	399 284	(4 434)
Development effectiveness	103 814	103 814	83 562	20 252
Subtotal	**498 664**	**498 664**	**482 846**	**15 818**
United Nations development coordination activities	**16 000**	**16 000**	**11 027**	**4 973**
Management activities				
Recurring	163 493	163 493	156 845	6 648
Non-recurring	7 000	7 000	6 857	143
Subtotal	**170 493**	**170 493**	**163 702**	**6 791**
Special purpose activities				
Capital investments	–	–	–	–
Non-UNDP operations administered by UNDP	11 048	11 048	8 147	2 901
Subtotal	**11 048**	**11 048**	**8 147**	**2 901**
Total	**696 205**	**696 205**	**665 722**	**30 483**

The accompanying notes form an integral part of these financial statements.

United Nations Development Programme
Notes to the financial statements 2019

Note 1
Reporting entity

1.1. The United Nations Development Programme (UNDP) was established by the General Assembly in 1965 through its resolution 2029 (XX). UNDP partners with entities/people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone.

1.2. UNDP has its headquarters in New York but works primarily through its global network of offices. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

1.3. UNDP helps to achieve the eradication of poverty, and the reduction of inequalities and exclusion, and assists countries in developing policies, leadership skills, partnering abilities and institutional capabilities and in building resilience in order to sustain development results. UNDP is continuing its work to support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals, as they help to shape global sustainable development efforts for the next 11 years. UNDP helps developing countries to attract and use development cooperation and domestic resources effectively and encourages, in all its activities, the protection of human rights, capacity development and the empowerment of women.

1.4. UNDP is politically neutral and its cooperation is impartial. It seeks to conduct its work in a transparent manner and is accountable to all its stakeholders. UNDP has an Executive Board, established by the General Assembly in its resolution 48/162, which is responsible for providing intergovernmental support to and supervision of UNDP. The amended Financial Regulations and Rules of UNDP (Executive Board decision 2011/33) govern the financial management of UNDP.

1.5. The financial statements include only the operations of UNDP, which has no subsidiaries or interests in associates or jointly controlled entities.

Note 2
Statement of compliance with the International Public Sector Accounting Standards

The annual financial statements of UNDP have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

Note 3
Basis of preparation and authorization to submit financial statements for audit

Basis of measurement

3.1. These financial statements are prepared on an accrual basis of accounting in accordance with IPSAS and the Financial Regulations and Rules of UNDP.

3.2. UNDP applies the historical cost principle except where stated in note 4. Accounting policies have been applied consistently throughout the year and for prior years. The financial year is from January to December.

Foreign currency

3.3. The functional and presentation currency of UNDP is the United States dollar. These financial statements are expressed in thousands of United States dollars unless otherwise stated.

3.4. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange at the date of the transaction. The operational rates of exchange approximate market/spot rates.

3.5. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date and the effects of the translation are recognized in the statement of financial performance.

3.6. Non-monetary items in foreign currencies measured at historical cost are translated at the exchange rate in effect at the date of the transaction.

3.7. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of financial performance.

Critical accounting estimates

3.8. Preparing financial statements in accordance with IPSAS requires UNDP to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; classification of financial instruments; valuation of investment assets; revenue recognition; and contingent assets and liabilities.

Future accounting changes

3.9. The IPSAS Board has published IPSAS 41: Financial instruments, which establishes new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29: Financial instruments: recognition and measurement. UNDP will be adopting the new standard, as required, effective 1 January 2022. UNDP is assessing the impact of this new standard on its financial statements.

3.10. The IPSAS Board has approved exposure draft 70: Revenue with performance obligations, and agreed on an exposure period of six months from the date of publication. Exposure draft 70 is based on International Financial Reporting Standard 15: Revenue from contracts with customers and has been expanded to apply to binding arrangements which are not necessarily contractual. Exposure draft 70 has a broadened scope with a greater emphasis on the transfer of goods or services to third-party beneficiaries. Exposure draft 71, Revenue without performance obligations was also approved and updates IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). It addresses revenue that arises from binding arrangements with present obligations which are not performance obligations and revenue not related to binding arrangements. The related exposure draft 72: Transfer expenses was also approved and relates to transactions whereby an entity transfers resources to another party without directly receiving anything in return. The accounting for transfer expenses with performance obligations mirrors the accounting for revenue with performance obligations in exposure draft 70.

3.11. UNDP will continue to monitor the progression of these exposure drafts and related accounting standards, noting that their application may have an impact on the UNDP financial standards. An assessment of impact on the UNDP financial statements in advance of the issuance of any new standards and subsequent implementation is ongoing.

Authorization to submit financial statements for audit

3.12. These financial statements are approved and certified by the Administrator, the Assistant Administrator and Director of the Bureau for Management Services and the Chief Finance Officer/Comptroller of UNDP. In accordance with the Financial Regulations and Rules of UNDP, these financial statements are authorized to be submitted for audit on 30 April 2020.

Note 4
Significant accounting policies

Financial assets classification

4.1. As detailed in note 4.2. below, UNDP classifies financial assets into the following categories: held to maturity; available for sale; loans and receivables; and fair value through surplus or deficit in the statement of financial performance. The classification depends on the purpose for which the financial assets are acquired, and is determined at initial recognition and re-evaluated at each reporting date. All financial assets are initially measured at fair value. UNDP initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNDP becomes party to the contractual provisions of the instrument.

4.2. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currency are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with gains and losses recognized in surplus or deficit in the statement of financial performance.

IPSAS classification	*Type of UNDP financial asset*
Held to maturity	Investments, excluding after-service health insurance investments
Available for sale	After-service health insurance investments
Loans and receivables	Cash and cash equivalents, receivables non-exchange and other, advances (e.g., to staff) and loans to Governments
Fair value through surplus or deficit	Derivative assets

Held-to-maturity financial assets

4.3. Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturities that UNDP has the positive intention and ability to hold to maturity. They are initially recorded at fair value plus transaction costs and subsequently recognized at amortized cost calculated using the effective interest rate method. UNDP classifies a substantial portion of its investment portfolio as held-to-maturity assets.

Available-for-sale financial assets

4.4. Available-for-sale financial assets are those non-derivative financial assets that have been either designated in this category or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit. They are initially recorded at fair value plus transaction costs that are directly attributable to the acquisition or issue of those assets and subsequently reported at fair value with any resultant fair value gains or losses recognized directly in net assets/equity through the statement of changes in net assets/equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets/equity shall be recognized in surplus or deficit. Fair values used for subsequent measurement are based on quoted market prices from knowledgeable third parties. Interest on available-for-sale financial assets is calculated using the effective interest method and is recognized in surplus or deficit.

Loans and receivables

4.5. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

4.6. Cash and cash equivalents include cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, net of impairment for restricted use currencies. Financial instruments classified as cash equivalents include investments with a maturity of three months or less from the date of acquisition.

4.7. Receivables, non-exchange transactions, comprise contributions receivable, which represent amounts due based on dates indicated in signed contribution agreements, including multi-year contributions, recognized in full at the time the agreement is signed, except for agreements that have performance conditions beyond the control of UNDP. These non-exchange receivables are stated at carrying value less impairment for estimated irrecoverable amounts. Impairments of contributions receivable are considered on a case-by-case basis.

4.8. Receivables, other, represents amounts owed to UNDP for services provided by it to other entities. In exchange, UNDP directly receives approximately equal value in the form of cash.

4.9. Advances issued represents cash transferred to executing entities/implementing partners (see note 36.2 for the definition of executing entities/implementing partners) as an advance. Advances issued are initially recognized as assets and subsequently converted to expenses when goods are delivered or services are rendered by the executing entities/implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, i.e., financial reports, funding authorization and certificate of expenditure forms or project delivery reports. Once those certified expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the end of the reporting year, either from the statements submitted by the entities for audit or from the unaudited statements of the entities.

4.10. Prepayments are issued where agreements with UNDP and the executing entity/ implementing partner/supplier require up-front payment. Prepayments are recorded as a current asset until goods/services associated with the prepayments are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

4.11. UNDP provides salary advances for specified purposes in accordance with the Staff Regulations and Rules of the United Nations. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value. The carrying amount is stated less any impairment.

4.12. Loans to Governments are loans given to national Governments to construct office or housing premises for use by UNDP and United Nations entities. Loans are carried at the original cost, less any recovery to date. Rent proceeds are applied as repayment of the loan. Subsequent measurement of loans to Governments is at amortized cost less any impairment.

Fair value through surplus or deficit

4.13. Financial assets at fair value through surplus or deficit are so designated on initial recognition or are held for trading. They are initially recorded at fair value and any transaction costs are expensed. The assets are measured at fair value at each reporting date, and any resultant fair value gains or losses recognized through surplus or deficit. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the UNDP investment guidelines. UNDP classifies derivatives as financial assets at fair value through surplus or deficit in the statement of financial performance. The fair value of derivatives is obtained from counterparties and is compared with internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. UNDP does not apply hedge accounting treatment for derivatives.

4.14. All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year they arise.

Inventories

4.15. Inventories held for distribution at no charge or for a nominal charge are stated at the lower of cost and current replacement cost. Inventories held for sale are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using the first-in, first-out inventory valuation method. The cost of inventories includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. For inventories acquired through a non-exchange transaction (e.g., donated goods), costs are measured at fair value at the date of acquisition.

Property, plant and equipment

4.16. All items of property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment losses. It is noted that, on adoption of IPSAS and its transitional provisions, for opening balances, initial capitalization of property, plant and equipment was at fair value. Historical cost includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired for nil or nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for recognition of property, plant and equipment as an asset is $1,500 or more per unit.

4.17. UNDP elected to apply the cost model to measurement after recognition instead of the revaluation model. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to UNDP and the cost of the item can be measured reliably. Repairs and maintenance are charged to surplus or deficit in the statement of financial performance in the year in which they are incurred.

4.18. Project assets that are not controlled by UNDP are expensed as incurred. UNDP is deemed to control an asset if it can use or otherwise benefit from the asset in pursuit of its objectives and if it can exclude or regulate the access of third parties to that asset. UNDP has control over assets when it is implementing the project directly.

4.19. Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (see paras. 4.48–4.50, on leases).

4.20. Depreciation of property, plant and equipment is calculated using the straight-line basis over the estimated useful lives, except for land, which is not subject to depreciation. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, that is, major components of property, plant and equipment. Assets under construction are not depreciated, as they are not yet available for use.

Estimated useful lives of property, plant and equipment

Class	*Estimated useful life (in years)*
Buildings	10–40
Vehicles	12
Communications and information technology equipment	8–20
Furniture and fixtures	15
Heavy machinery and other equipment	20
Leasehold improvements	Shorter of lease term or life of applicable asset

4.21. Given the expected pattern of usage of property, plant and equipment, there are no residual values following full depreciation. A gain or loss resulting from the disposal of property, plant and equipment arises where proceeds from disposal differ from its carrying amount. Those gains or losses are recognized in surplus or deficit in the statement of financial performance.

4.22. Where UNDP sublets premises acquired under a lease, it elects to record subsequent measurement at cost.

Intangible assets

4.23. Intangible assets are carried at historical cost, less accumulated amortization and accumulated impairment loss.

4.24. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by UNDP are capitalized as an intangible asset. Directly associated costs include the software development staff costs and the portion attributable to relevant overhead. Other development expenses that do not meet the capitalization criteria are recognized as an expense as incurred. Development costs previously recognized as an expense, for example, research costs, are not recognized as an asset in a subsequent year. The threshold for recognition of internally developed software is $50,000 and for externally acquired software it is $5,000. Research costs are expensed as incurred.

4.25. Amortization is recognized in surplus or deficit in the statement of financial performance provided on a straight-line basis on all intangible assets of finite life and at rates that will write off the cost or value of the assets to their estimated residual values.

Estimated useful lives of intangible assets

Class	*Estimated useful life (in years)*
Software acquired	3–6
Internally developed software	3–6
Trademarks	2–6
Copyrights	3–10
Patents	2–6
Licences and other	2–6

4.26. If there is a binding arrangement that specifies that the contractual period of an asset is shorter than its estimated useful life, then the asset is amortized over the contractual period.

Impairment of non-cash generating assets

4.27. Property, plant and equipment, intangible and other non-cash generating assets are reviewed for impairment at each reporting date. For property, plant and equipment, UNDP reviews for impairment during the semi-annual physical verification process. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use.

4.28. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment of value has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment deficit had been recognized.

Financial liabilities classification

IPSAS classification	*Types of financial liabilities*
Other financial liabilities	Accounts payable and accrued liabilities, funds held on behalf of donors, advances payable, other liabilities and payables, Multi-Partner Trust Fund Office and United Nations entities
Fair value through surplus or deficit	Derivative liabilities

Other financial liabilities

4.29. Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities entered into with a duration of less than 12 months are recognized at their carrying value.

4.30. Payables and accruals arising from the purchase of goods and services are recognized initially at fair value and subsequently measured at amortized cost when goods/services are delivered/rendered and accepted by UNDP. Liabilities are stated at invoice amounts, less payment discounts at the reporting date. Liabilities are estimated where invoices are not available at the reporting date.

4.31. Advances payable arise when amounts are owed to executing entities/ implementing partners. The liability is measured at the amount owed based on incurred expenses reflected in the approved financial reports, funding authorization and certificate of expenditure forms or project delivery reports for the year.

4.32. Payables, Multi-Partner Trust Fund Office and United Nations entities, represent the receipt of funds by UNDP when providing fund administration services, to be disbursed to participating organizations. When UNDP is appointed as an administrative agent, it provides fund administration services to United Nations system and national government multi-donor trust funds and joint programmes through the Multi-Partner Trust Fund Office. In this role, UNDP is responsible for the receipt of contributions from donors, the disbursement of such funds to participating organizations, the receipt of unspent balances from participating organizations and the provision of consolidated reporting to donors and stakeholders. Under this arrangement, funds received by UNDP from donors are reflected as cash and cash equivalents for the Multi-Partner Trust Fund Office or investments for the Multi-Partner Trust Fund Office, along with a corresponding liability, that is as payables, Multi-Partner Trust Fund Office and United Nations entities, until they are disbursed to participating organizations.

4.33. Other liabilities include unapplied deposits and other payables such as finance lease payable. Unapplied deposits represent contributions received from donors that have not been applied against contributions receivable for earmarked activities.

Fair value through surplus or deficit

4.34. Fair value through surplus or deficit financial liabilities are so designated on initial recognition or are held for trading. They are initially recorded at fair value and any transaction costs are expensed. The liabilities are measured at fair value at each reporting date, and any resultant fair value gains or losses are recognized through surplus or deficit. UNDP classifies derivatives as financial liabilities at fair value through surplus or deficit in the statement of financial performance. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the UNDP investment guidelines. These include derivatives embedded in time deposits that permit the instrument to be repaid by counterparties in an alternative currency in exchange for a higher yield. The fair value of derivatives is obtained from counterparties and is compared with internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Liabilities in this category are classified as current liabilities if they are expected to be settled within 12 months of the reporting date. UNDP does not apply hedge accounting treatment for derivatives.

Funds received in advance and deferred revenue

4.35. Funds received in advance represent contributions received prior to the receipt of signed donor contribution agreements. The funds are recognized as revenue upon signature of the donor contribution agreement, consistent with the policy for revenue from contributions. Deferred revenue represents funds received from third parties and donors that have been recognized on the statement of financial position and, depending on the nature of the agreement, are recognized as revenue when the fees are earned, in relation to the services rendered or when conditions (if any) are met.

Employee benefits

Short-term employee benefits

4.36. Short-term employee benefits are those that are expected to be settled within 12 months after the end of the year in which employees render the related service. Those benefits include assignment benefits, regular monthly benefits (e.g., wages and salaries), compensated absences (e.g., paid leave, such as annual leave), other short-term and non-monetary benefits and the current portion of long-term benefits provided to current employees. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled at the reporting date and represents the amount paid or expected to be paid to settle the liability. Owing to the short-term nature of those entitlements, the liabilities are not discounted for the time value of money and are presented as current liabilities.

Post-employment benefits

4.37. Post-employment benefits are those payable after completion of employment, but exclude termination payments.

4.38. Post-employment benefits include pension plans, post-employment medical care, repatriation grants and other lump sums payable after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

4.39. For defined contribution post-employment plans, the obligation for each year is determined by the amounts to be contributed for that year, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, reduced by the fair value of plan assets, if any, at the reporting date. UNDP does not hold any assets corresponding to the definition of a plan asset.

4.40. UNDP 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 staff. 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 is open to the specialized agencies and to any other international intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

4.41. 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 participating organizations. UNDP and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Programme'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, UNDP has treated this plan as if it were a defined contribution plan, in line with the requirements set out in IPSAS 25: Employee benefits. UNDP contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

4.42. The Regulations of the Pension Fund state that its Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary.

The practice of the 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 Fund will be sufficient to meet its liabilities.

4.43. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Fund's Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed on the Fund's website (www.unjspf.org).

Defined benefit plans

4.44. The defined benefit plans of UNDP include after-service health insurance and certain end-of-service entitlements. The obligation of UNDP in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That obligation is discounted to determine its present value and stated at the end of the reporting year less the fair value of plan assets, together with adjustments for unrecognized past service costs. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

4.45. The discount rate is the yield at the reporting date on high-quality credit rated corporate bonds that have maturity dates approximating the terms of the payment obligations. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in net assets/equity in the year in which they arise. All other changes in the liability for those obligations are recognized as surplus or deficit in the statement of financial performance in the year in which they arise.

Other long-term employee benefits

4.46. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service. Those benefits include the non-current portions of home leave and compensation for death and injury attributable to performance of duties. These are recognized as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses are reported in the statement of changes in net assets/equity.

Termination benefits

4.47. Termination benefits are recognized as an expense only when UNDP is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

Leases

Operating lease

4.48. Leases are classified as operating leases where UNDP is the lessee, and the lessor retains a significant portion of the risks and rewards inherent to ownership. Payments under operating leases, net of incentives received from the lessor, are recognized on a straight-line basis in the statement of financial performance over the lease term.

Finance lease

4.49. Leases of tangible assets, where UNDP has substantially all the risks and rewards of ownership, are classified as finance leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their useful lives in accordance with the accounting policies for property, plant and equipment. Each finance lease payment is allocated between the lease liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense in the statement of financial performance over the term of the lease to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-to-use arrangements

4.50. Where UNDP has signed an agreement for the right-to-use assets with legal title/ownership of the assets, for example through donated use granted to UNDP at no cost, the transaction is a non-exchange transaction. In this case, an asset and revenue are recognized at the point the agreement is entered into. Recognition of an asset is contingent upon satisfying criteria for recognition of an asset. Valuation of the asset will be the fair value of the resource for which the right to use was acquired at the date of acquisition. The asset is depreciated over the shorter of the asset’s useful life and the right-to-use term. Without legal title/ownership, an expense is recognized. Revenue is also recognized at the same amount as the asset/expense, except to the extent that a liability is also recognized.

Revenue recognition

Contributions (non-exchange revenue)

4.51. Voluntary contributions are non-exchange transactions that are recognized as revenue when contribution agreements become enforceable, or in some instances when cash is received in accordance with the Financial Regulations and Rules of UNDP. UNDP recognizes assets when control over the resources is established as a result of past events. Receivables resulting from non-exchange transactions are recognized as assets when it is probable that the future economic benefits or service potential associated with the assets will flow to UNDP and when the fair value can be measured reliably. Receivables from non-exchange transactions are recognized in full with the corresponding revenue, including for multi-year contributions, at the time that the agreement is signed. For agreements that have conditions, including those that are beyond the control of UNDP, a liability is recorded on the statement of financial position until the condition is satisfied, after which any reduction in this liability is recognized as revenue.

4.52. Enforceability of agreements occurs upon signature.

4.53. Revenue from voluntary contributions is shown net of impairment of receivables and return of unused funds to donors.

4.54. In-kind contributions of goods provided are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to UNDP and the fair value of those assets can be measured reliably. In-kind contributions from right-to-use arrangements are recognized as revenue and expenses at the fair value of the right-to-use assets. UNDP does not recognize or disclose contributions of services in-kind as an asset and revenue as permitted by IPSAS.

Revenue from exchange transactions

4.55. Exchange transactions are those in which UNDP sells goods or provides services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is shown net of returns and discounts. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met. For example:

(a) Cost-recovery revenue from work performed, such as procurement and payment services by UNDP on behalf of United Nations entities, is recognized when services are performed;

(b) Revenue from sales of human development reports is recognized when the sale takes place;

(c) Revenue from commissions and fees for procurement, training, administrative, custodial and other services rendered to Governments, United Nations entities and other partners is recognized when the service is performed and/or training takes place.

Expense recognition

4.56. Expenses are recognized when goods and/or services are delivered and/or rendered and accepted by UNDP or as specified below.

4.57. For direct implementation by UNDP and full country office support to national government implementation, expenses are recognized when goods, i.e., non-capital or services, have been received by UNDP.

4.58. For national implementation or implementation by a non-governmental organization (NGO), expenses are recognized when funds are disbursed by executing entities or implementing partners and reported to UNDP.

4.59. Advances transferred to executing entities and/or implementing partners are recognized as expenses when goods are delivered or services rendered by the executing entities and/or implementing partners and confirmed by receipt by UNDP of certified expense reports as applicable, that is, financial reports, funding authorization and certificate of expenditure forms or project delivery reports. Once these expense reports are received, UNDP recognizes expenses in its statement of financial performance. Data may be obtained from the audited statements of executing entities and/or implementing partners or, when such statements are not available at the end of the reporting year, either from statements submitted by the entities for audit or from the unaudited statements of the entities.

Commitments, provisions and contingencies

Commitments

4.60. Commitments are future expenses and liabilities to be incurred on contracts entered into at the reporting date for which UNDP has minimal discretion, if any, to avoid in the ordinary course of operations. Commitments relating to employment contracts are excluded. Commitments include:

(a) Capital commitments: aggregate amount of capital expenses contracted for but not recognized as paid or provided for at year end;

(b) Contracts for the supply of goods or services that UNDP expects to be delivered in the ordinary course of operations;

(c) Non-cancellable minimum lease payments;

(d) Other non-cancellable commitments.

Provisions

4.61. A provision is recognized if, as a result of a past event, UNDP has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenses expected to be required to settle the obligation. The increase in a provision due to the passage of time is recognized as a finance cost. When an outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Contingencies

Contingent assets

4.62. A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable. If it has become virtually certain that an asset is no longer contingent and that its value can be measured reliably, the asset and the related revenue are recognized in the year in which the change occurs.

Contingent liabilities

4.63. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recognized in the year in which the change of probability occurs.

Note 5
Change in accounting policy and reclassification of comparatives

Change in accounting policy

5.1. The policy for recognizing revenue from voluntary contributions (non-exchange transactions) described in note 4, Significant accounting policies, was refined in 2019. Under the previous policy, UNDP recognized revenue from non-exchange transactions based on payment plan due dates included in the donor agreements, which served as a proxy for identifying the period in which programmatic activities were being carried out. Under the new policy, provided that inflows of resources meet the definition of an asset, revenue is recognized in full, including for multi-year contributions, at the time the agreement is signed. This is because all earmarked agreements are taken to have stipulations that are merely restrictions rather than conditions. Where contribution agreements have conditions, UNDP recognizes a liability, and revenue recognition is deferred until such conditions are met.

5.2. This change in accounting policy was applied retrospectively in accordance with IPSAS 3: Accounting policies, changes in accounting estimates and errors. The restatement of comparative amounts has therefore been performed for prior year periods. The new policy provides more relevant information since it better reflects the substance of the underlying transaction.

5.3. For the prior-period adjustments, the 2018 opening net assets/equity and the 2018 comparative balances at the individual financial statement lines were restated, as summarized in the table below. The impact on the 2018 opening net/assets/equity is $4.251 billion. The impact on the 2018 financial position and 2018 financial performance includes a $93.5 million increase in total assets and a $174.6 million increase in revenues from voluntary contributions, with a corresponding increase in total revenue. The adjustment represents corresponding increases/(decreases) in segment revenues as follows: a $226.16 million increase in regular resources, a $68.79 million increase in cost-sharing, a $129.80 million decrease in trust funds and a $9.42 million increase in reimbursable support services and miscellaneous activities.

5.4. The impact on the 2018 cash flow statement was a $174.6 million increase in surplus for the year, an increase in receivables from non-exchange transactions of $93.5 million and a decrease in funds received in advance and deferred revenue of $81.0 million, which is reflected in cash flows from/(used in) operating activities. This change in policy had no impact on the overall cash and cash equivalents balance.

5.5. The following table details the impact of the change in comparative figures as a result of this change in accounting policy:

Impact on statement of financial position

(Thousands of United States dollars)

	31 December 2018 (audited)	*Prior-period reclassifications/ adjustments*	*31 December 2018 (restated)*
Extract of statement of financial position			
Receivables, non-exchange transactions	2 166 871	(368 890)	1 797 981
Total current assets	**6 874 955**	**(368 890)**	**6 506 065**
Receivables, non-exchange transactions	2 162 211	462 432	2 624 643
Total non-current assets	**5 235 565**	**462 432**	**5 697 997**
Total assets	**12 110 520**	**93 542**	**12 204 062**
Funds received in advance and deferred revenue	2 011 522	(1 995 044)	16 478
Total current liabilities	**3 297 578**	**(1 995 044)**	**1 302 534**
Funds received in advance and deferred revenue	2 171 256	(2 162 211)	9 045
Total non-current liabilities	**3 434 699**	**(2 162 211)**	**1 272 488**
Total liabilities	**6 732 277**	**(4 157 255)**	**2 575 022**
Accumulated surpluses	5 086 083	4 250 797	9 336 880
Total net assets/equity	**5 378 243**	**4 250 797**	**9 629 040**
Total liabilities and net assets/equity	**12 110 520**	**93 542**	**12 204 062**

Impact on statement of financial performance

(Thousands of United States dollars)

	31 December 2018 (audited)	*Prior-period reclassifications/ adjustments*	*31 December 2018 (restated)*
Extract of statement of financial performance			
Revenue			
Voluntary contributions	5 185 295	174 581	5 359 876
Total revenue	**5 517 027**	**174 581**	**5 691 608**
Surplus/(deficit) for the year	**420 200**	**174 581**	**594 781**

Impact on statement of changes in net assets/equity

(Thousands of United States dollars)

	Reserves	*Accumulated surpluses*	*Total net assets/equity*
Extract of statement of changes in net assets/equity			
Balance at 31 December 2017, as previously reported	302 160	4 339 441	4 641 601
Change in revenue recognition policy	–	4 076 216	4 076 216
Balance at 31 December 2017, restated	**302 160**	**8 415 657**	**8 717 817**

Impact on cash flow statement

(Thousands of United States dollars)

	31 December 2018 (audited)	*Prior-period reclassifications/ adjustments*	*31 December 2018 (restated)*
Cash flow extract			
Surplus/(deficit) for the year	420 200	174 581	594 781
(Increase)/decrease in receivables, non-exchange transactions	(802 008)	(93 541)	(895 549)
(Decrease)/increase in funds received in advance and deferred revenue	753 202	(81 040)	672 162

Impact on segment statement of financial position

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
	31 December 2018	*31 December 2018*	*31 December 2018*	*31 December 2018*	*31 December 2018*
Segment reporting extract					
Receivables, non-exchange transactions, as previously reported	197 231	1 347 302	589 722	32 616	2 166 871
Change in revenue recognition policy	(1 831)	(224 298)	(134 709)	(8 052)	(368 890)
Receivables, non-exchange transactions, restated	**195 400**	**1 123 004**	**455 013**	**24 564**	**1 797 981**
Total current assets, restated	**1 853 460**	**3 073 720**	**1 032 477**	**546 408**	**6 506 065**
Receivables, non-exchange transactions, as previously reported	118 443	1 362 427	647 634	33 707	2 162 211
Change in revenue recognition policy	1 225	379 402	97 860	(16 055)	462 432
Receivables, non-exchange transactions, restated	**119 668**	**1 741 829**	**745 494**	**17 652**	**2 624 643**
Total non-current assets, restated	**909 463**	**3 113 687**	**1 171 386**	**503 461**	**5 697 997**
Total assets, restated	**2 762 923**	**6 187 407**	**2 203 863**	**1 049 869**	**12 204 062**
Liabilities					
Funds received in advance and deferred revenue, as previously reported	199 345	1 217 310	556 505	38 362	2 011 522
Change in revenue recognition policy	(199 231)	(1 211 607)	(556 445)	(27 761)	(1 995 044)
Funds received in advance and deferred revenue, restated	**114**	**5 703**	**60**	**10 601**	**16 478**
Total current liabilities, restated	**1 124 336**	**100 151**	**23 134**	**54 913**	**1 302 534**
Funds received in advance and deferred revenue, as previously reported	118 443	1 362 427	647 634	42 752	2 171 256
Change in revenue recognition policy	(118 443)	(1 362 427)	(647 634)	(33 707)	(2 162 211)
Funds received in advance and deferred revenue, restated	**–**	**–**	**–**	**9 045**	**9 045**
Total non-current liabilities, restated	**918 877**	**–**	**–**	**353 611**	**1 272 488**
Total liabilities, restated	**2 043 213**	**100 151**	**23 134**	**408 524**	**2 575 022**
Net assets/equity, as previously reported	404 641	3 356 115	1 013 501	603 986	5 378 243
Change in revenue recognition policy	315 069	2 731 141	1 167 228	37 359	4 250 797
Total net assets/equity, restated	**719 710**	**6 087 256**	**2 180 729**	**641 345**	**9 629 040**
Total liabilities and net assets/ equity restated	**2 762 923**	**6 187 407**	**2 203 863**	**1 049 869**	**12 204 062**

Impact on segment statement of financial performance

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous*	*Elimination*[a]	*Total*
	31 December 2018	*31 December 2018*	*31 December 2018*	*31 December 2018*	*31 December 2018*	*31 December 2018*
Segment reporting extract						
Revenue						
Voluntary contributions, as previously reported	662 397	3 644 368	745 952	132 578	–	5 185 295
Change in revenue recognition policy	226 164	68 793	(129 795)	9 419	–	174 581
Voluntary contributions, restated	**888 561**	**3 713 161**	**616 157**	**141 997**	**–**	**5 359 876**
Total revenue, restated	**963 154**	**3 773 673**	**635 605**	**576 813**	**(257 637)**	**5 691 608**
Surplus/(deficit) for the year, restated	**298 929**	**471 084**	**(178 607)**	**3 375**	**–**	**594 781**

[a] This adjustment is required to remove the effect of internal UNDP cost recovery.

Reclassification of comparatives

5.6. To improve presentation, $5.354 million was reclassified in the comparatives from bank fees expenses to general operating expenses. There was no change in 2018 total expenses. The statement of financial performance (see note 6, table, Segment reporting: statement of financial performance) and note 30, Expenses, were adjusted accordingly to reflect this reclassification of comparative figures.

Note 6
Segment reporting

6.1. For the purposes of evaluating its past performance in achieving its objectives and making decisions about the future allocation of resources, UNDP classifies all its activities into four segments: regular resources; cost-sharing; trust funds; and reimbursable support services and miscellaneous activities.

Regular resources

6.2. Regular resources are all resources of UNDP that are commingled and untied/unearmarked. These include voluntary contributions, contributions from other governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous revenue.

Cost-sharing

6.3. Cost-sharing is a co-financing funding modality under which contributions can be received for specific UNDP programme activities, in line with UNDP policies, aims and activities. This modality is used for the direct funding of a specific project, group of projects or part of a country programme. Use of donor contributions is normally limited to the duration of a particular project. Cost-sharing has a decentralized signatory authority, and agreements are signed at the country office level.

Trust funds

6.4. Trust funds are a co-financing funding modality established as a separate accounting entity under which UNDP receives contributions to finance UNDP programme activities specified by the contributor. Separate accounting records are kept for, and financial reporting is at the level of, each individual trust fund. Trust funds are required to be reported separately to the Executive Board. Trust funds have a centralized signatory authority and agreements must be authorized by the Associate Administrator at the headquarters level. There are terms of reference governing each trust fund and each is assigned a trust fund manager.

Reimbursable support services and miscellaneous activities

6.5. Reimbursable support services and miscellaneous activities are the resources of UNDP, other than regular resources, cost-sharing and trust funds. Such funds are received for the provision of management and other support services to third parties. Reimbursable support services and miscellaneous activities comprise the following activities: management service agreements; the Junior Professional Officers programme; reimbursable support services; the United Nations Volunteers programme; the reserve for field accommodation; programme support to resident coordinators; the disaster mitigation programme; and extrabudgetary support for special purposes.

6.6. In order to attribute assets to the appropriate segment, UNDP has allocated cash and investments based on the inter-fund balances among the four segments.

Segment reporting: statement of financial position as at 31 December 2019

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2019	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*
Assets										
Current assets										
Cash and cash equivalents	154 294	184 450	239 081	346 097	65 588	106 256	67 867	100 202	526 830	737 005
Cash and cash equivalents, Multi-Partner Trust Fund Office	285 682	329 550	–	–	–	–	–	–	285 682	329 550
Investments	883 768	720 939	1 775 595	1 446 248	484 035	445 385	504 101	416 069	3 647 499	3 028 641
Investments, Multi-Partner Trust Fund Office	419 921	298 363	–	–	–	–	–	–	419 921	298 363
Receivables: non-exchange transactions	260 325	195 400	1 688 187	1 123 004	330 851	455 013	35 411	24 564	2 314 774	1 797 981
Receivables, other	67 421	93 761	1 838	1 271	133	261	534	484	69 926	95 777
Advances issued	35 486	29 293	189 747	151 446	29 501	25 491	1 948	3 848	256 682	210 078
Loans to Governments	–	–	–	–	–	–	507	507	507	507
Inventories	181	228	8 126	5 654	13	27	807	730	9 127	6 639
Other current assets	1 531	1 476	–	–	38	44	4	4	1 573	1 524
Total current assets	**2 108 609**	**1 853 460**	**3 902 574**	**3 073 720**	**910 159**	**1 032 477**	**611 179**	**546 408**	**7 532 521**	**6 506 065**
Non-current assets										
Investments	701 362	590 799	1 399 988	1 351 925	388 204	421 269	397 464	388 934	2 887 018	2 752 927
Investments, Multi-Partner Trust Fund Office	168 541	157 226	–	–	–	–	–	–	168 541	157 226
Loans to Governments	–	–	–	–	–	–	3 518	4 025	3 518	4 025
Receivables, non-exchange transactions	98 172	119 668	1 031 669	1 741 829	591 867	745 494	14 966	17 652	1 736 674	2 624 643
Property, plant and equipment	41 771	41 715	21 053	19 926	4 646	4 618	82 586	83 156	150 056	149 415
Intangible assets	–	15	–	–	5	5	6 865	9 677	6 870	9 697
Other non-current assets	41	40	20	7	17	–	21	17	99	64
Total non-current assets	**1 009 887**	**909 463**	**2 452 730**	**3 113 687**	**984 739**	**1 171 386**	**505 420**	**503 461**	**4 952 776**	**5 697 997**
Total assets	**3 118 496**	**2 762 923**	**6 355 304**	**6 187 407**	**1 894 898**	**2 203 863**	**1 116 599**	**1 049 869**	**12 485 297**	**12 204 062**

Segment reporting: statement of financial position as at 31 December 2019 (continued)

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total UNDP*	
	31 December 2019	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*	*31 December 2019*	*31 December 2018 (restated)*
Liabilities										
Current										
Accounts payable and accrued liabilities	50 869	81 001	92 255	75 114	12 453	9 076	32 871	23 897	188 448	189 088
Advances payable	2 313	779	17 292	18 686	13 329	13 885	8 360	607	41 294	33 957
Funds received in advance and deferred revenue	133	114	6 842	5 703	–	60	10 875	10 601	17 850	16 478
Funds held on behalf of donors	8 602	13 769	347	474	80	79	105	100	9 134	14 422
Payables, Multi-Partner Trust Fund Office and United Nations entities	963 035	824 744	–	–	–	–	–	–	963 035	824 744
Employee benefits	227 434	200 568	2	40	3	8	13 462	19 039	240 901	219 655
Other current liabilities	6 644	3 361	65	134	23	26	642	669	7 374	4 190
Total current liabilities	**1 259 030**	**1 124 336**	**116 803**	**100 151**	**25 888**	**23 134**	**66 315**	**54 913**	**1 468 036**	**1 302 534**
Non-current liabilities										
Payables, Multi-Partner Trust Fund Office	168 541	157 226	–	–	–	–	–	–	168 541	157 226
Funds received in advance and deferred revenue	–	–	–	–	–	–	11 290	9 045	11 290	9 045
Employee benefits	790 967	761 297	–	–	–	–	350 893	344 566	1 141 860	1 105 863
Other non-current liabilities	265	354	–	–	–	–	–	–	265	354
Total non-current liabilities	**959 773**	**918 877**	–	–	–	–	**362 183**	**353 611**	**1 321 956**	**1 272 488**
Total liabilities	**2 218 803**	**2 043 213**	**116 803**	**100 151**	**25 888**	**23 134**	**428 498**	**408 524**	**2 789 992**	**2 575 022**
Net assets/equity										
Reserves	143 159	150 159	–	–	3 000	3 000	140 001	139 001	286 160	292 160
Accumulated surpluses/(deficits)	756 534	569 551	6 238 501	6 087 256	1 866 010	2 177 729	548 100	502 344	9 409 145	9 336 880
Total net assets/equity	**899 693**	**719 710**	**6 238 501**	**6 087 256**	**1 869 010**	**2 180 729**	**688 101**	**641 345**	**9 695 305**	**9 629 040**
Total liabilities and net assets/equity	**3 118 496**	**2 762 923**	**6 355 304**	**6 187 407**	**1 894 898**	**2 203 863**	**1 116 599**	**1 049 869**	**12 485 297**	**12 204 062**

Segment reporting: statement of financial performance for the year ended 31 December 2019

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination*[a]		*Total UNDP*	
	2019	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*	*2019*	*2018 (restated)*
Revenue												
Voluntary contributions	693 634	888 561	3 260 464	3 713 161	439 217	616 157	79 242	141 997	–	–	4 472 557	5 359 876
Revenue, exchange transactions	37	13	740	534	18	8	140 866	145 092	(623)	–	141 038	145 647
Investment revenue	62 476	50 313	73 951	56 009	16 716	17 089	14 028	10 795	–	–	167 171	134 206
Other revenue	17 731	24 267	5 228	3 969	2 193	2 351	279 034	278 929	(255 822)	(257 637)	48 364	51 879
Total revenue	**773 878**	**963 154**	**3 340 383**	**3 773 673**	**458 144**	**635 605**	**513 170**	**576 813**	**(256 445)**	**(257 637)**	**4 829 130**	**5 691 608**
Expenses												
Contractual services	142 284	112 311	1 205 795	1 287 246	463 108	495 936	67 549	72 011	–	–	1 878 736	1 967 504
Staff costs	307 780	319 426	174 191	179 134	48 409	54 335	257 880	312 164	–	–	788 260	865 059
Supplies and consumables used	46 501	35 794	902 692	933 622	52 214	56 004	30 459	33 454	–	–	1 031 866	1 058 874
General operating expenses	173 275	149 910	704 509	690 045	149 432	154 037	132 406	140 640	(256 445)	(257 637)	903 177	876 995
Grants and other transfers	24 359	6 551	172 775	176 996	51 733	48 809	1 712	1 566	–	–	250 579	233 922
Other expenses	17 406	35 495	25 805	32 747	4 289	4 467	4 276	2 258	–	–	51 776	74 967
Depreciation and amortization	4 442	4 738	2 992	2 799	678	624	11 167	11 345	–	–	19 279	19 506
Total expenses	**716 047**	**664 225**	**3 188 759**	**3 302 589**	**769 863**	**814 212**	**505 449**	**573 438**	**(256 445)**	**(257 637)**	**4 923 673**	**5 096 827**
Surplus/(deficit) for the year	**57 831**	**298 929**	**151 624**	**471 084**	**(311 719)**	**(178 607)**	**7 721**	**3 375**	–	–	**(94 543)**	**594 781**

[a] This adjustment is required to remove the effect of internal UNDP cost recovery.

Note 7
Comparison to budget

7.1. The budget basis and the accounting basis are different. Statement V, statement of comparison of budget and actual amounts (regular resources), is prepared on the budget basis, that is, a modified cash basis, and statement II, statement of financial performance, is prepared on an accounting basis, that is, an accrual basis. For these reasons, the total actual regular resources budget expenditure differs from total financial accounting expenses.

7.2. Statement V, statement of comparison of budget and actual amounts (regular resources), presents regular resources only as they constitute the only budget approved by the Executive Board. Regular resources represent all resources of UNDP that are commingled and untied/unearmarked. These include voluntary contributions, contributions from other governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous revenue.

7.3. The presentation of activities and associated budget expenditures in statement V reflects the cost classification categories approved by the Executive Board of UNDP, that is: (a) development activities: (i) programme; and (ii) development effectiveness; (b) United Nations development coordination activities; (c) management activities: (i) recurring; and (ii) non-recurring; and (d) special purpose activities: (i) capital investments; and (ii) non-UNDP operations administered by UNDP. It is noted that statement II reflects expenses by nature.

7.4. Approved budgets are those that permit budget expenditures to be incurred and are approved by the Executive Board of UNDP. For IPSAS reporting purposes, the approved budgets of UNDP are the institutional budget financed from regular resources and the portion of the resource plan relating to development activities to be financed from regular resources. As other resources of UNDP are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board, the other resources are not presented in statement V. The Executive Board has approved a four-year integrated budget covering the period 2018–2021. While the programme and institutional approved budgets are for a four-year period, UNDP allocates those budgets into annual amounts, the total of which comprises the four-year approved budget, in order to provide the budget-to-actual comparison of the annual financial statements. UNDP disclosed annualized approved budget amounts for the programmatic and institutional components of the integrated budget in table 4a in annex A to the report of the Administrator on the UNDP integrated resources plan and integrated budget estimates, 2018–2021 (DP/2017/39).

7.5. Statement V shows the comparison between the final approved budget and actual amounts calculated on the same basis as the corresponding budget. Explanations of material differences between the final approved budget and the actual amounts are presented below.

7.6. Material differences between the original approved budget and the final approved budget are nil, as the original approved budget equates to the final approved budget. Budget utilization levels in 2019 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the Programme's strategic plan, 2018–2021. Accordingly, actual amounts and utilization in 2019 against budget levels are as follows:

- Development activities: actual utilization of $482.8 million, representing 96.8 per cent of the annualized approved budget of $498.7 million.

- United Nations development coordination activities: actual utilization of $11.0 million, representing 68.8 per cent of the annualized approved budget of $16.0 million.
- Management activities: actual utilization of $163.7 million, representing 96.0 per cent of the annualized approved budget of $170.5 million.
- Special purpose activities: actual utilization of $8.1 million, representing 73.6 per cent of the annualized approved budget of $11.0 million.

7.7. Similar to 2018, during 2019 UNDP revised the annual spending limits downward, noting the uncertainty of voluntary contributions towards regular resources. This resulted in lower overall budget expenditure compared with the annualized budget for 2019. Regular resources for programmatic and institutional components, not protected by Executive Board decisions 2013/4, 2013/28 and 2017/31, were reduced.

7.8. Actual net cash flows from operating activities, investing activities and financing activities in statement V, as presented on a comparable basis, reconcile to the amounts presented in statement IV, cash flow statement, as follows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual budget expenditure on comparable basis as presented in statement V	**(656 818)**	**(8 904)**	**–**	**(665 722)**
Basis differences	33 768	62	–	33 830
Entity differences	1 025 471	(646 177)	–	379 294
Increase/(decrease) in cash and cash equivalents from statement IV	**402 421**	**(655 019)**	**–**	**(252 598)**

7.9. Basis differences include differences between the budget basis (modified cash) and accounting basis (accrual), which result primarily from purchase orders that have been issued but not delivered. Those are included in the budget basis (modified cash) but not in the accounting basis (accrual) as delivery of goods and the rendering of services has not yet occurred for those undelivered purchase orders.

7.10. Entity differences between statement V and statement IV include other resources, that is, amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities, which are incorporated in statement IV but not in statement V.

7.11. Timing differences do not exist, as the budget period annualized is the same as the financial statement reporting year.

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
United Nations Development Programme		
Cash held in bank accounts	235 267	440 643
Cash held by an external investment manager	33 890	16 714
Petty cash and project cash	171	324
Money market funds	64 244	261 036
Money market instruments	219 492	1 528
Bonds	–	42 337
Impairment	(26 234)	(25 577)
Total cash and cash equivalents	**526 830**	**737 005**
Held in trust for multi-donor trust funds		
Cash held in bank accounts	1 088	4 966
Money market funds	154 268	84 721
Money market instruments	124 731	239 863
Bonds	5 595	–
Total held in trust for multi-donor trust funds	**285 682**	**329 550**
Total cash and cash equivalents and held in trust for multi-donor trust funds	**812 512**	**1 066 555**

8.1. Cash held in bank accounts includes cash held by UNDP at headquarters and country offices in various currencies. National currencies that have restricted utility for UNDP programme costs are regularly reviewed for impairment.

8.2. The increase in impairment of $0.66 million recognized in the statement of financial performance relates mainly to the valuation of certain non-convertible currency held by UNDP.

8.3. The exposure of UNDP to credit, market and currency risks and its risk management activities related to its financial assets is disclosed in note 31.

Note 9
Investments

9.1
Total investments

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current investments		
Investments managed by UNDP	3 638 862	3 027 682
Investments managed by an external investment manager	8 637	959
Total current investments	**3 647 499**	**3 028 641**

	31 December 2019	31 December 2018
Non-current investments		
Investments managed by UNDP	2 155 005	2 144 778
Investments managed by an external investment manager	732 013	608 149
Total non-current investments	**2 887 018**	**2 752 927**
Total investments	**6 534 517**	**5 781 568**

Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Current investments		
Investments, Multi-Partner Trust Fund Office	419 921	298 363
Total current investments, Multi-Partner Trust Fund Office	**419 921**	**298 363**
Non-current investments		
Investments, Multi-Partner Trust Fund Office	168 541	157 226
Total non-current investments, Multi-Partner Trust Fund Office	**168 541**	**157 226**
Total investments, Multi-Partner Trust Fund Office	**588 462**	**455 589**

9.1.1. UNDP investments include held-to-maturity financial assets that are managed by UNDP and available-for-sale financial assets that are managed by an external investment manager. Investments for the Multi-Partner Trust Fund Office represent funds provided to UNDP by donors to be held on their behalf for future disbursement to organizations of the United Nations system and to national Governments.

9.2
Total investments managed by UNDP: held to maturity

(Thousands of United States dollars)

	1 January 2019	Purchases	Maturities	Amortization	Reclassification non-current to current	31 December 2019
Investments						
Current investments						
Money market instruments	1 013 615	3 960 272	(3 433 354)	7 284	250 865	1 798 682
Bonds	2 014 067	567 485	(2 289 752)	4 024	1 544 357	1 840 181
Total current investments	**3 027 682**	**4 527 757**	**(5 723 106)**	**11 308**	**1 795 222**	**3 638 863**
Non-current investments						
Money market instruments	–	250 865	–	–	(250 865)	–
Bonds	2 144 778	1 960 917	(411 256)	4 923	(1 544 357)	2 155 005
Total non-current investments	**2 144 778**	**2 211 782**	**(411 256)**	**4 923**	**(1 795 222)**	**2 155 005**
Total investments held to maturity and available for sale	**5 172 460**	**6 739 539**	**(6 134 362)**	**16 231**	**–**	**5 793 868**

9.2.1. As at 31 December 2019, UNDP did not have any impairment on investments.

9.2.2. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.3
Investments managed by an external investment manager: available-for-sale financial assets

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Investments available for sale		
Current investments		
Bonds	8 632	961
Bonds, fair value adjustments	4	(2)
Total current investments	**8 636**	**959**
Non-current investments		
Equities	416 789	394 553
Equities: fair value adjustments	53 502	(26 594)
Bonds	255 192	246 103
Bonds: fair value adjustments	6 530	(5 913)
Total non-current investments	**732 013**	**608 149**
Total investments managed by an external investment manager available for sale	**740 649**	**609 108**

9.3.1. The available-for-sale portfolio represents investments managed by an external investment manager for after-service health insurance. In addition to the above investments, $33.89 million (2018: $16.71 million) in after-service health insurance investments has been classified under cash and cash equivalents.

9.3.2. Total after-service health insurance investments, including cash and cash equivalents, amounted to $774.54 million (2018: $625.82 million).

9.3.3. As at 31 December 2019, UNDP did not have any impairment on investments.

9.3.4. The exposure to UNDP from credit, market and currency risks and risk management activities related to investments is disclosed in note 31.

9.4
Investments: Multi-Partner Trust Fund Office

(Thousands of United States dollars)

	1 January 2019	*Purchases*	*Maturities*	*Amortization*	*Reclassification non-current to current*	*31 December 2019*
Current investments						
Money market instruments	140 000	445 492	(422 200)	1 406	–	164 698
Bonds	158 363	185 947	(230 745)	496	141 162	255 223
Total current investments	**298 363**	**631 439**	**(652 945)**	**1 902**	**141 162**	**419 921**

	1 January 2019	Purchases	Maturities	Amortization	Reclassification non-current to current	31 December 2019
Non-current investments						
Bonds	157 226	191 533	(39 900)	844	(141 162)	168 541
Total non-current investments	**157 226**	**191 533**	**(39 900)**	**844**	**(141 162)**	**168 541**
Total investments, Multi-Partner Trust Fund Office	**455 589**	**822 972**	**(692 845)**	**2 746**	**–**	**588 462**

9.4.1. As at 31 December 2019, UNDP did not have any impairment on investments for the Multi-Partner Trust Fund Office.

Note 10
Receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2019	31 December 2018 (restated)
Contributions receivable, current	2 315 465	1 797 981
Impairment	(691)	–
Contributions receivable, current, net	2 314 774	1 797 981
Contributions receivable, non-current	1 736 674	2 624 643
Total receivables, non-exchange transactions	**4 051 448**	**4 422 624**

Ageing of receivables: non-exchange transactions

(Thousands of United States dollars)

	31 December 2019	31 December 2018 (restated)
Past due	104 149	142 887
Due in future periods	3 947 299	4 279 737
Total receivables, non-exchange transactions	**4 051 448**	**4 422 624**

10.1. Contributions receivable included $3.95 billion (2018: $4.28 billion) committed to UNDP by donors in signed agreements for future periods and $358.50 million (2018: $315.07 million) in receivables from regular resources.

10.2. The $104.149 million (2018: $142.887 million) in past due contributions receivable represents the amount that is already due to UNDP based on the schedule of payments in the signed donor agreements.

10.3. Contributions receivable of $3.69 billion (2018: $4.11 billion) are restricted, in that they are used for project implementation activities to support specified purposes consistent with the policies, aims and activities of UNDP.

10.4. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 31.

Note 11
Receivables: other

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Receivables from United Nations entities	10 288	22 164
Investment receivables	32 004	27 439
Receivables from third parties	28 054	22 232
Receivables from staff	391	867
Other financial assets	–	23 908
Total receivables: other, gross	**70 737**	**96 610**
Impairment	(811)	(833)
Total receivables: other, net	**69 926**	**95 777**

Ageing of receivables: other

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Less than or equal to 6 months	59 571	87 084
Over 6 months	11 166	9 526
Total receivables: other, gross	**70 737**	**96 610**

Receivables: United Nations entities

(Thousands of United States dollars)

	31 December 2019	31 December 2018
United Nations Population Fund	6 345	7 160
United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women)	3 716	13 957
Receivables from other entities for reserve for field accommodation	36	37
United Nations University	191	406
United Nations Institute for Training and Research	–	133
United Nations System Staff College	–	471
Total receivables, other, from United Nations entities	**10 288**	**22 164**

11.1. The exposure to UNDP from credit and currency risks related to receivables is disclosed in note 31.

Note 12
Advances issued

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Operating funds issued to Governments and non-governmental organizations not yet implemented	129 583	113 228
Operating funds issued to United Nations entities not yet implemented	74 223	46 362
Prepayments	40 223	36 363
Advances to staff	14 017	15 455
Total advances issued, gross	**258 046**	**211 408**
Impairment	(1 364)	(1 330)
Total advances issued, net	**256 682**	**210 078**

Ageing of advances

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Less than or equal to 6 months	215 492	205 839
Over 6 months	42 554	5 569
Advances issued	**258 046**	**211 408**

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Medical supplies and equipment	6 759	4 409
Information technology supplies and consumables	–	627
Office supplies	848	91
Fuel	6	11
Publications	51	31
Human development reports	26	32
Crisis supplies and equipment	12	12
Electoral supplies and equipment	5	–
Other project-related inventories	1 420	1 426
Total inventories	**9 127**	**6 639**

Note 14
Other assets

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current		
Dispensary, medical and other receivables	1 610	1 561
Impairment	(37)	(37)
Total current other assets	**1 573**	**1 524**
Non-current		
Security deposit and other receivables	99	64
Total non-current other assets	**99**	**64**
Total other assets	**1 672**	**1 588**

Note 15
Loans to Governments

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current		
Loans to Governments	507	507
Total current loans to Governments	**507**	**507**
Non-current		
Loans to Governments	3 518	4 025
Total non-current loans to Governments	**3 518**	**4 025**
Total loans to Governments	**4 025**	**4 532**

15.1. Loans to Governments are loans given to national Governments to construct office or housing premises for use by UNDP and United Nations entities.

15.2. As at 31 December 2019, loans to Governments consisted of loans issued to the Governments of Cabo Verde, the Comoros, Guinea-Bissau and Sao Tome and Principe.

Note 16
Property, plant and equipment

16.1. UNDP has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which comprise 25 per cent of property, plant and equipment assets, are utilized in the delivery of UNDP programmes and projects. Management assets, which comprise 75 per cent of property, plant and equipment assets, are used for non-project specific operations at UNDP country offices and headquarters.

Property, plant and equipment

(Thousands of United States dollars)

	Land	*Buildings*	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Leasehold improvements*	*Total*
Balance at 1 January 2019								
Cost	7 175	44 989	5 202	58 369	92 071	15 495	26 996	250 297
Accumulated depreciation	–	(6 531)	(2 950)	(30 035)	(47 426)	(5 057)	(8 883)	(100 882)
Carrying amount as at 1 January 2019	**7 175**	**38 458**	**2 252**	**28 334**	**44 645**	**10 438**	**18 113**	**149 415**
Year ended 31 December 2019								
Additions and adjustments	–	647	323	6 669	11 670	1 649	1 394	22 352
Disposals, cost	–	(64)	(389)	(6 141)	(5 242)	(1 615)	–	(13 451)
Depreciation	–	(1 366)	(229)	(4 966)	(7 162)	(666)	(2 591)	(16 980)
Disposals, accumulated depreciation/depreciation	–	53	216	4 499	3 552	400	–	8 720
Recategorization	–	295	–	–	–	–	(295)	–
Carrying amount as at 31 December 2019	**7 175**	**38 023**	**2 173**	**28 395**	**47 463**	**10 206**	**16 621**	**150 056**
Balance at 31 December 2019								
Cost	7 175	45 867	5 136	58 897	98 499	15 529	28 095	259 198
Accumulated depreciation	–	(7 844)	(2 963)	(30 502)	(51 036)	(5 323)	(11 474)	(109 142)
Carrying amount as at 31 December 2019	**7 175**	**38 023**	**2 173**	**28 395**	**47 463**	**10 206**	**16 621**	**150 056**

16.2. As at 31 December 2019, assets under construction of $1.5 million (2018: $1.7 million) were included under leasehold improvements.

Note 17
Intangible assets

(Thousands of United States dollars)

	Software internally developed	*Software acquired*	*Trademarks, copyrights and licences*	*Assets under development*	*Total*
Balance as at 1 January 2019					
Cost	17 990	61	308	2 016	20 375
Accumulated amortization	(10 410)	(28)	(240)	–	(10 678)
Carrying amount as at 1 January 2019	**7 580**	**33**	**68**	**2 016**	**9 697**
Year ended 31 December 2019					
Additions and adjustments	185	10	–	447	642
Disposals	–	(6)	(10)	(2)	(18)
Amortization	(2 293)	(3)	(3)	–	(2 299)
Adjustments to accumulated amortization/depreciation	–	6	10	–	16
Impairment losses	–	–	–	(1 168)	(1 168)
Recategorization	1 004	–	–	(1 004)	–
Carrying amount as at 31 December 2019	**6 476**	**40**	**65**	**289**	**6 870**

	Software internally developed	*Software acquired*	*Trademarks, copyrights and licences*	*Assets under development*	*Total*
Balance as at 31 December 2019					
Cost	19 179	65	298	289	19 831
Accumulated amortization	(12 703)	(25)	(233)	–	(12 961)
Carrying amount as at 31 December 2019	**6 476**	**40**	**65**	**289**	**6 870**

17.1. The impairment loss of $1.168 million for 2019 (2018: nil) pertains to intangible assets recorded in the reimbursable support services and miscellaneous activities segment.

Note 18
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Accruals	86 842	55 841
Payables to United Nations entities	34 266	30 255
Payables to third parties	63 176	75 388
Other financial liabilities	175	24 283
Payables to staff	3 989	3 321
Total accounts payable and accrued liabilities	**188 448**	**189 088**

Payables to United Nations entities

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Payables to United Nations current account	8 332	10 605
World Health Organization	5 505	4 822
United Nations Relief and Works Agency for Palestine Refugees in the Near East	4 057	3 593
Joint United Nations Programme on HIV/AIDS (UNAIDS)	2 546	2 511
United Nations Capital Development Fund	5 093	7 914
Coordination Levy	2 323	–
Payables to other United Nations entities	6 410	810
Total payables to United Nations entities	**34 266**	**30 255**

Note 19
Advances payable

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Operating funds payable to Governments and non-governmental organizations	948	183
Operating funds payable to executing entities/implementing partners	40 346	33 774
Total advances payable	**41 294**	**33 957**

Note 20
Funds received in advance, deferred revenue and funds held on behalf of donors

(a) Funds received in advance and deferred revenue

(Thousands of United States dollars)

	31 December 2019	*31 December 2018 (restated)*
Current		
Funds received in advance	7 043	5 888
Deferred revenue, Department of Safety and Security	1 022	1 269
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	9 782	9 310
Deferred revenue, non-exchange transactions	3	11
Total current funds received in advance and deferred revenue	**17 850**	**16 478**
Non-current		
Deferred revenue, Multi-Partner Trust Fund Office administrative agent fees	11 290	9 045
Total non-current funds received in advance and deferred revenue	**11 290**	**9 045**
Total funds received in advance and deferred revenue	**29 140**	**25 523**

(b) Funds held on behalf of donors

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Refunds to donors	9 134	14 422
Total funds held on behalf of donors	**9 134**	**14 422**

20.1. Refunds pending to donors comprise unspent funds for completed or terminated projects and, where applicable, interest that has been set aside to be refunded to donors in accordance with contribution agreements and the Financial Regulations and Rules of UNDP. The funds will be refunded or reprogrammed upon receipt of instructions from donors.

Note 21
Payables: Multi-Partner Trust Fund Office and United Nations entities

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current		
Multi-Partner Trust Fund Office	703 870	626 544
Clearing accounts with United Nations entities	167 740	122 908
Payables for common services	91 425	75 292
Total current payables, Multi-Partner Trust Fund Office and United Nations entities	**963 035**	**824 744**
Non-current		
Multi-Partner Trust Fund Office	168 541	157 226
Total non-current payables, Multi-Partner Trust Fund Office	**168 541**	**157 226**
Total payables, Multi-Partner Trust Fund Office and United Nations entities	**1 131 576**	**981 970**

21.1. Payables, clearing accounts with United Nations entities, represent funds advanced by United Nations entities and held by UNDP for future service provision, while payables for common services represent amounts collected on behalf of United Nations entities related to common services.

21.2. With regard to the Multi-Partner Trust Fund Office, the funds payable represent funds provided by donors to the Office for future disbursement. In 2019, UNDP, in its role as administrative agent, received net cash inflows from donors of $1,296.809 million and released $1,233.333 million. The increase in payables, Multi-Partner Trust Fund Office and United Nations entities, for multi-donor trust funds of $82.534 million also includes $18.159 million of interest and investment income and a net movement of other assets and liabilities of $0.899 million.

Note 22
Employee benefits

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current		
Annual leave	68 317	66 696
Medical insurance plan	112 315	103 709
After-service health insurance	19 197	32 224
Repatriation entitlements	9 372	7 951
Home leave	6 408	7 124
Termination benefits	269	368
Workers' compensation	846	919
Contribution payable to the United Nations Joint Staff Pension Fund	23 771	276
Death benefits	231	207
Other employee benefits	175	181
Total current employee benefit liabilities	**240 901**	**219 655**

	31 December 2019	*31 December 2018*
Non-current		
After-service health insurance	1 027 982	1 004 623
Repatriation entitlements	95 794	85 322
Workers' compensation	13 447	12 401
Home leave	2 071	2 297
Death benefits	2 566	1 220
Total non-current employee benefit liabilities	**1 141 860**	**1 105 863**
Total employee benefit liabilities	**1 382 761**	**1 325 518**

22.1. The liabilities arising from post-employment benefits are determined by independent actuaries and those employee benefits are established in accordance with the Staff Regulations and Rules of the United Nations.

22.2. As at 31 December 2019, liabilities for after-service health insurance, repatriation entitlements, workers' compensation and death benefits were determined by the actuarial valuation conducted as at 31 December 2019.

Defined benefit plans

22.3. UNDP provides its staff and former staff with the following defined benefit plans, which are actuarially valued: after-service health insurance; end-of-service entitlements, such as repatriation entitlement; and other benefits, such as death benefits.

22.4. The movements in the present value of the defined benefit obligation for those plans are:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Defined benefit obligation as at 31 December 2018	**1 036 847**	**93 273**	**2 379**	**13 319**	**1 145 818**
Increase of the obligation					
Current service cost	28 630	5 864	74	441	35 009
Interest cost	46 449	3 742	91	66	50 348
Actuarial losses on disbursements	–	–	899	–	8 99
Actuarial losses from change in financial assumptions	–	9 508	334	1 835	11 677
Actuarial losses from change in demographic assumptions	–	–	105	81	186
Actuarial losses due to experience adjustments	47 926	1 271	29	–	49 226
Decrease of the obligation					
Actual benefits paid	(10 799)	(4 696)	(1 114)	(908)	(17 517)
Actuarial (gains) on disbursements	(22 893)	(3 588)	–	–	(26 481)
Actuarial (gains) from change in financial assumptions	(78 664)	–	–	–	(78 664)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Actuarial (gains) from change in demographic assumptions	(317)	(208)	–	–	(525)
Actuarial (gains) due to experience adjustments	–	–	–	(541)	(541)
Recognized liability as at 31 December 2019	**1 047 179**	**105 166**	**2 797**	**14 293**	**1 169 435**

22.5. The value of the defined benefit obligation equals the defined benefit liability that is recognized in the statement of financial position.

22.6. The current service cost and interest cost recognized in the statement of financial performance and the statement of financial position are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Current service cost	28 630	5 864	74	441	35 009
Interest cost	46 449	3 742	91	66	50 348
Total employee benefits expenses recognized	**75 079**	**9 606**	**165**	**507**	**85 357**

22.7. The actuarial gains/(losses) recognized in net assets/equity directly are as follows:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Workers' compensation*	*Total*
Actuarial gains/(losses) from change in assumptions and experience adjustments	31 055	(10 571)	(468)	(1 375)	18 641
Actuarial gains/(losses) on disbursement	22 893	3 588	(899)	–	25 582
Total actuarial gains/(losses) recognized	**53 948**	**(6 983)**	**(1 367)**	**(1 375)**	**44 223**

22.8. In 2019, of the net actuarial gains of $44.223 million, the actuarial gain relating to after-service health insurance from a change in actuarial assumptions was $31.055 million.

22.9. The following table provides the amounts for the current and previous four periods of the defined benefit obligation and the experience adjustment arising on the plan liabilities:

(Thousands of United States dollars)

	2019	2018	2017	2016	2015
After-service health insurance					
Defined benefits obligation	1 047 179	1 036 847	1 316 407	1 034 861	954 121
Experience adjustment on plan liabilities	47 926	(188 125)	118 690	–	(35 400)
Duration[a]	22	18	–	–	–
Repatriation					
Defined benefits obligation	105 166	93 273	105 675	98 913	97 687
Experience adjustment on plan liabilities	1 271	(7 187)	7 892	–	1 345
Duration[a]	10	9	–	–	–
Death benefits					
Defined benefits obligation	2 797	1 427	2 084	2 412	2 456
Experience adjustment on plan liabilities	29	(571)	(143)	–	(261)
Duration[a]	8	8	–	–	–
Workers' compensation					
Defined benefits obligation	14 293	13 319	15 460	16 457	–
Experience adjustment on plan liabilities	(541)	(1 398)	1 488	2 184	–
Duration[a]	18	17	–	–	–

[a] The weighted average duration of the defined benefit obligation is available only for 2019 and 2018.

22.10. At the end of 2019, UNDP had $774.539 million in cash and investments to fund the after-service health insurance liability and a 15-year funding strategy has been formulated to fund the gap between the historical liability and the amount funded.

22.11. The next actuarial valuation will be conducted as at 31 December 2020.

Actuarial assumptions

22.12. The last actuarial valuation for after-service health insurance, repatriation, workers' compensation and death benefits was completed as at 31 December 2019. The two important assumptions used by the actuary to determine defined-benefit liabilities are the discount rate and, for after-service health insurance, the health-care cost-trend rate. The principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	2019	2018
Discount rate:		
(a) After-service health insurance	3.42 per cent	4.55 per cent
(b) Repatriation benefits	3.07 per cent	4.20 per cent
(c) Death benefits	2.39 per cent	4.03 per cent
(d) Workers' compensation	3.33 per cent	4.44 per cent

	2019	*2018*
Health-care cost-trend rates:		
(a) United States, non-Medicare plans	5.44, grading down to 3.85 per cent after 13 years	5.57, grading down to 3.85 per cent after 14 years
(b) United States, Medicare plans	5.26, grading down to 3.85 per cent after 13 years	5.38, grading down to 3.85 per cent after 14 years
(c) United States, dental plans	4.66, grading down to 3.85 per cent after 13 years	4.73, grading down to 3.85 per cent after 14 years
(d) Non-United States, Switzerland	3.76, grading down to 2.85 per cent after 8 years	3.89, grading down to 3.05 per cent after 9 years
(e) Non-United States, eurozone	3.83, grading down to 3.65 per cent after 3 years	3.91, grading down to 3.65 per cent after 4 years
Salary scale (varies by age and staff category)	3.97–9.27 per cent	3.47–9.27 per cent
Rate of inflation	2.20 per cent	2.20 per cent
Per capita medical claim cost (varies by age)	$932–$13,819	$1,142–$17,276
Actuarial method	Projected unit credit method	Projected unit credit method

22.13. Other actuarial assumptions used for the valuation for after-service health insurance are: enrolment in plan and Medicare part B participation, dependants, age difference between spouses, retiree contributions, age-related increase in claims, Medicare part D retiree drug subsidy and Medicare part B premium.

22.14. Assumptions regarding future mortality are based on published statistics and mortality tables. The current rates of death underlying the values of the liabilities in the after-service health insurance and repatriation calculations are as follows:

	2019		*2018*	
Mortality rate, active employees	*At age 20*	*At age 69*	*At age 20*	*At age 69*
Male	0.00056	0.00718	0.00056	0.00718
Female	0.00037	0.00522	0.00031	0.00435

	2019		*2018*	
Mortality rate, retired employees	*At age 20*	*At age 70*	*At age 20*	*At age 70*
Male	0.00062	0.00913	0.00062	0.00913
Female	0.00035	0.00561	0.00035	0.00561

22.15. The rates of retirement for staff in the Professional and higher categories with 30 or more years of service hired on or after 1 January 1990 and before 1 January 2014 are as follows:

Rate of retirement: staff in the Professional and higher categories with 30 or more years of service	*2019*		*2018*	
	At age 55	*At age 62*	*At age 55*	*At age 62*
Male	0.16	0.70	0.16	0.70
Female	0.20	0.80	0.20	0.80

22.16. For active beneficiaries, an assumption was made regarding the probability of marriage at retirement:

Rate of marriage at retirement for active beneficiaries	*2019*	*2018*
Male	0.75	0.75
Female	0.75	0.75

Sensitivity analysis

22.17. Should the assumptions about the discount rate and health-care cost trends described above change, this would have an impact on the measurement of the after-service health insurance obligation as follows:

(Thousands of United States dollars)

	+0.5 per cent	*-0.5 per cent*
Effect of discount rate change on end-of-year liability	(101 386)	117 470
Effect of change in health-care cost trend rates on year-end accumulated post-employment benefit obligation	112 982	(98 680)

United Nations Joint Staff Pension Fund

22.18. UNDP 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 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 is open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

22.19. The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the 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 Fund. UNDP and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of the defined benefit obligation of UNDP, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNDP has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, Employee benefits. The contributions of UNDP to the Fund during the financial period are recognized as expenses in the statement of financial performance.

22.20. The Regulations of the Pension Fund state 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 Fund will be sufficient to meet its liabilities.

22.21. The financial obligation of UNDP to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 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 only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of 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.

22.22. The most recent actuarial valuation for the Fund had been completed as at 31 December 2017, and the valuation as at 31 December 2019 is currently being performed. A roll-forward of the participation data as at 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 financial statements.

22.23. 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. The funded ratio was 102.7 per cent when the current system of pension adjustments was taken into account.

22.24. 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 the present report, the General Assembly had not invoked the provision of article 26.

22.25. Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Fund, 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 (2016, 2017 and 2018) amounted to $7,131.56 million, of which 7 per cent was contributed by UNDP.

22.26. During 2019, the contributions of UNDP paid to the Fund amounted to $144 million (2018: $151 million). Expected contributions due in 2020 are approximately $147 million.

22.27. Membership of the Pension 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 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 at 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.

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

22.29. On 11 March 2020, the World Health Organization declared coronavirus disease (COVID-19) a global pandemic. The extent of the impact on the financial performance of the Fund will depend on future developments, including: (a) the duration and spread of the outbreak; (b) restrictions and advisories; (c) the effects on the financial markets; and (d) the effects on the global economy, all of which are highly uncertain and cannot be reliably predicted.

Note 23
Other liabilities

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Current		
Unapplied deposits	6 202	1 640
Other payables	1 172	2 550
Total other current liabilities	**7 374**	**4 190**
Non-current		
Reimbursable deposits	265	354
Total other non-current liabilities	**265**	**354**
Total other liabilities	**7 639**	**4 544**

Note 24
Reserves

(Thousands of United States dollars)

	31 December 2018	*Movements*	*31 December 2019*
Endowment fund	3 000	–	3 000
Operational reserve	289 001	(6 000)	283 001
Reserve for special initiatives	159	–	159
Total reserves	**292 160**	**(6 000)**	**286 160**

24.1. The endowment fund reserve is a contribution of $3.0 million in 1998 from the Government of Japan to strengthen the planning and managerial capacities of Palestinian institutions in order to promote sustainable socioeconomic development. Under the fund's mechanism and implementation arrangements, the principal amount will not be available for programming until such time as the Government of Japan and/or UNDP agree to terminate the fund. However, interest earned on the fund is available for programming.

24.2. The operational reserve was established in 1979 by the Governing Council (now the Executive Board) of UNDP to ensure adequate liquidity of UNDP by funding such reserve through a defined formula that is calculated yearly. The operational reserve is made up of the operational reserve for regular resources and the operational reserve for other resources.

24.3. At 31 December 2019, the balance in the operational reserve for regular resources was $143 million. At its annual session in 1999, the Executive Board approved a change of basis for the calculation of the operational reserve for regular resources, which is the sum of the following components:

(a) Income: the equivalent of 10 per cent of the average of the annual voluntary contributions received over the three most recent years, rounded to the nearest $1 million;

(b) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the three most recent years, rounded to the nearest $1 million;

(c) Liability and structural: the equivalent of 10 per cent of the sum of the income and expenditure components, rounded to the nearest $1 million;

(d) Cash flow: the equivalent of the cash needs for one month, calculated as one twelfth of the total expenditure of the most recent year, rounded to the nearest $1 million.

24.4. In addition, the Executive Board approved the establishment of an operational reserve for other resource activities. At 31 December 2019, the balance of the operational reserve for other resource activities was $140 million. The basis for the calculation of the operational reserve for other resources is the sum of the following components:

(a) Expenditure: the equivalent of 2 per cent of the average total annual expenditure incurred over the most recent three years under cost-sharing, trust funds and reimbursable support services and miscellaneous activities, rounded to the nearest $1 million;

(b) Liability and structural: the equivalent of one year of administrative costs, currently estimated at $30 million.

24.5. While the reserve calculation for other resources is based on cost-sharing, trust funds and reimbursable support services and miscellaneous activities, the operational reserve for other resources is only presented as part of net assets/equity for reimbursable support services and miscellaneous activities in the table in note 6, Segment reporting: statement of financial position as at 31 December 2019.

24.6. The operational reserve for other resource activities includes the reserve for field accommodation. The reserve for field accommodation was established in 1979 at a maximum level of $25.0 million to construct housing for United Nations international staff at the country offices. In 1989, the Governing Council authorized UNDP to expand the scope of the reserves to include financing for United Nations system common premises, intended to accommodate the office needs of the agencies of the Joint Consultative Group on Policies. The financial position and performance of the reserve for field accommodation is presented in note 36.4, Reimbursable support services and miscellaneous activities.

24.7. The reserve for special initiatives was first approved by the Executive Board in 2000 to establish a capital reserve as a charge from UNDP general resources. The remaining balance is being held to cover relocation costs such as renovations, furniture, fittings and moving costs.

24.8. On calculating the new reserves in 2019, a net transfer of $6 million was made according to the Board-approved formulas.

Note 25
Accumulated surpluses

(Thousands of United States dollars)

	Balance 31 December 2018	Restatement[c]	31 December 2018 (restated)	Movements	31 December 2019
Accumulated surpluses[a]	4 790 517	4 250 797	9 041 314	(88 543)	8 952 771
Funds with specific purposes[b]	120 607	–	120 607	24 108	144 715
Actuarial gains/(losses)	206 594	–	206 594	44 223	250 817
Changes in fair value of available-for-sale investments	(31 635)	–	(31 635)	92 477	60 842
Total accumulated surpluses	**5 086 083**	**4 250 797**	**9 336 880**	**72 265**	**9 409 145**

[a] The movement in accumulated surpluses of $88.543 million consists of the deficit for the year of $94.543 million and a transfer from the operational reserve of $6 million.

[b] The funds with specific purposes include: security; information and communications technology; United Nations Volunteers; learning; and personnel and other.

[c] See note 5, Change in accounting policy and reclassification of comparatives.

25.1. As a result of the change in revenue recognition policy detailed in note 5, Change in accounting policy and reclassification of comparatives, accumulated surpluses now include receivables from non-exchange transactions (net of past due receivables) of $3,947 million at 31 December 2019 (2018 (restated): $4,280 million) (see note 10, Receivables: non-exchange transactions). Under its Financial Regulations and Rules, the organization is permitted to spend only when the cash is received.

Note 26
Voluntary contributions

(Thousands of United States dollars)

	2019	2018 (restated)
Contributions	4 509 708	5 394 157
Government contributions to local office costs	18 184	24 018
Contributions in kind	14 549	15 542
Less: returns to donors of unused contributions	(69 884)	(73 841)
Total voluntary contributions	**4 472 557**	**5 359 876**

26.1. Contributions in kind primarily comprise donated use of land and buildings of $14.427 million (2018: $15.477 million), as well as donated goods, such as computer equipment and supplies received from donors, of $0.122 million (2018: $0.065 million).

26.2. Under its Financial Regulations and Rules, UNDP is permitted to spend only up to the amount of cash received, which amounted to $4.90 billion (2018: $5.19 billion).

Note 27
Revenue: exchange transactions

(Thousands of United States dollars)

	2019	*2018*
Department of Safety and Security	29 477	57 784
Reimbursement for management and support services	75 467	55 080
United Nations Volunteers programme	2 010	3 220
Implementation support services fees	3 071	3 323
Payroll management services fees	9 069	8 693
Procurement handling fees	4 569	3 015
Training fees	3 792	3 390
Rental revenue	4 185	3 091
Multi-Partner Trust Fund Office administrative agent fees	9 200	7 909
Sales and royalties from sale of publications	35	13
Other exchange revenue	163	129
Total revenue from exchange transactions	**141 038**	**145 647**

Note 28
Investment revenue

(Thousands of United States dollars)

	2019	*2018*
Investment revenue	167 171	134 206
Total investment revenue	**167 171**	**134 206**

28.1. Investment revenue represents interest plus amortized discount, net of amortized premium including interest earned on bank account balances (2019: $145.935 million; 2018: $108.018 million), dividends earned on the UNDP investment portfolio (2019: $7.580 million; 2018: $6.599 million) and realized gain on sale of investments (2019: $13.656 million; 2018: $19.589 million).

Note 29
Other revenue

(Thousands of United States dollars)

	2019	*2018*
Foreign exchange gains	17 093	19 835
Common system and miscellaneous revenue	24 792	27 093
General management services fees	6 479	4 951
Total other revenue	**48 364**	**51 879**

Note 30
Expenses

(Thousands of United States dollars)

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2019	*2019*	*2018*	*2018*
30.1 Contractual services				
Contractual services	1 767 549	1 835 382	1 858 052	1 929 201
United Nations Volunteers expenses for contractual services	39 410	43 354	33 353	38 303
Total contractual services	**1 806 959**	**1 878 736**	**1 891 405**	**1 967 504**
30.2 Staff costs				
Salary and wages	171 361	509 621	185 231	566 097
Pension benefits	30 177	93 621	31 251	100 493
Post-employment and termination	18 519	100 618	19 430	114 133
Appointment and assignment	8 232	26 405	9 029	20 562
Leave benefits	5 586	13 427	5 937	14 119
Other staff benefits	59 501	44 568	55 750	49 655
Total staff costs	**293 376**	**788 260**	**306 628**	**865 059**
30.3 Supplies and consumables used				
Maintenance costs for property, plant and equipment and project-related supplies	490 020	506 434	521 834	538 697
Medical, pharmaceutical and agricultural supplies	369 611	373 254	358 407	362 130
Information technology supplies and software maintenance	32 093	38 045	34 951	43 612
Information and communications technology equipment	54 605	59 768	54 919	59 397
Security and office supplies	50 690	54 200	51 471	54 960
Other consumables used	41	165	28	78
Total supplies and consumables used	**997 060**	**1 031 866**	**1 021 610**	**1 058 874**
30.4 General operating expenses				
Travel	187 676	219 156	179 844	212 961
Learning and recruitment	238 347	251 472	232 848	250 074
Rent, leases and utilities	104 916	175 617	93 001	168 362
Communications	84 203	111 544	76 925	100 865
Freight	35 340	35 970	37 232	38 113
Professional services	31 911	37 502	31 409	34 584
Security	19 625	30 384	17 989	33 005
Reimbursement	1 478	1 834	1 492	2 918
Contribution to jointly financed United Nations activities	3 484	11 864	4 063	13 893
Contribution to information and communications technology	1 947	4 025	1 996	4 588
Insurance/warranties	6 398	7 360	4 783	5 675
Miscellaneous operating expenses	232 898[b]	16 449[c]	231 464[b]	11 957[c]
Total general operating expenses	**948 223**	**903 177**	**913 046**	**876 995**

	Programme expenses[a]	*Total expenses*	*Programme expenses*	*Total expenses*
	2019	*2019*	*2018*	*2018*
30.5 Grants and other transfers				
Grants	232 039	233 622	226 032	226 781
Transfers	6 025	16 957	6 018	7 141
Total grants and other transfers	**238 064**	**250 579**	**232 050**	**233 922**
30.6 Other expenses				
Sundries	25 882	27 936	20 852	22 632
Foreign exchange losses[d]	6 584	19 986	15 207	47 769
Losses on sale of fixed assets and intangible assets	1 503	1 970	2 809	4 617
Ex gratia payments	–	–	–	2
Impairment[e]	8	1 884	27	(53)
Total other expenses	**33 977**	**51 776**	**38 895**	**74 967**
30.7 Depreciation and amortization				
Depreciation	5 407	16 980	5 237	16 905
Amortization	164	2 299	92	2 601
Total depreciation and amortization	**5 571**	**19 279**	**5 329**	**19 506**
Total expenses	**4 323 230**	**4 923 673**	**4 408 963**	**5 096 827**

[a] Of the total expenses, $4.3 billion represents programme expenses and the remaining $600 million represents development effectiveness, United Nations development coordination, management, special purpose and other. Refer to note 36.1, Total expenses by cost classification, for details.

[b] Included in the $233 million of total miscellaneous operating expenses, $202 million represents internal UNDP cost recovery, which is eliminated from total expenses which includes non-programme expenses.

[c] Of the total miscellaneous operating expenses, $4.3 million represents administrative service fees for United Nations agencies.

[d] Foreign exchange losses of $20 million include the effect of exchange rate changes on cash and cash equivalents of ($1.445) million.

[e] In 2019, UNDP recognized $1.884 million in impairments. There was no reversal of impairments that were previously recognized in the statement of financial performance in prior years.

Note 31
Financial instruments and risk management

31.1. The risk management policies of UNDP, along with its investment policy and guidelines and Financial Regulations and Rules, aim to minimize potential adverse effects on the resources available to UNDP to fund its activities.

In its operations, UNDP is exposed to a variety of financial risks, including:

(a) Credit risk: the risk of financial loss to UNDP may arise from the failure of an entity or counterparty to meet its financial/contractual obligations to UNDP;

(b) Liquidity risk: the risk that UNDP might not have adequate funds to meet its obligations as they fall due;

(c) Market risk: the risk that UNDP might incur financial losses on its financial assets due to unfavourable movements in foreign currency exchange rates, interest rates and/or prices of investment securities.

31.2. UNDP manages its working capital investment portfolio centrally within the Treasury Division. Investment activities are overseen by an Investment Committee, comprising senior management, which meets quarterly to review its investment portfolio performance and to ensure that investment decisions are in compliance with the established investment policy and guidelines. The principal investment objectives as stated in the UNDP Investment Policy and Guidelines are:

(a) Safety: preservation of capital, provided through investing in high-quality, fixed-income securities emphasizing the creditworthiness of the issuers;

(b) Liquidity: flexibility to meet cash requirements through investments in highly marketable, fixed-income securities and through structuring maturities to align with liquidity requirements;

(c) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

31.3. As at 31 December 2019, the working capital portfolio was classified as held-to-maturity financial assets. Holdings include cash, money market instruments and fixed-income securities.

31.4. The Financial Regulations and Rules of UNDP govern the financial management of UNDP. The regulations and rules are applicable to all funds and programmes administered by UNDP and establish the standard of internal control and accountability within the organization.

31.5. UNDP has fully outsourced the investment management of its after-service health insurance funds to two external investment managers in order to ensure an adequate level of investment return given the longer-term nature of after-service health insurance funds liabilities. As at 31 December 2019, the after-service health insurance funds portfolio was classified as available for sale. Holdings include cash and cash equivalents, equities and fixed-income securities.

31.6. The external investment managers are governed by the after-service health insurance funds investment guidelines. The guidelines ensure that all the investment activities reflect the best conditions of security, accountability and social responsibility while operating in full compliance with the highest standards of quality, efficiency, competence and integrity. The guidelines identify eligible instruments for global equities and fixed income investments and specify asset class limits. Reporting by and oversight of the investment managers occurs formally through quarterly after-service health insurance funds investment committee meetings. These guidelines are reviewed and approved on a periodic basis by the after-service health insurance funds investment committee.

31.7. The following tables show the value of UNDP financial assets and financial liabilities outstanding at year end based on the IPSAS classifications adopted by UNDP.

(a) Financial assets

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus and deficit*	*31 December 2019 Book value*	*31 December 2018 (restated)*
Cash and cash equivalents	–	–	526 830		526 830	737 005
Investments	5 793 868	740 649	–	–	6 534 517	5 781 568
Receivables: non-exchange transactions	–	–	4 051 448	–	4 051 448	4 422 624
Receivables: other	–	–	69 926	–	69 926	95 777
Advances issued	–	–	256 682	–	256 682	210 078
Loans to Governments	–	–	4 025	–	4 025	4 532
Total financial assets	**5 793 868**	**740 649**	**4 908 911**	–	**11 443 428**	**11 251 584**

(b) Financial liabilities classification

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus and deficit*	*31 December 2019*	*31 December 2018*
Accounts payable and accrued liabilities	188 273	175	188 448	189 088
Advances payable	41 294	–	41 294	33 957
Payables – Multi-Partner Trust Fund Office and United Nations entities	1 131 576	–	1 131 576	981 970
Funds held on behalf of donors	9 134	–	9 134	14 422
Other liabilities	7 639	–	7 639	4 544
Total financial liabilities	**1 377 916**	**175**	**1 378 091**	**1 223 981**

31.8. Held-to-maturity financial assets are carried at amortized cost. As at 31 December 2019, the market value of those assets exceeded book value by $15.169 million (2018: the book value exceeded market value by $10.547 million). Available-for-sale assets are carried at fair market value based on quoted prices obtained from knowledgeable third parties. The carrying values for loans and receivables are a reasonable approximation of their fair value.

31.9. As at 31 December 2019, UNDP had $0.175 million (2018: $0.422 million) in financial liabilities recorded at fair value through surplus or deficit arising from forward foreign exchange contracts in various currencies and notional amounts managed by external investment managers. As at 31 December 2019 and 2018, UNDP did not have any financial assets recorded at fair value through surplus or deficit.

31.10. For the year ended 31 December 2019, net gains of $2.434 million (2018: $3.994 million) related to financial assets and liabilities recorded at fair value through surplus or deficit were recognized in the statement of financial performance.

Valuation

31.11. The table below presents the fair value hierarchy of the Programme's available-for-sale financial instruments carried at fair value as at 31 December 2019.

(Thousands of United States dollars)

	Level 1	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets				
Equities	470 291	–	–	470 291
Bonds	270 358	–	–	270 358
Total	**740 649**	–	–	**740 649**

31.12. The three fair value hierarchies are defined by IPSAS based on the significance of the inputs used in the valuation as:

(a) Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices);

(c) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Analysis of UNDP credit risk

31.13. UNDP is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, investments and receivables (non-exchange).

31.14. UNDP operates bank accounts in 148 countries, which exposes it to the risk of the collapse of local financial institutions. UNDP has established risk assessment criteria to assess the creditworthiness of financial institutions before new bank accounts are opened and limits of local currency holdings are approved and monitored centrally by the UNDP Treasury Division. In addition, UNDP, using zero-balance accounts, permits local offices to draw funds in United States dollars and euros from a headquarters-managed master account to periodically replenish local currency accounts. Zero-balance accounts are designed to automatically transfer excess balances to the master account for investment in short-term money market instruments. The arrangement minimizes excess balances in local bank accounts.

31.15. With regard to its financial instruments, the UNDP investment policy and guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the investment policy and guidelines include conservative minimum credit criteria for all issuers, with maturity and counterparty limits by credit rating. The investment policy and guidelines also require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments for UNDP-managed funds are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies and banks.

31.16. UNDP utilizes credit ratings from the three leading credit rating agencies, Moody's, S&P Global and Fitch, to categorize and monitor credit risk on its financial instruments. As at 31 December 2019, investments managed by UNDP were in high-quality, fixed-income instruments as shown in the table below (presented using S&P Global's rating convention).

Concentration by credit rating: UNDP-managed investments

(Thousands of United States dollars)

31 December 2019	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*A-*	*Not rated*	*Total*
Money market instruments	262 787	120 031	615 600	550 000	150 000	100 000	264	1 798 682
Bonds	2 117 332	697 248	697 037	433 569	50 000	–	–	3 995 186
Total	**2 380 119**	**817 279**	**1 312 637**	**983 569**	**200 000**	**100 000**	**264**	**5 793 868**

31 December 2018	*AAA*	*AA+*	*AA to AA-*	*A+*	*A*	*Not rated*	*Total*
Money market instruments	198 443	49 819	365 000	320 000	80 000	354	1 013 616
Bonds	2 294 916	782 151	875 115	206 662	–	–	4 158 844
Total	**2 493 359**	**831 970**	**1 240 115**	**526 662**	**80 000**	**354**	**5 172 460**

Note: Excludes investments classified as cash equivalents and Multi-Partner Trust Fund Office.

Concentration by credit rating: externally managed investments

(Thousands of United States dollars)

31 December 2019	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*BBB-*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 504	2 037	6 658	6 110	974	3 135	1 984	6 803	–	36 998	203 155	270 358
Total	**2 504**	**2 037**	**6 658**	**6 110**	**974**	**3 135**	**1 984**	**6 803**	–	**36 998**	**203 155**	**270 358**

31 December 2018	*AAA*	*AA+*	*AA-*	*A+*	*A*	*A-*	*BBB+*	*BBB*	*BBB-*	*United States Treasury*	*Not rated*	*Total*
Bonds	2 512	2 985	2 149	7 574	2 362	1 688	3 174	6 962	864	30 569	180 310	241 149
Total	**2 512**	**2 985**	**2 149**	**7 574**	**2 362**	**1 688**	**3 174**	**6 962**	**864**	**30 569**	**180 310**	**241 149**

Note: The externally managed investments are governed by the after-service health insurance investment guidelines. Not rated bonds include corporate bond funds and exchange traded funds of fixed-income investments in the amount of $169.915 million (2018: $156.575 million), with the remaining balance of $33.240 million (2018: $23.735 million), comprising government bonds.

31.17. The investment management function is centralized at UNDP headquarters, and country offices are not permitted in normal circumstances to engage in investing unless they receive exceptional approval from the UNDP Treasury Division when conditions warrant investing locally within specified parameters.

31.18. The credit risk exposure of UNDP on outstanding non-exchange receivables is mitigated by the Financial Regulations and Rules of UNDP, which require that, for non-regular resources, expenses be incurred after receipt of funds from donors. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk assessment criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities (as shown in the table below) that do not have significant credit risk.

Receivables: non-exchange transactions by entity type

(Thousands of United States dollars)

	31 December 2019	*31 December 2018 (restated)*
Government entities	1 504 526	1 429 939
Non-governmental entities	2 546 922	2 992 685
Total receivables, non-exchange transactions	**4 051 448**	**4 422 624**

Note: Non-governmental entities mainly comprise supranational and international entities.

31.19. The top three donors accounted for 44 per cent (2018: 48 per cent) of the outstanding non-exchange receivable balances and comprise three multilateral donors as shown in the table below. Based on historical payment patterns, UNDP believes that all non-exchange receivable balances are collectable.

Non-exchange receivables: top three outstanding balances

(Thousands of United States dollars)

No.	*Balance*	*Percentage of total*	*Entity type*
1	857 911	21	Multilateral agency
2	536 051	13	Multilateral agency
3	420 795	10	Multilateral agency
Subtotal	**1 814 757**	**44**	
Other	2 236 691	56	
Total	**4 051 448**	**100**	

Analysis of UNDP liquidity risk

31.20. Liquidity risk is the risk that UNDP might be unable to meet its obligations, including accounts payable, accrued liabilities, refunds to donors and other liabilities, as they fall due.

31.21. Investments are made with due consideration of the Programme's cash requirements for operating purposes based on cash flow forecasting of future funding needs. As shown in the table below, UNDP maintains a portion of its cash and investments in cash and cash equivalents and current investments, which is sufficient to cover its commitments as and when they fall due.

Liquidity analysis

(Thousands of United States dollars)

	31 December 2019	*Percentage*	*31 December 2018*	*Percentage*
Cash balances	243 094	3	432 104	7
Cash equivalents	283 736	4	304 901	5
Total cash and cash equivalents	**526 830**	**7**	**737 005**	**12**
Current investments	3 647 499	52	3 028 641	46
Non-current investments	2 887 018	41	2 752 927	42
Total current and non-current investments	**6 534 517**	**93**	**5 781 568**	**88**
Total investments, cash and cash equivalents	**7 061 347**	**100**	**6 518 573**	**100**

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Money market funds	64 244	261 036
Money market instruments	219 492	1 528
Bonds	–	42 337
Cash equivalents	**283 736**	**304 901**

31.22. UNDP further mitigates its liquidity risk through its Financial Regulations and Rules, which prohibit offices from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds are received and budgets are updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of receipted funds has to comply with UNDP risk management guidelines.

Analysis of market risk to UNDP

31.23. Market risk is the risk that UNDP is exposed to potential financial losses due to unfavourable movements in market prices of financial instruments including movements in interest rates, exchange rates and equity price risk.

31.24. Interest rate risk arises from the effects of market interest rates fluctuations on:

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

31.25. A portion (11 per cent) of the UNDP investment portfolio is classified as available-for-sale investments that are carried at fair value through net assets/equity, which expose UNDP to interest rate risk. However, a significant portion (89 per cent) of the portfolio is classified as held to maturity, which is not marked to market and therefore net assets and surplus or deficit reported in the Programme's financial statements are not significantly affected by changes in interest rates.

Classification of investments

(Thousands of United States dollars)

	Book value basis	*31 December 2019*	*31 December 2018*
Held-to-maturity investments	Amortized cost	5 793 868	5 172 460
Available-for-sale investments	Fair value	740 649	609 108
Total investments		**6 534 517**	**5 781 568**

31.26. In the held-to-maturity portfolio, UNDP invests in United States dollar-denominated certificates of deposits, commercial paper, treasury bills and non-callable and callable bonds, including floating rate debt which periodically resets to the prevailing market rate. As at 31 December 2019, UNDP had $800.467 million (2018: $371.912 million) in outstanding floating rate fixed-income securities, with maturities ranging from one month to three years.

31.27. The table below presents the interest sensitivity of UNDP investments based on the duration of its securities. The sensitivity is limited to the fixed-income investments classified as available for sale, which are marked to market through net assets/equity, and changes in interest rates would therefore have no impact on the UNDP surplus and deficit.

Available-for-sale fixed-income investments interest rate sensitivity analysis

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2019	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
270 358	100 basis point increase	(4 808)	–
270 358	50 basis point decrease	2 404	–

Note: Excludes equity investments.

Foreign exchange risk

31.28. The Programme's transactions are primarily denominated in United States dollars but UNDP is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that have to be settled in foreign currency.

31.29. UNDP receives donor contributions primarily in United States dollars and also in a number of major currencies, including the euro, the pound sterling, the Norwegian krone, the Canadian dollar, the Danish krone, the Swiss franc, the Swedish krona and the Australian dollar. In addition, programme country Governments make contributions mainly in their national currencies to programmes in their countries. On an ongoing basis, UNDP evaluates its need to hold cash and other financial assets in foreign currencies against its foreign currency obligations.

31.30. UNDP actively manages net foreign exchange exposure in eight major currencies against the United States dollar using foreign exchange forward and option contracts.

(a) Cash and cash equivalents, investments and receivables: non-exchange

(Thousands of United States dollars)

	United States dollar	*Euro*	*Norwegian krone*	*Other*	*31 December 2019 total*	*31 December 2018 total (restated)*
Cash and cash equivalents	395 199	31 759	1 116	98 756	526 830	737 005
Investments	6 255 237	162 214	1 844	115 222	6 534 517	5 781 568
Receivables, non-exchange	2 806 435	488 865	193 945	562 203	4 051 448	4 422 624
Total cash and cash equivalents, investments and receivables: non-exchange	**9 456 871**	**682 838**	**196 905**	**776 181**	**11 112 795**	**10 941 197**

(b) Foreign exchange sensitivity analysis

(Thousands of United States dollars)

	Currency depreciation		*Currency appreciation*	
	Surplus/(deficit)	*Net assets*	*Surplus/(deficit)*	*Net assets*
Euro (10 per cent change)	(65 570)	–	71 601	–
Norwegian krone (10 per cent change)	(42 367)	–	35 073	–

Note: The above figures represent the sensitivity of cash and cash equivalents, investments and receivables: non-exchange to changes in foreign exchange rates.

31.31. At 31 December 2019, UNDP held investments and cash and cash equivalents balances in several non-United States dollar currencies. Cash and cash equivalents were held in non-United States dollar currencies primarily to support local operating activities in programme countries, where a large portion of payments are made in local currency. UNDP maintains a minimum level of assets in local currencies, and, whenever possible, converts excess local currency balances in bank accounts into United States dollars.

31.32. The Programme's financial assets and financial liabilities are primarily denominated in United States dollars, thereby reducing its overall foreign currency exposure. Financial liabilities, including funds received in advance and funds held on behalf of donors, are carried in the UNDP ledger in United States dollars, although some portion may be refunded in local currency at the donor's request.

Equity price risk

31.33. In 2019, UNDP held equity investments in its externally managed portfolio of after-service health insurance funds. The table below presents the price sensitivity of equity investments to a 5 per cent change in equity prices. The sensitivity pertains to equity investments classified as available for sale, which are marked to market through net assets/equity, and changes in prices would therefore have no impact on UNDP surplus and deficit.

Price sensitivity of equity investments

(Thousands of United States dollars)

		Impact on the financial statements	
31 December 2019	*Sensitivity variation*	*Net assets*	*Surplus and deficit*
470 291	5 per cent increase	23 515	–
470 291	5 per cent decrease	(23 515)	–

31.34. For information on the potential impact of COVID-19 on financial instruments and risk management, see note 35, Events after reporting date.

Note 32
Related parties

Key management personnel

32.1. The leadership structure of UNDP consists of an Executive Group of 13 members. The Executive Group is responsible for the strategic direction and operational management of UNDP and is entrusted with significant authority to execute the UNDP mandate. Collectively the Executive Group comprises four tiers: an Under-Secretary-General and Administrator (Administrator); an Under-Secretary-General (Associate Administrator); nine Assistant Secretaries-General (Assistant Administrators); a Special Adviser to the Administrator/Senior Adviser on Business Model and Processes and the Chief of Staff and Director, Office of the Administrator (ex officio).

Remuneration

(Thousands of United States dollars)

Tier	*Number of positions*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*After-service health insurance, repatriation, death benefit and annual leave liability*
Key management personnel	13	2 807	542	3 349	4 024
Close family members of key management personnel	–	–	–	–	–
Total	**13**	**2 807**	**542**	**3 349**	**4 024**

32.2. The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable in accordance with the Staff Regulations and Rules of the United Nations.

Loans

32.3. Staff advances are available to UNDP staff, including key management personnel, for specific purposes as provided for in the Staff Regulations of the United Nations. As at 31 December 2019, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNDP staff.

United Nations system

32.4. UNDP is engaged in United Nations system initiatives such as joint funding arrangements (multi-donor trust funds and joint programmes) and common services arrangements. Within joint funding mechanisms, United Nations entities work together to implement activities and achieve results. Each of the participating United Nations entities assumes its share of responsibilities related to planning, implementing, monitoring and evaluating those activities.

32.5. UNDP is a co-sponsoring organization of the Joint United Nations Programme on HIV/AIDS (UNAIDS), an innovative joint effort of the United Nations system to respond in a coordinated manner on the issue of HIV/AIDS. UNDP participates in setting the financial and operating policies of the Programme Coordinating Board of UNAIDS, which is headquartered in Geneva.

Note 33
Commitments and contingencies

Open commitments

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Property, plant and equipment	9 679	5 843
Goods	402 757	486 439
Services	294 269	289 139
Total open commitments	**706 705**	**781 421**

33.1. As at 31 December 2019, commitments of UNDP for the acquisition of various goods and services contracted but not received amounted to $706.705 million.

Lease commitments by term

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Obligations for property leases		
Less than 1 year	68 573	65 393
1–5 years	79 691	68 848
Beyond 5 years	18 944	16 766
Total property lease obligations	**167 208**	**151 007**

(Thousands of United States dollars)

	31 December 2019	*31 December 2018*
Obligations for equipment leases		
Less than 1 year	112	19
1–5 years	266	44
Beyond 5 years	90	90
Total equipment lease obligations	**468**	**153**

33.2. The above tables represent future lease payment obligations during the contractual term of the leases. Typically, at the inception, the duration of contractual leases for premises entered into by UNDP is between 1 and 5 years. The lease for the UNDP headquarters premises comes to an end on 31 December 2020. At the time that the present financial statements were authorized, the renewal of the lease was currently being negotiated. The future lease payment obligations therefore do not include the estimated lease obligations of $60 million over a period of 10 years.

Contingent assets

33.3. At 31 December 2019, UNDP had a contingent asset for a compound in South Sudan over which there is an ownership dispute. Owing to that dispute, UNDP has not recognized the land and buildings in the compound as property, plant and equipment. The fair value of the land and buildings was last assessed by independent valuators in 2011 at $8.9 million.

Contingent liabilities

33.4. In the normal course of operations, UNDP is subject to claims that have been categorized as: (a) corporate and commercial claims; (b) administrative law claims; and (c) other claims.

33.5. As at 31 December 2019, corporate and commercial and administrative law claims totalled $4.119 million. No impairment or allowance for loss has been recorded as the occurrence, amount and timing of outflow is not certain. UNDP does not expect the ultimate resolution of any of the proceedings to which it is party to have a significant adverse effect on its financial position, performance or cash flows.

33.6. UNDP is a partner organization with the International Computing Centre, which is based in Geneva. The memorandum of understanding between the two organizations provides for financial responsibility of both partner organizations should any third-party claim or liability arise within certain conditions. As at 31 December 2019, there were no such claims.

Note 34
Disaster Mitigation Fund

(Thousands of United States dollars)

	31 December 2019	*31 December 2018 (restated)*
Opening balance	**1 043**	**246**
Change in revenue recognition policy (note 5)	–	1 069
Opening balance, restated	**1 043**	**1 315**
Total revenue	–	1 006
Total expenses	(1 032)	(1 278)
Closing balance/(deficit)	**11**	**1 043**

34.1. The Disaster Mitigation Fund is classified under special activities and is predominantly funded from assessed contributions from the regular budget of the United Nations Secretariat to support the management and administration of operational activities relating to capacity-building for disaster mitigation. Owing to the change in the revenue recognition policy, the 2018 opening balance has been restated (see note 5, Change in accounting policy and reclassification of comparatives).

Note 35
Events after reporting date

35.1. On 30 January 2020, the Director-General of the World Health Organization declared the outbreak of the coronavirus disease (COVID-19) a public health emergency of international concern. On 11 March 2020, he revised the characterization of the COVID-19 outbreak to pandemic.

35.2. The impact of the COVID-19 outbreak is an event which occurred after the reporting date of 31 December 2019. While there is no impact of COVID-19 on the Programme’s financial assets at the reporting date or at the date on which the financial statements were authorized for issue, the extent of any future financial impact will depend on future developments, including (a) the duration and spread of the outbreak; (b) restrictions and advisories; (c) the effects on the financial markets and (d) the effects on the global economy, all of which are highly uncertain and cannot be reliably predicted.

35.3. Despite the recent financial performance of the markets due to COVID-19, the principal of the Programme’s working capital portfolio remains safe, in line with its investment policy on working capital, as it holds high-quality assets aimed at preserving principal. Investment income on reinvested funds could be impacted as a result of lower interest rates in 2020. Any changes in the value of the after-service health insurance funds portfolio (managed by an external manger), which is classified as available for sale and has a different investment policy, has no impact on surplus and deficit for 2019, however the value of the after-service health insurance funds portfolio is impacted due to market volatility and the nature of investments in the portfolio. The investment income may also be impacted. This paragraph should be read in conjunction with note 31, Financial instruments and risk management.

35.4. The impact of COVID-19 on funding partners in meeting their future voluntary contributions is not visible yet. The pandemic has impacted the operations of programme Governments and implementing partners, which may have an effect on the organization’s delivery, revenue linked to delivery and the achievement of planned development results in 2020. It is closely monitoring the situation as events unfold and is implementing mitigation measures, including the provision of additional support to country offices and partners aimed at facilitating continued operations.

35.5. Despite the challenges, COVID-19 presents opportunities to UNDP, given the organization’s vast experience in assisting programme countries in recovery efforts. The organization is working closely with programme governments to re-evaluate national priorities and mobilize funding to assist in recovery efforts. This is expected to become a key area of focus for the organization in 2020.

35.6. There have been no other events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 36
Additional disclosure

36.1
Total expenses by cost classification

(Thousands of United States dollars)

	2019
Development	
Programme	4 323 230
Development effectiveness	176 135
United Nations development coordination	40 273
Management	392 032
Special purpose	60 544
Other	187 904
Elimination[a]	(256 445)
Total expenses	**4 923 673**

[a] This adjustment is required to remove the effect of internal UNDP cost recovery.

36.2
Programme expenses by executing entity/implementing partner and responsible party

The executing entity/implementing partner is the entity that has management responsibility and accountability for project implementation and results. The executing entity/implementing partner may contract with a responsible party to implement specific outputs.

36.2 (a)
Programme expenses by executing entity/implementing partner

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	126 771	1 063 355	508 145	909	1 699 180
International non-governmental organizations	216	30 850	12 053	–	43 119
National non-governmental organizations	750	4 513	7 203	136	12 602
Food and Agriculture Organization of the United Nations	–	–	(86)	–	(86)
International Labour Organization	–	–	–	777	777
International Maritime Organization	–	–	826	–	826
United Nations Human Settlements Programme	7	–	–	–	7
United Nations Educational, Scientific and Cultural Organization	–	–	1 538	–	1 538
United Nations Industrial Development Organization	–	–	303	–	303
United Nations Institute for Training and Research	–	–	196	–	196
United Nations Office for Project Services	204	4 961	64 005	486	69 656
United Nations Volunteers Programme	(1)	–	490	22 580	23 069

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
World Health Organization	–	889	–	–	889
United Nations Development Programme	243 168	2 079 403	128 498	20 085	2 471 154
Total programme expenses	**371 115**	**3 183 971**	**723 171**	**44 973**	**4 323 230**

36.2 (b)
Programme expenses by responsible party

36.2.2. "Responsible party" refers to the party responsible for contractual implementation of specific outputs.

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Governments	88 981	839 800	398 949	810	1 328 540
International non-governmental organizations	5 357	173 477	14 033	119	192 986
National non-governmental organizations	6 596	138 214	15 933	141	160 884
Department of Economic and Social Affairs	17	–	–	–	17
Department of Peace Operations	–	41	–	–	41
Department of Political and Peacebuilding Affairs	–	306	–	–	306
Economic Commission for Europe	–	–	50	–	50
Food and Agriculture Organization of the United Nations	–	2 228	3 676	–	5 904
International Fund for Agricultural Development	–	–	300	–	300
International Labour Organization	32	954	–	173	1 159
International Maritime Organization	–	–	826	–	826
International Organization for Migration	101	1 985	129	–	2 215
International Trade Centre	–	220	–	–	220
Joint United Nations Programme on HIV/AIDS (UNAIDS)	18	278	–	–	296
Office of the United Nations High Commissioner for Refugees	–	251	–	–	251
Pan American Health Organization	–	534	–	–	534
United Nations Capital Development Fund	1 943	1 309	350	–	3 602
United Nations Children's Fund	870	2 477	31	–	3 378
United Nations Conference on Trade and Development	–	14	–	–	14
United Nations Educational, Scientific and Cultural Organization	–	380	1 715	–	2 095
United Nations Entity for Gender Equality and the Empowerment of Women	570	5 113	635	–	6 318
United Nations Environment Programme	–	577	698	–	1 275
United Nations Human Settlements Programme	1 041	2 841	–	–	3 882
United Nations Industrial Development Organization	–	293	303	–	596
United Nations Institute for Training and Research	–	582	274	–	856
United Nations Office for Disaster Risk Reduction	–	94	–	–	94

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
United Nations Office for Project Services	88	4 948	64 096	486	69 618
United Nations Office for the Coordination of Humanitarian Affairs	–	32	–	–	32
United Nations Office on Drugs and Crime	–	1 649	–	–	1 649
United Nations Population Fund	529	2 358	–	–	2 887
United Nations Relief and Works Agency for Palestine Refugees in the Near East	–	23	–	–	23
United Nations System Staff College	–	107	–	–	107
United Nations University	30	–	24	–	54
United Nations Volunteers Programme	(1)	–	490	23 079	23 568
World Food Programme	–	1 548	–	–	1 548
World Health Organization	17	6 692	638	–	7 347
World Tourism Organization	17	52	–	–	69
United Nations Development Programme	264 909	1 994 594	220 021	20 165	2 499 689
Total programme expenses	**371 115**	**3 183 971**	**723 171**	**44 973**	**4 323 230**

36.3
Programme expenses by geographical region

(Thousands of United States dollars)

	Africa	*Arab States*	*Asia and the Pacific*	*Europe and Commonwealth of Independent States*	*Latin America and the Caribbean*	*Global and others*	*Total*
Expenses							
Contractual services	325 988	305 651	591 187	172 145	297 197	114 791	1 806 959
Staff costs	87 917	52 685	47 222	13 276	23 062	69 214	293 376
Supplies and consumables used	327 569	287 982	79 201	190 010	108 627	3 671	997 060
General operating expenses	290 297	197 058	180 944	76 797	134 038	69 089	948 223
Grants and other transfers	30 547	45 473	17 755	16 999	61 095	66 195	238 064
Other expenses	6 404	12 522	2 811	1 562	7 849	2 829	33 977
Depreciation and amortization	1 986	737	1 581	575	407	285	5 571
Total	**1 070 708**	**902 108**	**920 701**	**471 364**	**632 275**	**326 074**	**4 323 230**

36.4
Reimbursable support services and miscellaneous activities

36.4 (a)
Statement of financial position

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Assets								
Current assets								
Cash and cash equivalents	49 629	2 917	7 368	3 477	2 516	1 055	905	67 867
Investments	368 659	21 668	54 730	25 829	18 646	7 839	6 730	504 101
Receivables, non-exchange transactions	9 869	14 537	6 128	3 987	890	–	–	35 411
Receivables, other	287	–	184	24	–	39	–	534
Advances issued	447	76	81	1 344	–	–	–	1 948
Loans to Governments	–	–	–	–	–	507	–	507
Inventories	805	–	–	2	–	–	–	807
Other current assets	–	–	–	1	–	3	–	4
Total current assets	**429 696**	**39 198**	**68 491**	**34 664**	**22 052**	**9 443**	**7 635**	**611 179**
Non-current assets								
Investments	290 674	17 084	43 152	20 365	14 702	6 181	5 306	397 464
Loans to Governments	–	–	–	–	–	3 518	–	3 518
Receivables, other	10 451	–	2 450	2 065	–	–	–	14 966
Property, plant and equipment	67 165	1	976	5 278	2	9 164	–	82 586
Intangible assets	5 600	–	1 265	–	–	–	–	6 865
Other non-current assets	20	–	–	1	–	–	–	21
Total non-current assets	**373 910**	**17 085**	**47 843**	**27 709**	**14 704**	**18 863**	**5 306**	**505 420**
Total assets	**803 606**	**56 283**	**116 334**	**62 373**	**36 756**	**28 306**	**12 941**	**1 116 599**

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	5 065	545	10 875	3 295	13 086	–	5	32 871
Advances payable	140	7 655	173	374	18	–	–	8 360
Funds received in advance and deferred revenue	9 847	–	–	1 025	–	3	–	10 875
Funds held on behalf of donors	–	–	4	101	–	–	–	105

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Government cash counterparts contributions*	*Total*
Employee benefits	13 460	–	2	–	–	–	–	13 462
Other current liabilities	169	–	–	58	387	28	–	642
Total current liabilities	**28 681**	**8 200**	**11 054**	**4 853**	**13 491**	**31**	**5**	**66 315**
Non-current liabilities								
Funds received in advance and deferred revenue	11 290	–	–	–	–	–	–	**11 290**
Employee benefits	350 893	–	–	–	–	–	–	**350 893**
Total non-current liabilities	**362 183**	–	–	–	–	–	–	**362 183**
Total liabilities	**390 864**	**8 200**	**11 054**	**4 853**	**13 491**	**31**	**5**	**428 498**
Net assets/equity								
Reserves	115 001	–	–	–	–	25 000	–	140 001
Accumulated surpluses	297 741	48 083	105 280	57 520	23 265	3 275	12 936	548 100
Total net assets/equity	**412 742**	**48 083**	**105 280**	**57 520**	**23 265**	**28 275**	**12 936**	**688 101**
Total liabilities and net assets/equity	**803 606**	**56 283**	**116 334**	**62 373**	**36 756**	**28 306**	**12 941**	**1 116 599**

36.4 (b)
Statement of financial performance

(Thousands of United States dollars)

	Reimbursable support services	*Management service agreements*	*United Nations Volunteers programme*	*Special activities*	*Junior Professional Officers programme*	*Reserve for field accommodation*	*Total*
Revenue							
Voluntary contributions	26 907	2 156	33 617	(4 972)	21 534	–	79 242
Revenue, exchange transactions	79 863	–	3 818	56 963	–	222	140 866
Investment revenue	11 453	585	1 832	158	–	–	14 028
Other revenue	268 967	–	5 191	4 861	–	15	279 034
Total revenue	**387 190**	**2 741**	**44 458**	**57 010**	**21 534**	**237**	**513 170**
Expenses							
Contractual services	46 270	1 230	15 145	4 899	2	3	67 549
Staff costs	201 764	69	3 291	37 413	15 343	–	257 880
Supplies and consumables used	20 477	2 537	3 760	3 682	1	2	30 459
General operating expenses	96 356	645	8 991	22 674	3 738	2	132 406
Grants and other transfers	987	–	52	449	–	224	1 712
Other expenses	2 378	1 691	48	152	7	–	4 276
Depreciation and amortization	10 015	1	349	515	–	287	11 167
Total expenses	**378 247**	**6 173**	**31 636**	**69 784**	**19 091**	**518**	**505 449**
Surplus/(deficit) for the year	**8 943**	**(3 432)**	**12 822**	**(12 774)**	**2 443**	**(281)**	**7 721**

36.5
Cost-sharing: government, third-party and South-South cooperation cost-sharing: statement of financial performance

(Thousands of United States dollars)

	Third-party cost-sharing	*Government cost-sharing*	*South-South cooperation*	*Total*
Revenue				
Voluntary contributions	2 456 821	790 688	12 955	3 260 464
Revenue, exchange transactions	364	376	–	740
Investment revenue	16 438	57 513	–	73 951
Other revenue	3 166	2 062	–	5 228
Total revenue	**2 476 789**	**850 639**	**12 955**	**3 340 383**
Expenses				
Contractual services	859 112	344 916	1 767	1 205 795
Staff costs	159 654	14 259	278	174 191
Supplies and consumables used	622 656	279 440	596	902 692
General operating expenses	557 512	146 252	745	704 509
Grants and other transfers	126 732	45 995	48	172 775
Other expenses	18 785	7 011	9	25 805
Depreciation and amortization	2 668	323	1	2 992
Total expenses	**2 347 119**	**838 196**	**3 444**	**3 188 759**
Surplus/(deficit) for the year	**129 670**	**12 443**	**9 511**	**151 624**

36.6 (a)
Top four trust funds: statement of financial position

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Assets				
Current assets				
Cash and cash equivalents	30 857	7 015	5 699	1 737
Investments	229 009	52 112	42 337	12 907
Receivables, non-exchange transactions	298 982	700	11 260	999
Receivables, other	61	–	–	–
Advances issued	25 683	–	54	1 348
Inventories	10	–	–	–
Total current assets	**584 602**	**59 827**	**59 350**	**16 991**
Non-current assets				
Investments	180 565	41 088	33 381	10 177
Receivables, non-exchange transactions	588 406	–	–	220
Property, plant and equipment	2 508	1 446	26	8
Intangible assets	5	–	–	–

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Other non-current assets	17	–	–	–
Total non-current assets	**771 501**	**42 534**	**33 407**	**10 405**
Total assets	**1 356 103**	**102 361**	**92 757**	**27 396**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	8 518	110	1 964	243
Advances payable	5 521	25	2	649
Funds held on behalf of donors	79	–	–	–
Total current liabilities	**14 118**	**135**	**1 966**	**892**
Non-current liabilities	–	–	–	–
Total non-current liabilities	–	–	–	–
Total liabilities	**14 118**	**135**	**1 966**	**892**
Net assets/equity				
Accumulated surpluses	1 341 985	102 226	90 791	26 504
Total net assets/equity	**1 341 985**	**102 226**	**90 791**	**26 504**
Total liabilities and net assets/equity	**1 356 103**	**102 361**	**92 757**	**27 396**

36.6 (b)
Top four trust funds: statement of financial performance

(Thousands of United States dollars)

	Global Environment Facility	*Law and order trust fund for Afghanistan*	*Multilateral Fund for the Implementation of the Montreal Protocol*	*United Nations Fund for South-South Cooperation*
Revenue				
Voluntary contributions	176 528	112 169	10 271	10 598
Investment revenue	9 566	1 980	2 201	557
Other revenue	1 296	–	670	25
Total revenue	**187 390**	**114 149**	**13 142**	**11 180**
Expenses				
Contractual services	223 321	172 636	24 513	3 059
Staff costs	23 611	1 582	2 366	777
Supplies and consumables used	39 981	1 397	1 405	1 079
General operating expenses	101 907	8 892	5 605	3 178
Grants and other transfers	46 422	–	2	234
Other expenses	3 575	–	65	95
Depreciation and amortization	338	257	7	1
Total expenses	**439 155**	**184 764**	**33 963**	**8 423**
Surplus/(deficit) for the year	**(251 765)**	**(70 615)**	**(20 821)**	**2 757**

36.7 (a)
Funding windows: statement of financial position

36.7.1. The funding windows were established in 2016 as the Programme's pooled thematic funds, with four windows: (1) sustainable development and poverty eradication; (2) climate change and disaster risk reduction; (3) governance for inclusive and peaceful societies; and (4) emergency development response to crisis and recovery. In 2019, UNDP management approved the redesign of the funding windows to align more directly to its core mandate and the strategic plan (2018–21), as well as donor priorities. Four new windows were created: (1) poverty and inequality; (2) governance, peacebuilding, crisis and resilience; (3) nature, climate and energy; and (4) gender equality and women's empowerment. The 2019 UNDP financial statements present each funding window separately, in view of their distinct nature, including each of the original four. Of the four newly created funding windows in 2019, only two had transactions in 2019 (governance, peacebuilding, crisis and resilience; nature, climate and energy).

Funding windows: statement of financial position

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*
Assets						
Current assets						
Cash and cash equivalents	1 501	2 285	2 484	834	2 398	3 202
Investments	11 150	16 972	18 340	6 197	17 812	23 789
Receivables, non-exchange transactions	–	–	–	–	18 259	–
Receivables, exchange transactions	–	–	2	5	–	–
Advances issued	15	248	71	188	–	–
Inventories	3	–	–	–	–	–
Total current assets	**12 669**	**19 505**	**20 897**	**7 224**	**38 469**	**26 991**
Non-current assets						
Investments	8 791	13 382	14 460	4 886	14 044	18 756
Receivables, non-exchange transactions	–	–	–	–	2 041	–
Property, plant and equipment	49	248	4	78	–	–
Total non-current assets	**8 840**	**13 630**	**14 464**	**4 964**	**16 085**	**18 756**
Total assets	**21 509**	**33 135**	**35 361**	**12 188**	**54 554**	**45 747**
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	136	167	13	293	–	–
Advances payable	–	–	154	180	–	–
Total current liabilities	**136**	**167**	**292**	**473**	**–**	**–**
Total liabilities	**136**	**167**	**292**	**473**	**–**	**–**

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*
Net assets/equity						
Accumulated surpluses	21 373	32 968	35 069	11 715	54 554	45 747
Total net assets/equity	**21 373**	**32 968**	**35 069**	**11 715**	**54 554**	**45 747**
Total liabilities and net assets/equity	**21 509**	**33 135**	**35 361**	**12 188**	**54 554**	**45 747**

36.7 (b)
Funding windows: statement of financial performance

(Thousands of United States dollars)

	Sustainable development and poverty eradication	*Governance for peaceful and inclusive societies*	*Climate change and disaster risk reduction*	*Emergency development response to crisis and recovery*	*Governance, peacebuilding, crisis and resilience*	*Nature, climate and energy*
Revenue						
Voluntary contributions	1 590	11 570	1 640	7 243	54 554	45 747
Investment revenue	–	19	–	–	–	–
Other revenue	–	(1)	–	–	–	–
Total revenue	**1 590**	**11 588**	**1 640**	**7 243**	**54 554**	**45 747**
Expenses						
Contractual services	3 536	7 746	3 587	4 417	–	–
Staff costs	510	4 485	2 173	477	–	–
Supplies and consumables used	64	1 886	138	3 085	–	–
General operating expenses	1 959	5 553	3 208	3 134	–	–
Grants and other transfers	49	958	56	1 260	–	–
Other expenses	43	89	45	91	–	–
Depreciation and amortization	4	23	1	14	–	–
Total expenses	**6 165**	**20 740**	**9 208**	**12 478**	–	–
Surplus/(deficit) for the year	**(4 575)**	**(9 152)**	**(7 568)**	**(5 235)**	**54 554**	**45 747**

36.8
All trust funds established by the United Nations Development Programme: schedule of financial performance

(Thousands of United States dollars)

Name of the trust fund	*Net assets 31 December 2018 (restated)*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2019*
Fund manager: UNDP Africa				
African Peer Review Mechanism of the New Partnership for Africa's Development	18	–	–	18
Belgium: trust fund in support of the elections project in the Democratic Republic of the Congo	2	–	–	2
EEC: support for the national mine action strategy: support for the launch of the Mine Action Centre in Casamance	(10)	–	–	(10)
EEC: support for the legislative elections in 2007 (phase 1)	(31)	(36)	–	(67)
EEC: Programme in support of good governance in Chad	1	–	–	1
EEC: Support for the implementation of the Integrated Drylands Development Programme	3	–	(1)	2
Justice and security trust fund for Liberia	212	5	7	224
UNDP trust fund for Namibia	(9)	9	–	–
UNDP trust fund for the Mozambique mine clearance programme	270	6	–	276
UNDP Trust Fund for the United Nations Educational and Training Programme for Southern Africa	(34)	46	–	12
UNDP: support for the electoral process in Guinea	1	(3)	–	(2)
Total UNDP Africa	**423**	**27**	**6**	**456**
Fund manager: UNDP Arab States				
Arab Human Development Report	7	(6)	–	1
EEC/Sudan: post-conflict community-based recovery and rehabilitation programme	27	–	–	27
Information and communication technology trust fund for Egypt	784	50	(344)	490
UNDP: trust fund for the Programme of Assistance to the Palestinian People	8 185	(379)	(2 409)	5 397
EEC trust fund for local government and country recovery in South Sudan	–	–	28	28
Total UNDP Arab States	**9 003**	**(335)**	**(2 725)**	**5 943**
Fund manager: UNDP Asia and the Pacific				
Law and order trust fund for Afghanistan	172 841	114 149	(184 764)	102 226
Trust fund in support of the full implementation of the Convention on Cluster Munitions in the Lao People's Democratic Republic within the framework of the Vientiane Declaration on Aid Effectiveness	260	6	–	266
UNDP-Republic of Korea trust fund	547	–	(413)	134
UNDP-Republic of Korea trust fund in support of the Tumen River Area Development Programme	3 466	31	(398)	3 099
Total UNDP Asia and the Pacific	**177 114**	**114 186**	**(185 575)**	**105 725**
Fund manager: UNDP Bureau for Policy and Programme Support				
Forest Carbon Partnership Facility	19 379	3 957	(10 824)	12 512
Multilateral Fund for the Implementation of the Montreal Protocol	111 612	13 142	(33 963)	90 791
Global Environment Facility trust fund	1 593 750	187 390	(439 155)	1 341 985

Name of the trust fund	*Net assets 31 December 2018 (restated)*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2019*
Trust fund to combat desertification and drought	195	125	(58)	262
UNDP Energy Account	235	3	(139)	99
UNDP: thematic trust fund for crisis prevention and recovery	9 465	(136)	(625)	8 704
UNDP: thematic trust fund for democratic governance	1 604	11	(54)	1 561
UNDP: thematic trust fund on energy for sustainable development	(129)	128	–	(1)
UNDP: thematic trust fund on environment	24 744	3	(10 132)	14 615
UNDP thematic trust fund on gender	50	–	(58)	(8)
UNDP: thematic trust fund on information and communications technology for development	122	–	–	122
UNDP: thematic trust fund on poverty reduction for sustainable development	191	–	5	196
UNDP: thematic trust fund on HIV/AIDS	81	1	–	82
UNDP: trust fund for crisis, post-conflict and recovery situations	391	–	–	391
UNDP: trust fund for public-private partnerships for the urban environment	25	1	–	26
UNDP: trust fund for sustainable social development, peace and support to countries in special situations	2 287	55	(93)	2 249
Total UNDP Bureau for Policy and Programme Support	**1 764 002**	**204 680**	**(495 096)**	**1 473 586**
Fund manager: UNDP Bureau of External Relations and Advocacy				
UNDP-Republic of Korea: Sustainable Development Goals trust fund	878	2 033	(1 701)	1 210
UNDP trust fund for international partnership	326	32	(102)	256
UNDP trust fund for the private sector in development	1 130	19	(609)	540
UNDP-Italy: trust fund for anti-poverty partnership initiatives	9	(9)	–	–
UNDP-Republic of Korea: Millennium Development Goals trust fund for programming fund-based cooperation	645	18	–	663
Total UNDP Bureau of External Relations and Advocacy	**2 988**	**2 093**	**(2 412)**	**2 669**
Fund manager: UNDP Europe and the Commonwealth of Independent States				
UNDP-Russian Federation: trust fund for development	42 267	741	(11 799)	31 209
UNDP trust fund for urgent human needs in Uzbekistan	1	(1)	–	–
EEC trust fund for support to coordination and monitoring of mine action programme in Albania for the fulfilment of the AP mine ban treaty obligations	–	(14)	14	–
EEC trust fund for integrated support for decentralization in Albania	–	–	2	2
Total UNDP Europe and the Commonwealth of Independent States	**42 268**	**726**	**(11 783)**	**31 211**
Fund manager: UNDP Geneva				
UNDP trust fund for innovative partnerships with national Governments, local authorities, the private sector, non-governmental organizations, academic institutions and foundations	5 372	535	(1 901)	4 006
Total UNDP Geneva	**5 372**	**535**	**(1 901)**	**4 006**

Name of the trust fund	*Net assets 31 December 2018 (restated)*	*Revenue/ transfer*	*(Expenses)*	*Closing net assets 31 December 2019*
Fund manager: UNDP Latin America and the Caribbean				
International Commission against Impunity in Guatemala	9 504	(52)	(9 402)	50
UNDP-Spain: trust fund for integrated and inclusive development	682	11	(412)	281
Total UNDP Latin America and the Caribbean	**10 186**	**(41)**	**(9 814)**	**331**
Fund manager: UNDP Technical Cooperation among Developing Countries				
India, Brazil and South Africa Facility for Poverty and Hunger Alleviation	9 676	2 221	(3 039)	8 858
Pérez-Guerrero Trust Fund for South-South Cooperation	8 295	510	(510)	8 295
United Nations Fund for South-South Cooperation	23 747	11 180	(8 423)	26 504
Total UNDP Technical Cooperation among Developing Countries	**41 718**	**13 911**	**(11 972)**	**43 657**
Fund manager: UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services				
Climate change and disaster risk reduction	42 637	1 640	(9 208)	35 069
Emergency development response to crisis and recovery	16 950	7 243	(12 478)	11 715
Governance for peaceful and inclusive societies	42 120	11 588	(20 740)	32 968
Governance, peacebuilding, crisis and resilience	–	54 554	–	54 554
Nature, climate and energy	–	45 747	–	45 747
Sustainable development and poverty eradication	25 948	1 590	(6 165)	21 373
Total UNDP Bureau for Policy and Programme Support and UNDP Bureau for Management Services	**127 655**	**122 362**	**(48 591)**	**201 426**
Total trust funds	**2 180 729**	**458 144**	**(769 863)**	**1 869 010**

Abbreviations: EEC, European Economic Commission; UNDP, United Nations Development Programme.

20-08961 (E) 170920