



**United Nations**

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

**Financial report and audited  
financial statements**

**for the year ended 31 December 2019**

**and**

**Report of the Board of Auditors**

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



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*Note*

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

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Letter of transmittal

**Letter dated 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 Relief and Works Agency for Palestine Refugees in the Near East 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 financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which comprise the statement of financial position (statement I) as at 31 December 2019 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNRWA 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 UNRWA, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Commissioner-General of UNRWA is responsible for the other information, which comprises the financial report for the year ended 31 December 2019 contained in chapter IV below, but does not include the financial statements and our auditor’s report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, 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 Commissioner-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation

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

In preparing the financial statements, the management is responsible for assessing the ability of UNRWA to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting, unless the management intends either to liquidate UNRWA 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 UNRWA.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement 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 these financial statements.

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

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

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

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

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

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

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

21 July 2020

## Chapter II

### Long-form report of the Board of Auditors

#### *Summary*

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to more than 5 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 28,435 area staff and 180 international staff at its five fields of operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

UNRWA is primarily funded through voluntary contributions. In 2019, total contributions were \$968.69 million, of which voluntary contributions were \$923.55 million (95.34 per cent) and total expenses amounted to \$1,173.13 million.

The Board has audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2019. The audit was carried out at UNRWA headquarters and its Jordan field office from 30 September to 25 October 2019, its Lebanon field office from 12 to 29 November 2019 and its Jordan field office again from 19 January to 12 February 2020. It should be noted that Jordan field office was included a second time because the offices of Gaza and the West Bank were inaccessible owing to security conditions.

After 12 April 2020, the Board conducted the audit remotely owing to the 2019 coronavirus disease (COVID-19) pandemic. This included the final audit of the financial statements.

#### **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; it has been discussed with UNRWA management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2019 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

#### **Opinion**

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2019 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December

2019, which were prepared in accordance with the International Financial Reporting Standards.

In addition, the Board performed an annual audit of the Microfinance Department and issued an unqualified opinion on its financial statements for the year ended 31 December 2019.

### **Overall conclusion**

UNRWA reported a deficit of \$172.36 million for 2019, which represents a decrease of 264 per cent when compared with a surplus of \$105.01 million reported for the previous year. The deficit is attributable mainly to a decrease in cash contributions from different donors.

The programme budget, which finances the core activities of the Agency, recorded a deficit of \$144.0 million in 2019 owing to the loss of a key donor and limited contributions. Contributing to the deficit were the unfunded end-of-service liabilities of \$843.6 million, with interest costs of \$28.1 million, service costs of \$43.4 million and past service costs of \$15.4 million. Emergency appeals recorded a deficit of \$50.8 million owing to reduced income in the current year; yet that deficit was managed by carried-forward balances from the previous year and by the deferral of payables at year end. The projects funds recorded a surplus of \$18.3 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a surplus of \$2.5 million.

The Board identified the following areas for improvement in the operations and financial management: treasury and cash management; human resources management; relief and social services; the Ethics Office; procurement and contract management; information and communications technology; and administrative support.

### **Key findings**

#### *Roles in the REACH system not properly set on United Nations exchange rate*

The Board found that staff who are not authorized by any instructions or delegation of authority were able to update the United Nations exchange rates in the REACH system.

#### *Lack of segregation of duties on personnel action approval process*

The Board performed a review of the personnel action approval process from January to August 2019, where a deficiency in the segregation of duties was identified, mainly because just eight users were responsible for changing, reviewing and approving the entire action process for 779 cases.

#### *Procurement made under expired long-term agreements*

During the Board's review, it was noted that, in 2019, purchase orders were issued under long-term agreement No. 4116000003, which was not in force at the time of issuing the purchase order. As an example, the Board identified purchase order No. 6019000266, dated 28 March 2019. None of the purchase orders in 2019 associated with the above-mentioned agreement were valid.

#### *Procurement purchase order issued after invoice*

During the review of the procurement process, the Board requested the Agency to provide a sample of purchase orders issued during 2019 for analysis. As an outcome of that review, it was observed that, in a number of cases, purchase orders were issued after the invoices and goods or services had been received or rendered.

*Weakness in user control and the assigned roles in the refugee registration information system*

The Board reviewed the controls over the process to assign user accounts to staff for the refugee registration system and found user accounts for personnel who no longer belonged to the Agency.

*Absence of control over batches and quantity differences between the information available in the REACH system and the physical count for pharmaceutical supplies*

The Board conducted a physical review at the central pharmacy administrated by the Jordan field office and found discrepancies between the physical stock count and the information available in the REACH system. It also noticed that there was no control over supply batches, since they were distributed randomly.

*Lack of control over user accounts*

The Board reviewed the active directory and the REACH system in order to test the validity and controls of user accounts and found that there were active user accounts belonging to retired personnel. The situation related to a lack of control, especially in the account removal process. The Board noted a risk of allowing unauthorized users to gain access to internal systems or that a user, acting as a third-party account, had powers over a complete operation, denoting a problem of segregation of duties.

### **Recommendations**

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

- (a) Ensure that only delegated personnel are allowed to modify exchange rates, by separating personnel authorized to update the system from those with view-only access;**
- (b) Review all users with the personnel action approval process role and adjust them accordingly so there is a proper segregation of duties;**
- (c) Ensure strict compliance with long-term agreements and verify that all such agreements are in effect at the time of issuing a purchase order;**
- (d) Ensure that purchase authorizations are made before the invoices are issued by suppliers;**
- (e) Improve its control process for the physical stock count at the warehouse of the central pharmacy in Amman and in the REACH system so that the information is accurately reflected in the inventory;**
- (f) Keep proper control over supplies when receiving the goods, by separating and grouping them into batches and ensuring that products can easily be tracked in the REACH system;**
- (g) Strengthen control over access credentials by cleaning up the systems, strengthening communication between the Human Resources Department and the Information Management Department and performing periodic reviews of the lists of users present in the systems;**
- (h) Associate the personnel accounts in the REACH system with the personnel registered by the Human Resources Department.**

<b>Key facts</b>	
<b>5.6 million</b>	Population of Palestinian refugees served by UNRWA in 2019
<b>\$684.14 million</b>	Wages, salaries and employee benefits in 2019
<b>28,435</b>	UNRWA area staff (local staff)
<b>180 (158 regular budget and 22 extrabudgetary)</b>	UNRWA international staff
<b>\$264.17 million</b>	Procurement cost in 2019
<b>\$1.07 billion</b>	UNRWA final budget 2019
<b>\$172.36 million</b>	Deficit for the year 2019

## A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more than 5.6 million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 28,615 staff, most of whom are Palestinian refugees.
2. The Board of Auditors audited the financial statements of UNRWA and reviewed its operations for the year ended 31 December 2019, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA 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 UNRWA 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 body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency.
4. 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.
5. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations at UNRWA headquarters in Amman and at the Jordan, Lebanon and West Bank field offices, in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during the audit include treasury and cash management; human resources management; relief and

social services; the Ethics Office; procurement and contract management; information and communication technology and administrative support.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly.

7. The Board's observations and conclusions were discussed with UNRWA management, whose views have been appropriately reflected in the report.

## B. Findings and recommendations

### 1. Follow-up to previous recommendations of the Board

8. The Board noted that there were 46 outstanding recommendations up to the year ended 31 December 2018, of which 27 (59 per cent) were implemented, 17 (37 per cent) were under implementation, and 2 (4 per cent) have been overtaken by events as shown in the table below.

Table II.1  
Status of implementation of recommendations

	<i>Fully implemented</i>	<i>Under implementation</i>	<i>Not implemented</i>	<i>Overtaken by events</i>
Total	27	17	–	2
Percentage	59	37	–	4

Source: Board of Auditors.

9. While the Board acknowledges the efforts made by the Agency to increase the implementation status of its previous recommendations, the percentage remains consistent with the 2018 period. In this context, it encourages the Agency to continue to work on implementing the remaining recommendations. Details of the status of implementation of the previous years' recommendations are provided in annex I to the present report.

### 2. Financial overview

#### *Financial performance*

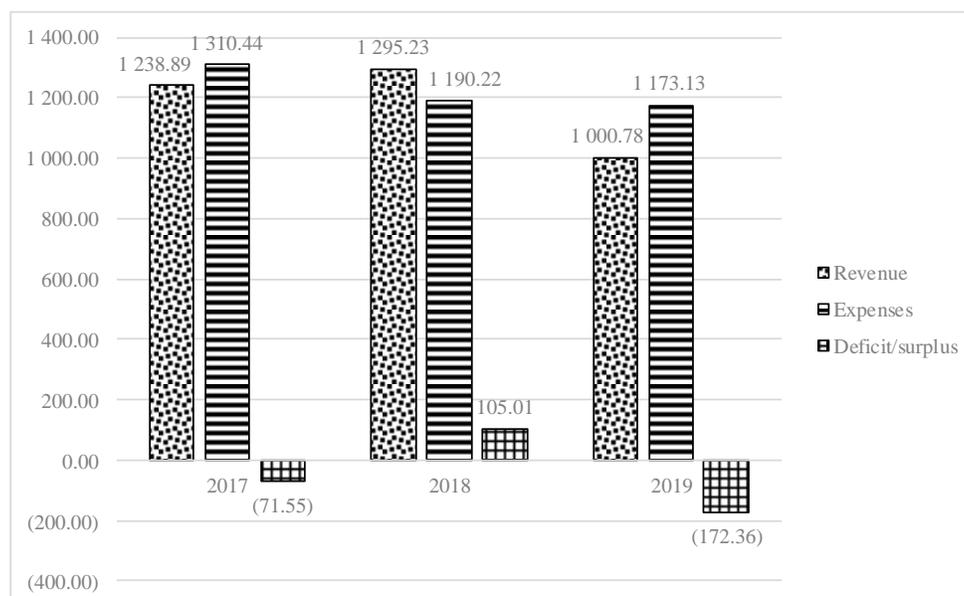
10. In 2019, the revenues of UNRWA decreased by \$294.46 million (from \$1,295.24 million in 2018 to \$1,000.78 million in 2019). This decrease is mainly due to a decrease in cash contributions by \$289.40 million.

11. UNRWA reported a deficit of \$172.36 million for the year ended 31 December 2019 (2018: surplus of \$105.01 million). The reported deficit is explained by the decrease in cash contributions of 23.44 per cent, despite the Agency's continuous cost reduction adopted in the light of its financial restrictions.

12. The comparative revenue and expenses trend for the past three years is shown in figure II.I below.

Figure II.I  
**Comparative revenue and expenses trend for three years**

(Millions of United States dollars)



Source: UNRWA financial statements for 2019.

13. The programme budget, which finances the core activities of the Agency, reflected a significant variation in its financial results, from a surplus of \$100.38 million reported in 2018 to a deficit of \$144.04 million in 2019. The deficit in the programme budget was due to a 26.50 per cent decrease in revenue, mainly for cash contributions, as presented in table II.2 below.

Table II.2  
**Financial performance by fund**

(Millions of United States dollars)

Description	Unearmarked activities		Earmarked activities				Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	620.98	23.65	12.87	213.90	162.42	(33.03)	1 000.78
Expenses	765.02	22.25	10.41	264.70	144.07	(33.33)	1 173.13
<b>Surplus/(deficit)</b>	<b>(144.04)</b>	<b>1.40</b>	<b>2.46</b>	<b>(50.80)</b>	<b>18.34</b>	<b>0.30</b>	<b>(172.36)</b>

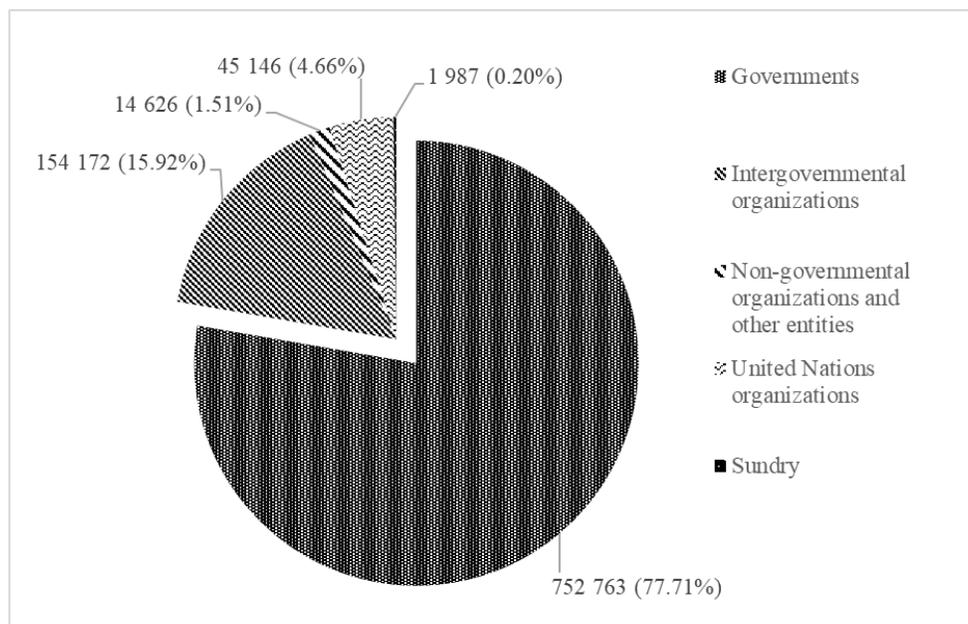
Source: UNRWA financial statements, segment reporting by fund: financial performance as at 31 December 2019.

#### Composition of contributions revenue

14. Of the total contributions of \$968.69 million reported during 2019, \$923.55 million (95.34 per cent) represents voluntary contributions from Governments, intergovernmental organizations, non-governmental entities and sundry donors, while the remaining balance of \$45.15 million (4.66 per cent) was received from the United Nations regular budget and other United Nations agencies (see figure II.II).

Figure II.II  
**Contributions revenue by source**

(Thousands of United States dollars)



Source: UNRWA financial statements 2019 (information presented in accordance with notes 20 and 21, including cash and in-kind contributions revenue).

### *Financial position*

15. The Board's analysis of the financial statements for the year 2019 indicates that the financial position of UNRWA remained sound as at the year-end, on the basis of the key financial indicators. Table II.3 contains key financial ratios computed from the statement of financial position. The ratio analysis indicates that UNRWA remains in a strong financial position, with high levels of liquid assets but that liquidity has decreased compared with 2018. In that sense, net assets decreased from a surplus of \$239.27 million in 2018 to a deficit of \$0.78 million in 2019, including a decrease in reserves from a surplus of \$17.69 million in 2018 to a deficit of \$50.08 million in 2019. The significant decrease in net assets is attributed to the increase in employee benefit liabilities and a decreasing availability of cash and cash equivalents.

16. That analysis is consistent with the decrease in working capital from \$371.92 million in 2018 to \$254.11 million in 2019 and the value of the ratio of current assets to current liabilities, which decreased from 3.06 in 2018 to 2.41 in 2019. In addition, UNRWA had a quick ratio value of 1.97 (2018: 2.52) to cover each dollar of immediate current liabilities when they fall due. Furthermore, the total assets at the year-end were almost equal to the total liabilities. All ratios indicate a decrease in liquidity and solvency compared with the year 2018.

17. While the overall position of the Agency remains strong, the programme budget, which finances the Agency's core activities, continues to experience a liquidity pressure whereby its current liabilities continue to exceed current assets. As at the year-end, the programme budget had a current ratio and a quick ratio of 0.70 and 0.54, respectively, to cover each dollar of current liabilities. Those ratios are below the recommended ratio of at least 1 dollar of assets for each dollar of liabilities.

Table II.3  
Ratios of key financial indicators

Ratio	31 December 2019 (all funds)	Programme budget 2019	31 December 2018 (all funds)	Programme budget 2018
<b>Current ratio<sup>a</sup></b>				
Current assets: current liabilities	2.41	0.70	3.06	0.64
<b>Quick ratio<sup>b</sup></b>				
(Cash + short-term investments + accounts receivable): current liabilities	1.97	0.54	2.52	0.49
<b>Cash ratio<sup>c</sup></b>				
(Cash + short-term investments): current liabilities	1.49	0.16	2.00	0.20
<b>Total assets: total liabilities<sup>d</sup></b>				
Assets: liabilities	1	0.65	1.29	0.73

Source: UNRWA 2019 and 2018 financial statements.

<sup>a</sup> A high ratio indicates an entity's ability to pay off its current liabilities.

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

<sup>c</sup> A cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or funds invested in current assets to cover current liabilities.

<sup>d</sup> A high ratio indicates an entity's ability to meet its overall obligations.

18. Total liabilities of UNRWA stood at \$935.04 million as at 31 December 2019, with post-employment and other long-term employee benefits of \$843.57 million representing 90.22 per cent of the total liabilities. Long-term employee benefits liabilities were \$754.79 million, compared with \$641.71 million reported in the previous year, an increase of \$113.08 million. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due to the change in the discount rate from 4.14 per cent to 3.13 per cent, affected by payments of \$40.35 million and actuarial gain of \$7.82 million, offset by interest of \$28.09 million, service costs of \$43.39 million incurred during the year and re-measurements of the continuing low interest rate environment of \$75.59 million.

19. The Board noted a decrease in cash balances maintained by UNRWA. As at 31 December 2019, UNRWA had cash balances amounting to \$268.52 million, compared with \$362.63 million reported in 2018. Of the \$268.52 million, \$24.26 million (9.03 per cent) was available for programme budget (unearmarked) activities, while \$244.26 million (90.97 per cent) was available for earmarked activities.

#### *Budget performance*

20. The original 2019 programme budget (modified cash basis), as reflected in the Blue Book<sup>1</sup> for 2018–2019 was \$1,152.86 million. On a modified cash basis, the final 2019 budget was \$1,066.80 million, representing a decrease of \$86.05 million, or 7.46 per cent. This is explained mainly as a reflection of the decrease in the final budget, due primarily to a decrease in the final programme budget from \$858.7 million to \$766.4 million (including in-kind) and an increase in the final projects budget from \$294.1 million to \$300.4 million, including restricted funds (earmarked projects).

<sup>1</sup> The Blue Book is the instrument that the Agency uses to forecast its budget for a specific period of time, which includes the core requirements of the Agency. This is disclosed in financial statement V as the "original" budget.

### 3. Treasury and cash management

#### *Roles in REACH system not properly set on United Nations exchange rate*

21. In accordance with section 1.3.1, paragraph 32, of the UNRWA financial technical instructions (20 March 2018 version), on the treatment of cash contributions, contributions shall be recorded at the applicable exchange rate at time of receipt.

22. Section 6.3.1, paragraph 39, of the same instructions indicates that the Chief of the Treasury Division shall change the system exchange rate for 31 December to January rates based on the time schedule included in the closure instructions, in order to affect January exchange rates for the Closing Cash Book.

23. At the same time, the treasury technical instructions (2019 version), in section E.1 on cash management, establishes that the Chief of Treasury Division shall be responsible for updating the United Nations exchange rates in the REACH system, the enterprise resource planning system of the Agency, each month, as well as mid-month, if required.

24. The Agency was consulted regarding the process for modifying exchange rates. It indicated that the United Nations rates were uploaded automatically from the United Nations site, then an automated email was generated to the related parties to inform them of the changes and documents uploaded to the United Nations site.

25. Furthermore, the Agency reported that it had a mechanism whereby the rates updated in the system were checked and compared against the published rates by the treasury team, and a formal letter was signed by the Chief of Treasury and the Director of Finance whenever the exchange rates were changed. In effect, the changes in exchange rates were approved by the Chief of Treasury and the Director of Finance.

26. In order complete that process, Headquarters treasury approvers are responsible for checking the uploaded files and entering “Z rates” (rates manually modified in the REACH system, as opposed to “M rates”, which are the rates given by the United Nations website) for the month.

27. During the review of the REACH system, the Board observed that there were 10 other persons with privileges to modify the exchange rates, some of whom were not even related to Treasury Department.

28. Since the audit records tables were not activated within the system (change log), it was not possible to trace if any of those 10 staff members in the system with those privileges had made any changes to the exchange rates.

29. The Board holds that the ability to update exchange rates should be granted only to those delegated by the Chief of the Treasury Division. This is important because the contributions and other transactions must be recorded according to the exchange rate, which means that entering the correct information is essential in order to maintain correct bookkeeping of all UNRWA transactions in the system.

**30. The Board recommends that UNRWA ensure that only delegated personnel are able to modify the exchange rates in the REACH system, and that such personnel are clearly identified and separate from those personnel who have view-only authorization.**

31. The Agency agreed with the recommendation and acknowledged that only delegated personnel should have the authorization to modify the exchange rates in the REACH system. At present, the view-only and updating access rights for the treasury exchange rate screen were combined. Given that in the current matrix it was not possible to separate the two functions, the Agency will review the current access

rights and update the formal delegations of authority for treasury colleagues in order to document and regularize access to the system.

#### 4. Property, plant and equipment

##### *Capitalization of consumable items*

32. Paragraph 13 of IPSAS 17 states the two characteristics for tangible items to be recognized as property, plant and equipment. The first relates to the purpose for which the entity is holding the asset, and the second establishes that the assets must be expected to be used for more than one reporting period.

33. Moreover, paragraph 23 of IPSAS 17 states that an entity does not recognize in the carrying amount of property, plant and equipment the costs of day-to-day servicing of those items, including costs relating to labour and consumables. In addition, in paragraph 8 of the UNRWA financial technical instructions, \$2,000 is established as the threshold value over which an item is classified as a capital asset and is reported as property, plant and equipment.

34. The Board conducted a review of the property, plant and equipment elements capitalized in 2019 for the Jordan, West Bank and Gaza field offices. The review included an inspection of purchase orders and invoices from vendors. Of the five capitalized assets selected from the West Bank field office, two were photocopier machines.

35. The Board reviewed the supporting documents and identified that the amount capitalized for both photocopier machines included cabinets and consumable items, such as ink and master rolls. Furthermore, the value of the photocopier machines, without the additional items, were less than the threshold of \$2,000. In this sense, the machines did not meet the characteristics established by UNRWA to be capitalized. In that regard, the West Bank field office commented that the inconsistency related to the purchase requisition made by the users; the machines, accessories and consumables had been requested in the same document, but the users should have raised a separate purchase requisition for the consumables.

36. On that basis, the Board considers it necessary to apply the instructions regarding the requisition of items in the REACH system properly, and to review purchase requisitions before raising purchase orders for vendors, in order to avoid a situation where different items are considered as part of one asset. In the Board's opinion, it is important for accessories or consumable items not to be capitalized as part of property, plant and equipment elements, as doing so will affect the accuracy of the value reported in the financial statement.

37. **The Board recommends that UNRWA take measures to improve the review of assets during the capitalization process, including instructions for requisition users and Procurement and Logistics Department personnel who process purchase requisitions and related purchase orders.**

38. UNRWA agreed with the recommendation and referred to the UNRWA enterprise resource planning project business blueprint document, which describes the process of assigning purchase orders to different assets, including consumables. Moreover, a reminder of the process to be followed was shared with relevant staff, in order to strengthen the review process.

39. The Board appreciates the acceptance of the recommendation and would like to state that this control will need to be evaluated by taking another such sample during the next audit exercise. This assessment will allow it to verify if the measures taken by the Agency are sufficient to prevent such situations during the asset capitalization process.

## 5. Human resources management

### *Lack of segregation of duties on personnel action approval process*

40. The personnel action approval process is a human resources component in the REACH system that is used every time a human resources officer approves a modification in the infotypes.

41. An infotype is the information unit used to maintain master data related to human resources management systems. Any information recorded in an infotype directly affects the run payroll process, because of the remuneration elements obtained from the human resources master data. The most important infotypes records are:

(a) Basic pay (0008). This stores an employee's payment information on the basis of his or her position, such as annual salary and monthly salary;

(b) Bank details (0009). This stores the banking information concerning the account into which an employee's pay cheque is to be directly deposited;

(c) Recurring payments/deductions (0014). This stores information about payments and deductions pertaining to an employee;

(d) Additional payments (0015). This stores any additional amount that should be paid to an employee.

42. An infotype can be modified by a human resources staff member using standard REACH transactions: PA40 for actions or PA30 for updating an infotype. The system will then block the changes made, and will create a temporary "ghost" employee number" to store the data until the required subsequent approval is given.

43. After checking the action performed by the user, the human resources officer can approve the information. Once approved, the action will affect the real employee number and the information will be ready to be processed in the payroll run by the REACH payroll/human resources operation specialist.

44. The Board performed a review of the personnel action approval process for the period from January to August 2019 by examining the ZPA01 report obtained from the system, and identified a deficiency with respect to the segregation of duties, mainly because just eight users were responsible for changing, reviewing and approving the entire action processes for 779 cases.

45. The revised report pertained to 779 of the 78,652 infotype records that had been changed, reviewed and approved by the above-mentioned users. Furthermore, the Board found that at least 297 approved modifications recorded in 2019 related to payroll infotypes.

46. The Board believes that maintaining a proper segregation of duties by assigning different responsibilities for authorizing transactions and recording information in the human resources master data to the related staff will reduce the risk of error or fraud.

**47. The Board recommends that UNRWA perform a review of all users with the personnel action approval process role and adjust them in accordance with proper segregation of duties.**

48. UNRWA agreed with the recommendations and pointed out that it had begun a review of the Agency-wide personnel action approval process, which it expected to be implemented by the second quarter of 2020.

### *Lack of documentation and verification on the recruitment process*

49. In accordance with the area staffing framework, contained in annex II to personnel directive A/4/PartII/Rev.7/Second/Amend.1, the Agency has two categories

of staff: area staff and complementary personnel with non-staff status. There are two types of contracts for area staff: fixed term, for staff employed to perform core activities of a continuing nature that are not likely to be concluded within three years; and limited-duration contracts, for staff who work on projects and/or short-term appointments for periods between six months and four years.

50. Complementary staff are classified according to five contracts types. For the purposes of its findings, the Board describes two of them as follows:

(a) Individual service providers. These are non-staff who are specialized and temporary, and required to provide a set of skills or expertise not normally possessed by the Agency's regular staff. Moreover, individual service providers can be personnel working on full- or part-time assignments for extraordinary and time-limited needs, including for functions similar to those carried out by staff;

(b) Daily paid workers. These are non-staff working on temporary appointments for periods of up to six months and against vacant area staff posts or on double occupancy in case of maternity leave and special leave. Daily paid workers can be in addition to the staffing table for additional, time-limited, short-term staffing needs.

51. The recruitment processes and selection recommendations or decisions for area staff working on limited-duration contracts, as well as for complementary non-staff, must be documented in accordance with the following regulation:

(a) Personnel directive A/4/PartII/Rev.7/SectionII/Amend.1, pertaining to limited-duration contracts, indicates that, in conjunction with the recruitment administrator, the hiring manager will provide a selection report containing the following information, as applicable: (i) terms of reference; (ii) proposed band and quartile, with justification; (iii) application of selected candidate; (iv) relevant findings from interviews, tests and reference checks; (v) method of advertising/search, if any, or justification for waiver of advertising. Furthermore, the hiring manager will record his or her decision regarding selection in the report.

(b) Complementary personnel directive CPD/1, on individual service providers, indicates that the procedure for selecting an individual service provider is through competitive selection, allowing the Agency to select among highly qualified candidates in their specific field of service on the basis of a reasoned and documented process. The contracting manager is responsible for documenting the selection process.

(c) General staff circular No. 05/2010, on the hiring of daily paid workers, indicates that hiring managers should request the services of daily paid workers by completing the "request to hire daily paid worker" form. In the case of daily paid workers being hired as casual labour, the request must first be cleared by the field finance office/headquarters budget office to certify the viability of funds. Then the form can be submitted to the human resources department in each field office or the recruitment section at headquarters. Requests to hire daily paid workers as temporary assistants can be submitted directly to the field human resources department/headquarters recruitment section.

52. Under the recruitment framework, the hiring managers are required to submit a recruitment report to document the selection decisions, after verifying that the candidates comply with the post description.

53. The Board audited a random sample of 75 new recruitments that were performed by the Agency from January to August 2019, including for limited-duration contracts, individual service providers and daily paid workers.

54. The review revealed a lack of documentation related to the recruitment and the selection decision for 10 limited-duration contracts. The Board also did not receive the hiring forms it requested for seven daily paid workers. Furthermore, in 12 sampled recruitment cases, evidence was not provided of the candidates' academic and professional qualifications, revealing insufficient evidence to prove that academic verifications and reference checks were conducted.

55. In this context, the Board considers that there are concerns regarding the transparency of the recruitment and selection processes, owing to deficiencies with respect to checks and records for such relevant documents as the recruitment and selection report, as well as academic and professional qualifications, which provide traceability for the evaluation of candidates or the justification for hiring employees.

**56. The Board therefore recommends that UNRWA ensure compliance with the recruitment and selection procedures by developing mandatory documentation to evidence that procedures have been performed in accordance with the existing regulatory framework.**

57. UNRWA agreed with the recommendation and stated that it would improve its effort in order to assure compliance with the regulations when conducting the staff recruitment process. However, it indicated that it had provided the pending information in different tranches, the last submission being on 18 March 2020.

58. The Board appreciates the Agency's acceptance of the recommendation and would like to state that all of the information provided by the Agency was considered and evaluated in the preparation of the present report, and that the information provided after the internal control visits is reflected in the present recommendation. In that context, controls will need to be re-evaluated through a new sample of recruitments during the next audit exercise.

## 6. Relief and social services

### *Lack of control over the assigned roles in the refugee registration information system<sup>2</sup>*

59. Paragraph 5.6.1 of UNRWA information security policy revision 1.1 of 2011, regarding the management of user accounts and roles, states that information systems operations and development processes must be established and documented, including the necessary segregation of duties, to ensure that such systems are implemented and maintained securely and also to ensure the integrity of the Agency's electronic information assets.

60. Paragraph 5.7.4 of the policy states that information owners must ensure that the user registration, access rights and privileges management processes for information systems database applications are clearly articulated in defined information system procedures and instructions.

61. The Board carried out a review of access management in the refugee registration information system at the Jordan field office. It observed the existence of 183 unique and active roles Agency-wide that are currently assigned to users, without a clear description of the function they perform in the system.

62. According to information provided by the Agency, that situation was a result of the fact that, although there are basic roles for the main functions, new roles are generated depending on the needs or requirements of the department or unit. Many

<sup>2</sup> The refugee registration information system is a dynamic, scalable computer system used to register refugees, migrate all old data from the previous database and process social safety net cases.

roles are therefore created to support specific situations and remain active over time. Also, roles have been created throughout the history of the system but their validity, risks and criteria have not been evaluated.

63. The Board is of the view that there is a lack of control over the roles of the refugee registration information system, despite the fact that there is an initial guide for assigning the roles of the new entry, in the refugee registration information system access request form. However, many roles are not known and are assigned to active users of the system. From its review, the Board could not conclude that the assigned roles corresponded to the roles required by each position and, likewise, if analyses had been performed when assigning the roles to ensure they did not generate functional segregation problems.

**64. The Board recommends that UNRWA review the current roles in the refugee registration information system, and evaluate if the present roles are clear and necessary for the entity and if they create functional segregation problems among the roles assigned to users.**

**65. The Board recommends that UNRWA develop a matrix of roles for the refugee registration information system based on employee positions or tasks, thus allowing the Agency to have control over the roles.**

66. UNRWA agreed with the recommendation and informed the Board that it would work towards implementing the revision by the fourth quarter of 2020.

*Weakness in user control over the refugee registration information system*

67. UNRWA technical instruction No. 5, revision 2, of 2019, related to access control policy and issued by the Agency's Information Management Department, states that:

(a) With respect to account removal, the Human Resources Department must notify immediately the Information Management Department Field Information and Communication Technology Office of any changes to a user's employment status that require the closure of the individual's account (e.g. separation). The Office will then disable or remove all associated user accounts, in accordance with the applied procedures;

(b) With respect to secure access management, the Agency shall develop and implement technical measures Agency-wide to ensure that additional and appropriate access control mechanisms are in place, strictly controlled, monitored and tracked based on business and security requirements. Authentication for all systems and applications accounts should be through a centralized, single source of authentication to minimize multiple authentication points.

68. In addition, paragraph 5.7.5 of the UNRWA information security policy states that network access control mechanisms must be in place to ensure the integrity of Agency networks, including appropriate security for remote access. Technical security controls must be in place to prevent unauthorized computer and network access.

69. In its review of the users in the refugee registration information system, the Board identified 17 active user accounts that belonged to separated personnel. When investigating the reasons for the situation, it was observed that the refugee registration information system users are managed through a Windows single sign-on, and those users had not been deleted in a timely manner in the active directory, leaving the credentials active in the system and ready to be used at the time of the review.

70. The Board considers this to be a situation of risk, given that any of the 17 active users accounts could be used to gain access to the system and extract and/or manipulate information classified as confidential by UNRWA, especially when taking

into consideration that access to the system could be made using those credentials from any electronic device through any web browser and network.

71. **The Board recommends that UNRWA strengthen its controls over access to the refugee registration information system by cleaning the systems and by deleting user accounts related to separated staff.**

72. **The Board recommends that UNRWA strengthen its controls over access to the refugee registration information system by performing annual reviews of the lists of users present in the system, and validating that active credentials correspond only to current personnel within the organization.**

73. UNRWA agreed with the above recommendations and stated that it would work towards its implementation.

## 7. Ethics Office

### *Non-compliance with mandatory ethics e-learning courses*

74. The UNRWA Ethics Office is administratively attached to the Department of Internal Oversight Services. However, it operates with full impartiality, independence and confidentiality, as established by organizational directive No. 30. The mission of the UNRWA Ethics Office is to assist the Commissioner-General in nurturing a culture of ethics, integrity and accountability, thereby enhancing the trust in and the credibility of UNRWA, both internally and externally.

75. To fulfil that mission, the UNRWA Ethics Office provides services to management and individual staff members in several areas, including training, education and outreach. Thus, partnering with the Human Resources Department, the Ethics Office developed a comprehensive e-learning course on ethics and the standards of conduct, which the Commissioner-General made mandatory for all UNRWA personnel.

76. In that respect, the Agency stated that the only cost-effective way to provide baseline ethics training to a workforce of the size of UNRWA is through e-learning courses.

77. As reported by the Agency, by mid-2016 over 90 per cent of staff had completed the course. Since 2013, through the guidelines from the Ethics Office and the Human Resources Department, newly assigned staff who will be working for the Agency for 90 days or more have been required to complete all mandatory courses, within the first 30 days of assignment, including the ethics e-learning course. No updated statistics were reported by the Agency to the Board for year 2019.

78. The Board conducted a review of the completion of the ethics e-learning course for the staff recruited by the Agency during 2019 for assignments of 90 days or more.

79. Of the Board's sample of 30 staff, 4 cases, from the West Bank field office, had not completed the course, while 6 from the Lebanon field office were reported as having completed the course but their course certificates were unavailable. Regarding the field offices in Gaza, Jordan and the Syrian Arab Republic, course certificates were properly provided.

80. In that regard, the Agency expressed that the tracking of fixed-term and limited-duration contract staff was manageable. However, it stated that the tracking of complementary staff could be extremely challenging owing to their volume and the current resources in the Human Resources Department.

81. The Board agreed with the Agency that the only cost-effective way to provide baseline ethics training to a workforce of the size of UNRWA was through e-learning

courses. Also, it is Agency's own policy to ensure that the e-learning courses is completed by everyone hired for 90 days or more.

82. Currently, the Ethics Office tracks the completion of the ethics e-learning course through staff development officers at each field office. However, it does not maintain a clear guideline or policy on tracking the completion of its course. Furthermore, it neither keeps a proper record of the completion certificates, nor issues periodical reminders for staff with outstanding courses.

83. The Board considers that ethics courses are essential to communicate and enforce integrity and ethical values and to create and maintain a culture of honesty and ethical behaviour, enhancing an appropriate control environment.

**84. The Board recommends that the UNRWA Ethics Office monitor and ensure the completion of the ethics e-learning course through its ethics focal points at each field office.**

85. The Agency accepted the recommendation and stated that it would engage with staff at the organizational level to complete the ethics training course in a timely manner. It also stated that an exercise would be performed to ensure the completion of the ethics training.

## **8. Procurement and contract management**

### *Procurement made under expired long-term agreements*

86. The procurement manual lays down the principles and procedures that apply to the procurement of all goods and services. In that respect, a long-term agreement is a written agreement between the Agency and a vendor that is contracted for a defined period of time for specific goods or services at prescribed prices and subject to other provisions, with no legal obligation to order any minimum or maximum quantity. Long-term agreements are typically valid for a period of two to five years and will be dependent on conditions unique to the field and market conditions. In section 11.4 of the manual, it is mentioned that long-term agreements must specify by what means and by whom the goods, services or construction will be ordered and that such ordering will be on a required basis by the organization. In general, procurement under a long-term agreement will take the form of a purchase order issued by the sponsoring officer directly to the vendor.

87. In addition, UNRWA has developed the REACH functions workflow guidance in order to generate step-by-step instructions for the procurement process so as to disseminate specific information on compliance with the process.

88. The Board reviewed the purchase orders issued during 2019 associated with long-term agreements, during which it found that long-term agreement No. 4116000003 with Remedica Ltd. had an initial agreement that ended on 31 December 2017 upon completion of the last obligation arising thereunder, with a possible extension to 31 December 2018 subject to good performance, the mandate of the Agency and funding. In that context, the Agency extended the agreement for a second period, until 31 December 2018.

89. The agreement for a second period did not provide the possibility to generate an extension beyond 2018. Despite this, the Board observed that the agreement continued to be applied during 2019; an example is purchase order No. 6019000266, dated 28 March 2019.

90. The Agency stated that actions had been taken in order to enter into a new agreement; UNRWA provided copies of emails between the Procurement and Logistics Department and the vendor dated 3 January 2019 to support that opinion.

Nevertheless, these emails do not prove that an official agreement with the vendor was in force after 31 December 2018.

91. The Board holds that none of the purchase orders in 2019 associated with long-term agreement No. 411600003 are supported by a formal agreement, because the initial agreement in 2017 did not allow for an extension into the year 2019.

**92. The Board recommends that UNRWA ensure strict compliance with long-term agreements and verify that all such agreements are in effect at the time of issuing a purchase order.**

**93. The Board recommends that UNRWA comply with the established steps in the workflow guidance to manage the creation and release of long-term agreements.**

94. The Agency did not agree with the recommendations. It indicated that it operated in compliance with the procurement manual since it considered that the long-term agreement was legally valid at the time of the purchase order issuance and that its three-month extension was in full compliance with the five-year validity limit set forth in the procurement manual. No other provision limiting the possibility to extend a long-term agreement was identified in the agreement, nor in any other document pertaining to the UNRWA governance framework.

95. The legal mutual agreement between UNRWA and the vendor was formalized in writing first by email in January 2019, then with the signature of the call-off purchase order issued in March 2019 explicitly referring to long-term agreement No. 411600003. The legal commitment of the parties is hence valid and was repeatedly confirmed by both. The extension was duly initiated on 28 December 2018, before the contract expiry date, which fell on a holiday. The vendor's written confirmation was provided on 3 January 2019, which was the first working day after the holiday.

96. In addition, section 11 of the procurement manual, on contractual instruments, lists the long-term agreement as one of those instruments and does not restrict or exclude in any way the use of emails within a long-term agreement framework.

97. UNRWA also confirms that it operates in compliance with the REACH functions workflow guidance, also known as the enterprise resource planning project business blueprint document. The function of this document, in line with its title, is to provide technical guidance on the use of REACH enterprise resource planning transactions.

98. The issuance of call-off purchase orders on expired long-term agreements would not be possible in the REACH system, as a control mechanism preventing such issuance is already in place.

99. On the basis of the above-mentioned comments and the documents submitted by UNRWA as evidence, the Board considers that the Agency did not comply with the articles of the long-term agreement stipulating its duration or with the procurement manual.

100. First, the procurement manual states clearly that the long-term agreement is a written agreement between the Agency and a vendor that is established for a defined period of time. In this case, the obligation was set under clause 2, entitled "Agreement duration", in which it was established that the agreement was valid for one year, with a possible extension to 31 December 2018 subject to good performance, the mandate of the Agency and funding. It does not mean that all long-term agreements will last for five years. Furthermore, no good-performance report was developed in order to enable an extension.

101. Second, the procurement manual clearly defines the contractual instruments, none of them being an email.

102. Third, according to the procurement manual, contract renewals will be effected in writing and must be accepted by both parties within the time limits provided for in the contract. In this case, action by both parties was taken after the agreement had already expired.

103. Lastly, every time the Agency issues a purchase order associated with a long-term agreement, it should verify that it has a valid agreement or an extension that supports it. This action can be verified by using the ME33K transaction code.

104. To conclude, the Board keeps its recommendations unchanged.

*Procurement purchase order issued after invoice*

105. In accordance with section 11.3 of the procurement manual, a purchase order is a legally binding contract between the organization and a vendor, which is generally used for the procurement of goods, including any works and services incidental to their supply.

106. The purchase order may either be a self-contained agreement between the organization and a vendor or an order issued to create a commitment by the organization to purchase goods, services and construction services under the terms and conditions established by an existing long-term agreement. This type of purchase order is referred to as a release order or call-off order. Depending on the value, certain purchase orders will be raised by the sponsoring officer and approved by the awarding authority prior to transmitting the order to the vendor. A purchase order will, at a minimum, clearly identify the parties and include, inter alia, the required quantities and delivery terms (destination(s), consignee(s), modalities and delivery deadlines).

107. Section 13.6.2 of the procurement manual states that amendments to purchase orders are allowed, on an exceptional basis, when there is a need to modify a purchase order that has been approved and issued.

108. The manual also refers to the invoice containing the vendor's demand for payment and setting out the amount to be paid by the organization in respect of the goods delivered or services rendered.

109. In section 3.3.1, on the supply chain management module, of the financial technical instructions, the Agency defines the actions that must be taken regarding the purchase order and invoices in order to fulfil the requirements set out in the instructions. In particular, regarding the recording of invoices, it states that all invoices received shall be reviewed by the claims section and matched in the REACH system with the relevant purchase order and goods receipt note/service entry sheet, thereby ensuring a three-way match.

110. Furthermore, section 8.4.3, on the hard commitment of funds, states that purchase orders and service orders, among others, will reflect the grant project code with the appropriate budget allotment. In addition, hard commitments must be reflected in the REACH system accordingly.

111. During the review of the procurement process, purchase orders issued during 2019 were requested from the Agency and analysed. As an outcome of that review, we observed 15 cases in which purchase orders were issued after the invoices and goods or services had been received or rendered.

112. The Board considers that the typical process of procurement begins with a purchase requisition (soft commitment), which, once approved, leads to an approved purchase order (hard commitment). Then, after the goods are received, the supplier

should issue the related invoice. In contrast, when an invoice is first received from the supplier before the purchase order date, it is indicative of a potential disturbance of this procedure or a lack of clarity on the conditions of the agreement, as that process allows for the possibility of modifying a purchase order.

113. Furthermore, these actions result in an absence of timely purchase authorizations, since the authorizations occur after having received the services or goods, as well as a risk of changes in the rates or conditions that were not considered initially. Likewise, if hard commitments are not reflected on time, it could make it appear that resources are available at a given date, when, in fact, they are already committed, which could result in a risk at the budget level. Furthermore, issuing the purchase orders in such a manner is not consistent with the current regulation, which indicates that the contractor shall not perform and the Agency shall not be bound to accept or pay fees for any services, unless and until the Agency has issued a purchase order therefor.

**114. The Board recommends that UNRWA ensure that purchase authorizations are made before the invoices are issued by suppliers.**

**115. The Board recommends that hard commitments be reflected in the system when they occur.**

**116. The Board recommends that the process for raising a purchase order be aligned with the contracts signed with the suppliers.**

117. The Agency agreed with the recommendations and mentioned that it was working on their implementation.

## **9. Inventory**

### *Appropriateness of the determination of current replacement cost*

118. In accordance with IPSAS 12, “where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost”. Furthermore, IPSAS 12 defines the current replacement cost as “the cost the entity would incur to acquire the asset on the reporting date”, which, in this case, is 31 December 2019.

119. For the review of this process, the Board met with the staff in charge at headquarters in Amman and the Jordan field office and was informed of the stages of the current cost replacement method performed by the Agency.

120. The process is broken down into the following main steps:

(a) Inventory balance reports are extracted for each field office at the year end;

(b) Materials are verified and sorted according to those with purchase order prices and those without purchase order prices;

(c) For the items with purchase order prices, the price is implicitly considered to be the latest price;

(d) For the items without purchase order prices, prices are captured, if available, from other UNRWA stores;

(e) For the remaining items without purchase order prices, emails are sent to the field offices to provide prices;

(f) Prices on the inventory balances are compared with the latest available prices and the replacement cost adjustment is calculated;

(g) The replacement cost adjustment is sent to the field offices for review and feedback, if any, is sent back.

121. During the visit to the Jordan field office, the Board reviewed only steps (b), (c), (d) and (e) for certain items that represent a higher risk of valuation in the inventory, such as those older than one year.

122. To evaluate the procedures performed by the Jordan field office for the current replacement cost of its inventories, the Board selected a sample of inventories that had been ageing for more than one year in order to check the supporting documentation used in determining the current replacement cost for the 2019 year end.

123. It was observed that, out of the 11 items under evaluation, the Agency only had supporting documentation for 9 of those items, while the other 2 items in stock did not have any supporting records. According to the Agency, this was because those items were part of the UNRWA legacy system (Ramco).

124. For the above-mentioned nine items, the supporting documentation corresponded to their original purchase orders with dates of purchase ranging from 2016 to 2017.

125. The Board considers that using the same historical purchase orders for inventories does not comply with the necessary procedures for the determination of the current replacement cost. In line with IPSAS 12, in the event that these items cannot be found in the current market, an estimate of their replacement cost must be made.

**126. The Board recommends that the UNRWA Jordan field office perform the necessary procedures to use updated information related to the current replacement cost of its inventories, in order to fully comply with the IPSAS framework.**

127. The Agency did not agree with this recommendation and stated various opinions on the matter. The Agency stated that it was fully aware that some assets had not been adjusted to the current cost and that the adjustment value for assets was insignificant. The effort to update the values for these assets would outweigh the benefit the Agency would get from the update. The Agency also mentioned that it applied the IPSAS standards, including IPSAS 12, and was well aware of its replacement cost methodology, and that any processes that were followed in its replacement cost valuation were there by design.

128. In this regard, the Board is of the view that IPSAS standards must be applied comprehensively. In this case, the current replacement cost should be applied to all items and not to the majority of the inventory list items, as the Agency indicated it was doing. Lastly, in our opinion, there would be no significant cost to implementing this procedure adequately in accordance with IPSAS 12, since the Agency already performs this procedure for the majority of the items in the inventory.

*Absence of control over batches of pharmaceutical supplies*

129. The UNRWA enterprise resource planning project business blueprint document establishes that a batch is a subset of a material in stock, managed separately from other subsets of the same material.

130. In addition, in its forty-eighth report, the Expert Committee on Specifications for Pharmaceutical Preparations of the World Health Organization defines the batch number (or lot number) as a distinctive combination of numbers and/or letters which uniquely identifies a batch on the labels, its batch records and corresponding certificates of analysis, etc. It also establishes that consignment (or delivery) is a

quantity of pharmaceuticals, made by one manufacturer and supplied at one time in response to a particular request or order. A consignment may comprise one or more packages or containers and may include material belonging to more than one batch.

131. The Board conducted a visit on 5 February 2020 to review the inventory process at the central pharmacy in Amman. During the exercise, differences were observed between the information available in the REACH system and the physical review. These differences were related to the batches reported in the system and the actual batches physically found in the warehouse. In this regard, the Agency stated that it only reconciled the quantities of medical supplies at the total quantity level.

132. During the visit to the warehouse of the central pharmacy, the Board observed that such supplies had not been separated or controlled at the batch level, as the Board confirmed the existence of batches in the system that did not physically exist in the warehouse. According to the explanations given by the Agency, this was because when the products were received from the manufacturer, they might come in more than one batch.

133. The Board considers that the Agency's current procedure does not allow for a clear and quick identification of the places to which the medications from a specific batch are distributed nor does it provide accurate knowledge of the available stock. In addition, batch numbers assigned during the elaboration process of the medicines, which include the dates of manufacture and expiration, are not taken into consideration by the Agency. Therefore, the absence of an efficient and effective control over storage batches increases the risk of distributing them without a strict expiration order, resulting in a risk of greater losses owing to obsolescence.

134. Finally, not separating or keeping control over batches of medical supplies will limit the response capacity of UNRWA in the event that manufacturers of medical supplies need to recall a specific batch or batches of medicines from the market.

**135. The Board recommends that UNRWA keep proper control over medicines when receiving the goods in the warehouses, by separating and grouping them into batches and ensuring that products can easily be identified and tracked inside the warehouse, and that this information be reflected in the REACH system.**

**136. The Board recommends that UNRWA improve its controls to ensure efficiency and traceability over the distribution process in order to ensure that older batches are distributed first and keep records of where batches are distributed.**

137. The Agency agreed with the recommendations and noted that UNRWA would improve its control measures to ensure compliance with the instructions stated in the technical instructions series No. HD/CMI/99 on the management of medical stores. Subsequently, the Agency stated that it had implemented a batch control at the central pharmacy for all items at the receiving stage, but mentioned that, when supplies were issued to clinics, there might be a difference in the management of the supplies, especially those medicines provided in a large number of batches with the same expiration date.

*Quantity differences between the REACH report and the physical count*

138. The Central Support Services Division standard operating procedures for physical inventory counts in UNRWA warehouses and storage locations, April 2019 edition, lay down the principles and procedures that apply to physical inventory counts. They establish that the main objective of the inventory counts is to ensure that the inventory records reflect actual quantities on hand, ensuring, inter alia, the timely recording of inventory transactions in the REACH inventory management system.

139. In that regard, the Agency performed the inventory count process for the fourth quarter of 2019 and provided a document entitled “Note for the record” dated 31 December 2019, which contains the Jordan field office summary report. In the document, there was no indication of discrepancies related to material No. 51381701.0005 located in the central pharmacy in Amman.

140. In other words, according to the Agency, the information available in the REACH system matches the information in the supporting documents for the physical count conducted by the Agency on 31 December 2019 (2,145,300 tablets).

141. On 5 February 2020, the Board visited the central pharmacy in Amman to review the inventory process by conducting a physical count. During the exercise, differences between the information available in the REACH report and the physical count regarding material No. 51381701.0005 were detected, namely 4,952,000 tablets and 3,834,000 tablets, respectively. This resulted in a difference of 1,118,000 fewer tablets in the physical count, valued at approximately \$6,326.25.

142. When the Agency was consulted about the situation, it provided a formal document from the Ministry of Environment of Jordan. The document was a statement on the transportation, treatment and final disposal of hazardous waste under regulation No. 2,750, dated 26 November 2019, that proved that a disposal had been conducted under the supervision and cooperation of the Ministry at a specified dumping site.

143. In addition, the Agency explained that the lower quantity had been acknowledged in the already surveyed quantity finalized in December 2019, mentioning that the write-off and removal from the REACH system was to be completed by the material inspection office.

144. In this regard, when the Board reviewed the statements and information provided by the Agency, it noticed that no adjustment had been made in the above-mentioned summary report to address the difference in the REACH system. Furthermore, from a review of the formal document provided by the Agency, it is not possible to reconcile the quantities in that document with the total amount of 1,118,000 fewer tablets detected during our visit.

145. The Board considers that differences between the summary report and the actual inventory stock reveal a lack of control over the maintenance of up-to-date records of the inventory. These differences could lead to a risk of running out of medicine when needed and to the valuation of inventories being not consistent with the actual inventory, affecting the accounting balances.

**146. The Board recommends that UNRWA improve its control process of the physical stock count at the warehouse of the central pharmacy in Amman and in the REACH system so that the information is accurately reflected in the inventory.**

**147. The Board recommends that UNRWA carry out adjustments to the inventory of the warehouse of the central pharmacy in Amman in a timely manner and keep proper documentation of all adjustments.**

148. UNRWA agreed with the recommendations and informed the Board that actions had been taken since February 2020 to update the information in the REACH system.

## **10. Information and communications technology**

### *Disabled audit log table*

149. The information security policy establishes, in paragraph 5.8.2, that audit trails and activity logs must be collected for the validation of data, internal processing and subsequent reviews.

150. During the review of the REACH system, the Board observed that the audit records in the tables were not activated within the system. As a result, it is not possible to call up the history of modifications to the system tables, representing a risk for the Agency in the absence of a record that allows for the control of critical modifications present in the system.

151. The “rec/client” parameter in the REACH system, which can be activated or deactivated during table auditing, was set by default to “off”.

152. As a result of the audit tables being disabled, it is not possible to control and review which users have made changes to the system’s parameters and when they have done so, and to trace modifications as part of an audit or an investigation or for the Agency itself. Furthermore, this fact represents a breach of the information security policies.

**153. The Board recommends that UNRWA activate the REACH system parameter that allows for the registration of the table records and keep it turned on throughout all operations of the Agency in order to generate proper audit records.**

154. The Agency agreed with the recommendation and indicated that it would work on its implementation.

*Non-compliance with system password parameters*

155. Section 5.7.3 of the UNRWA information security policy specifies that information system users shall be required to follow good security practices in the selection and use of passwords. To comply with this mandate, computer systems must have parameters that establish the minimum criteria for forcing the user to generate robust passwords, which are defined in the Information Management Department technical instruction No. 5, revision 2.

156. The information security policy indicates, in section B, regarding password composition, that the minimum criteria for defining password quality rules should ensure that passwords have 12 characters or more.

157. In addition, section D establishes exceptions to the technical instruction and indicates that the ageing parameter for REACH users’ passwords should be set to one year.

158. In order to evaluate the current compliance with the above-mentioned parameters in the systems within the scope of its review, the Board reviewed the configuration of the active directory domain and the REACH system, and noted that they did not comply with the parameters required by the above-mentioned policy, as the minimum password length parameter is set to 8 characters, despite the fact that the policy defines 12 characters as the minimum.

159. The Board considers this situation as a high risk for information security, first, because of the weaknesses in the controls on the security layers (in terms of access) and second, because it is a violation of the instructions defined by the organization itself, which indicate the minimum parameters required.

160. In addition, in the case of the active directory domain, there are other applications that depend on these credentials to access systems, such as the refugee registration information system and Citrix, which, consequently, do not meet the minimum parameters.

161. Finally, regarding the REACH system, there is a risk associated when the system does not have password expirations activated and there is no obligation for users to change the password.

162. **The Board recommends that UNRWA apply password parameters in accordance with what is stated in its access control policy for all users agency-wide.**

163. The Agency accepted the recommendation and stated that it was working on its implementation.

*Lack of control over the SCC4 table (change table)*

164. The purpose of the Information Management Department technical instruction No. 11, revision 1, on the change management (service transition) procedure, is to establish a change management process to ensure that changes are recorded, evaluated, detailed, planned, tested, authorized, implemented, reviewed and documented in a controlled manner with minimized risks and disruption to operational services.

165. The Board performed a review of the change management process by examining the control of the different environments (the development, testing and productive environments).

166. The Board reviewed the SCC4 table and observed that, at the time of being opened, it allowed changes to be made directly in the productive environment, without the need to go through the controls of changes implemented in the system, known as the transport of changes between environments. This control of changes is a critical characteristic of the system, since it provides protection from unauthorized modifications. In this context and on the basis of its examination, the audit team noticed that the SCC4 table was opened and used on 13 January 2019 by the previous REACH system support service provider, Capgemini Italia SpA, whose contract came to an end on 31 May 2019. However, neither the Agency nor the current service provider, the United Nations International Computing Centre, have proper records of the changes applied to the system by Capgemini Italia SpA.

167. The above-mentioned situation shows that the SCC4 table is not properly being controlled by UNRWA, which is a risk to the enterprise resource planning system itself and its transactions.

168. In this particular situation, the risk is even higher, owing to the fact that the audit log that records the opening history is not enabled, which makes it impossible to review the number of times that this table has been used.

169. **The Board recommends that UNRWA define all the conditions and authorizations needed to proceed with the opening of the change table in the REACH system and document it in a formal procedure.**

170. **The Board recommends that UNRWA formally inform the current service provider that the opening of the change table must go through a formal authorization by the Agency.**

171. UNRWA concurred with the recommendations and stated that it was working on their implementation.

*Lack of control over user accounts*

172. The Information Management Department technical instruction No. 5, revision 2, specifies, in its general principles for account management, that all authorized information and communications technology (ICT) users will be provided a unique user account for their sole use and that all accounts must be uniquely identifiable by an assigned username.

173. Regarding the removal of accounts, the aforementioned instruction establishes that the Human Resources Department must notify the Information Management

Department/field ICT office immediately of changes in a user's employment status requiring closure of the individual's account (e.g., as a result of separation). The Information Management Department/field ICT office will then disable/remove all the user's associated accounts in accordance with the applied procedures.

174. The Board conducted a review of the active directory domain and the REACH system in October 2019, testing the validity and controls of user accounts. The results of the tests were as follows:

(a) There were 496 active user accounts in the active directory that belonged to retired personnel of the organization, some of whom had been retired since 2012.

(b) There were 115 active REACH system user accounts that belonged to retired personnel, and their REACH operational roles were still active in the system.

(c) With regard to unlinked personnel, 20 users were identified as having connected to the REACH system after their withdrawal from the organization. When inspecting movements of those users, the Board observed that these users executed operational transactions in the system.

(d) All the 115 aforementioned users, as tabulated in Table II.4 below, had active accounts in the system despite the fact that they were personnel who had retired since 2008. The situation is due to the fact that the password expiration parameters have not been enabled and that the personnel continue to be active in the REACH system.

Table II.4

**Distribution by department of active REACH user accounts belonging to retired personnel**

<i>Department</i>	<i>No. of active user accounts</i>
Not categorized	11
Office of the Commissioner-General	1
Department of Education	6
Department of Health	10
Department of Infrastructure and Camp Improvement	4
Microfinance Department	3
Protection Division	5
Department of Relief and Social Services	4
Information Management Department	1
Department of Security and Risk Management	3
Department of Administrative Support	24
Department of Enterprise Resource Planning	1
External Relations and Communications Department	3
Finance Department	12
Department of Human Resources	14
Department of Internal Oversight Services	4
Department of Legal Affairs	2
Department of Planning	7
<b>Total</b>	<b>115</b>

*Source:* Human Resources Department and auditor analysis.

(e) Twelve generic accounts that can be logged into and that were used by the old service provider are currently active in the REACH system, despite the fact that its contract with the Agency had ended in May 2019. In addition, two of these accounts have shown recent connections to the system, on 19 August and 11 September 2019 (see table II.5).

Table II.5  
**REACH users connected to the system after retirement**

<i>User</i>	<i>Account type</i>	<i>Last login</i>
UNRWA_DM_HR	Dialogue	19 August 2019
UNRWA_PSM2	Dialogue	11 September 2019

*Source:* Auditor analysis.

*Note:* Dialogue accounts are those that are commonly granted to users, which allow them access to and complete interaction with the system.

(f) One duplicated personnel account was identified, which was created in 2016 and was still active in the system on the day of the evaluation, even though the external user was no longer working with the Agency (see table II.6).

Table II.6  
**Employee with two assigned REACH accounts**

<i>Username</i>	<i>Employee name</i>	<i>Account type</i>
MWASAKATILI	XXXXXXXX	Dialogue
MWASAKATILIA	XXXXXXXX	Dialogue

*Source:* Auditor analysis.

*Note:* Dialogue accounts are those that are commonly granted to users, which allow them access to and complete interaction with the system.

(g) The Agency performs an annual control of the active users in the system. In order to evaluate the control, the Board requested from the Agency its most recent annual review of user accounts in the REACH system, conducted in 2018. In that review, it was observed that six user accounts that belonged to retired personnel at that moment had not been detected. Furthermore, the aforementioned user accounts were still active in the system on the day of the Board's evaluation.

175. As a result of the review of the credentials of users granted in the active directory domain and the REACH system, the Board observed an absence of access control, especially in the account removal process, as it identified the existence of many active accounts that belonged to personnel who had retired since 2013. In the case of the REACH system, the accounts showed assigned credentials and some showed connections having been made after the date of staff withdrawal.

176. In the case of the active directory domain, although these users do not have assigned roles, their credentials are used to access other systems. Therefore, if the accounts are not deleted in the domain, access to other systems is feasible, generating a risk of unauthorized users having access to internal systems or of a user acting as a third-party account having power over a complete operation, as well as creating a segregation of duties issue.

177. **The Board recommends that UNRWA strengthen control over access credentials by cleaning the systems and eliminating or blocking users corresponding to retired personnel or unused accounts; by strengthening communication between the Human Resources Department and the Information Management Department in the process of dealing with retired personnel; and by performing periodic reviews of the lists of users present in the systems and validating that the active credentials correspond only to current personnel within the organization.**

178. **The Board recommends that UNRWA associate the personnel accounts in the REACH system with the personnel registered by the Human Resources Department, in order to facilitate and carry out a more efficient control over users.**

179. The Agency agreed with the recommendations and stated that it is working on their implementation.

*Direct assignment of single roles in the REACH system*

180. Paragraph 5.7.4 of the UNRWA information security policy states that information owners must ensure that user registration, access rights and privileges management processes for information systems database applications are clearly articulated in defined information system procedures and instructions”.

181. To comply with this policy, the Information Management Department assigns roles to users, as long as they are approved, through the REACH user access request form. Subsequently, in order to manage these roles, the UNRWA SRAM\_UAT matrix is applied, which allows for the identification of composite roles that must be granted in the REACH system and are to be aligned with the employee’s official responsibilities and entitlements.

182. It is important to note that the roles in the REACH system are managed by means of composite roles, which act as containers of a preset of single roles, and that the documentation and controls already in place are focused on composite roles.

183. In order to evaluate the correct assignment of user roles, the Board selected a sample of 30 user accounts to verify whether users had single roles assigned directly in the system and whether their roles consisted only of composite roles.

184. As a result of the review, the Board was able to determine that 12 cases had single roles assigned directly:

(a) Three users had been assigned single roles; however, their assignment period had already expired;

(b) Nine users had been assigned single roles that corresponded to various functions in the system. One of these cases, being an assignment of a single role for a temporary assignment request, was still operative after two years.

185. An analysis of these results confirmed the existence of single roles assigned directly to REACH users that were not documented in terms of a set of rules to govern them, such as composite roles in the UNRWA SRAM\_UAT matrix. Therefore, there is a risk of assigning roles without knowledge of the attributions of the role. Also, the generation of segregation of duties issues owing to, inter alia, incompatibility with composite roles cannot be evaluated.

**186. The Board recommends that UNRWA evaluate all individual roles assigned to users in the REACH system and eliminate single roles from the users or document the cases in which single roles will be approved.**

187. The Agency accepted the recommendation and stated that it was working on its implementation.

*Absence of a clear and updated policy for the storage and disposal of hard copies*

188. The UNRWA information security policy indicates that information in all formats, including paper and electronic, is recognized as information assets that must be managed and protected.

189. It adds that Agency information assets must be secured against a variety of threats, including, but not limited to, unauthorized use, theft, fraud, wilful damage, human error, natural disasters, flooding, fire, technical failures and other forms of malicious acts.

190. The disposal of UNRWA hard copies is regulated by the document entitled "Schedule for disposition of UNRWA records", issued in 1969.

191. This document is divided based on departments that existed at that time, establishing the different types of documents that each department issued, with their actual or recommended filing method and the authorized disposal method.

192. When the Department of Administrative Support at the Lebanon field office was consulted regarding the disposal of archives, the officer for the field administration services and property management section informed the Board that, in the absence of an updated centralized document, they requested each Lebanon field office department to have their own headquarters management clarify their disposal guidelines.

193. Furthermore, the above-mentioned officer stated that each department classified its documents as confidential or non-confidential and that it treated information differently when taken to recycling according to that dichotomy: the first type of documents was sent directly to the recycling site, while the second type was sent to a non-governmental organization that dealt with recycling.

194. The Board was also informed that the issue of the disposal of archives was addressed in a meeting with the Director of UNRWA Affairs in Lebanon, on 29 January 2019, and the different departments agreed that actions needed to be taken.

195. Among these, the Board observed actions by the Human Resources Department in the Lebanon field office to dispose of documents by selecting all those that were older than five years, except for the personnel files of separated staff members, which are to be kept irrespective of the date of separation, and by applying a document from December 2014 containing a schedule for the disposition of records. In the absence of a specific policy on the matter, the Department also had to refer to the 1969 disposition schedule for UNRWA records and the United Nations retention policy,

196. The Department of Relief and Social Services informed the Board that all information regarding closed family history files would be electronically stored in a database for future retention for three years.

197. In addition, the Department of Health reported that it had an urgent need for additional space to store hospitalization archives, which is why it required storage space from other departments.

198. The Board visited the archives storage location in the Lebanon field office and observed that each department had its own procedure for storing and maintaining their documents in the assigned room.

199. The Board observed that, given that the current policy on the filing method and the disposal of archives is outdated, each department had to address the matter without clear guidelines, following sometimes the old policy and other times the United Nations general policy or its own.

200. The Board considers that not having an updated policy on how to store and dispose information increases the risk of this information being misused, as the untimely or inappropriate manner of the disposal may enable unauthorized use, theft, or other forms of malicious acts, and that the accumulation of hard copies creates problems, such as running out of storage space or sanitary issues.

**201. The Board recommends that UNRWA update the policy on the filing method and the disposal of archives, establishing a method and schedule of disposal, in order to manage and protect information, especially confidential information, in accordance with current standards.**

**202. The Board recommends that UNRWA unify the regulations applicable to headquarters and the different field offices.**

203. The Agency agreed with the recommendations and stated that it was reviewing its information security policy and would publish a revised version. It was also drafting the information governance framework, which would include guidance on how information is to be managed in the Agency overall (e.g., with regard to information security, information management, data quality and data protection). Record retention would also be addressed in an upcoming policy under the information governance framework, which would serve as guidance for the entire Agency.

## **11. Microfinance Department**

204. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs.

### *Weak follow-up procedures for late and delinquent clients*

205. The UNRWA Microfinance Department operating manual establishes that, within a 30-day limit from the due date of a payment, a follow-up procedure has to be performed. Moreover, for late payments, after a maximum period of three weeks, a claim notification has to be sent to the customer and, within 30 days, another claim notification must be issued to the guarantor.

206. During the audit period, it was observed that, in four delinquent client cases (three in the West Bank and one in Jordan), actions to follow up on these deviations were taken after the prescribed time limit and without using the defined documents for these cases.

207. The Microfinance Department personnel neither followed up on nor applied the follow-up procedures as required, which would decrease losses from loan provisions and loans written off and, if remedial action was applied promptly, would discourage other borrowers from becoming delinquent.

208. In this context, the Board holds that deficiencies in performing such relevant follow-up procedures would increase the number of delinquent client cases, resulting in a higher risk of losses for the Microfinance Department.

**209. The Board recommends that UNRWA comply fully with the Microfinance Department operating manuals, especially with regard to issues related to follow-up procedures, to decrease the losses of the Department from loans written off and discourage other borrowers from becoming delinquent.**

210. The Agency agreed with the recommendation and stated that management was aware of the importance of follow-up procedures and their effect on decreasing the losses of late payments and loan provisions.

*Lack of accuracy in follow-up procedures for projects*

211. The UNRWA Microfinance Department operating manuals establish follow-up procedures for borrower projects and instructions for preparing field visit reports to document any change in a client project.

212. Following a review of the procedures and field visits conducted, it was noted that, in two cases (at the Gaza field office), the proper documentation had not been maintained to indicate that an accurate and regular tracking of the projects had been performed.

213. In this context, the Board holds that deficiencies in producing such a relevant report related to the current status of borrower projects may increase the risk of having delinquent clients.

**214. The Board recommends that UNRWA comply fully with the Microfinance Department operating manuals, especially with regard to issues related to project follow-up procedures, and that it maintain updated information, which may lead to a decrease in the risk of client default in the Department.**

215. The Agency agreed with the recommendation and stated that it was aware of the importance of the adoption of follow-up procedures by loan officers and area loan supervisors and preparing field visit reports to document changes in client projects in order to minimize losses resulting from incorrect information about the continuity of client projects and the clients' working status.

### **C. Disclosures by management**

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

#### **1. Write-off of cash, receivables and property**

217. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to \$3.96 million had been recognized during the year: inventory losses of \$1,362,728, identified through inventory valuation; outstanding loans receivables of \$1,286,675; property losses of \$917,030; accounts receivable losses of \$210,409; contribution receivable losses of \$175,761; and cash losses of \$3,906 (see annex II).

#### **2. Ex gratia payments**

218. As required by financial regulation 11.5, UNRWA reported ex gratia payments amounting to \$38,370.97 for 2019. The payments were related to staff separation modalities.

#### **3. Cases of fraud and presumptive fraud**

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

220. During the audit, the Board made enquiries of management regarding its responsibility for oversight in the assessment of risks of material fraud and the

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

221. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in the present report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 63 cases of fraud and presumptive fraud to the Board during the period under review. Of the 63 cases, 35 (56 per cent) investigations were completed and finalized during the year, with quantified losses of \$21,798.42. The remaining 28 (44 per cent) cases were still under investigation, and UNRWA will report on the outcomes of those cases next year. Of the pending 28 cases, 4 relate to 2016, while 7 relate to 2018 and 17 relate to 2019. The Board would like to highlight the improvement on the pace of investigations, as the remaining cases in 2019 represent 44 per cent of the reported cases, when compared with 59 per cent reported cases in 2018. The Board encourages the Department of Internal Oversight Services to continue to increase the rate of investigation of the pending cases. A summary of the cases is contained in annex III to the present report.

222. In addition, the Board consulted the Office of Internal Oversight Services regarding investigations during 2019. The Office reported five ongoing investigations with referrals status; the outcome of those investigations will be reported when concluded.

#### **D. Acknowledgement**

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

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

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

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

21 July 2020

## Annex I

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

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2013	<a href="#">A/69/5/Add.4</a> , chap. II, para. 40	UNRWA agreed with the Board's recommendation that it undertake a mapping exercise to identify and compile in a single document key internal controls for its business processes with reference to other documents providing detailed procedures.	The Agency updated the links and documents related to the UNRWA regulatory framework for further review.	The Board evaluated the evidence provided by the Agency through its governance and accountability instruments, which are in line with the recommendation. Therefore, this recommendation is considered implemented.	X			
2	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 23	UNRWA-West Bank field office agreed with the Board's recommendation to (a) certify the monthly statements submitted by the group medical insurance contractor to authenticate the quality of service delivered and the accuracy of monthly actual expenditure; and (b) reconcile monthly statement submitted by the contractor against the submission made by the staff to validate the accuracy of the information submitted by the contractor.	This is now an embedded approach: the position is agreed between UNRWA and the company each month. In addition, REACH system balances of collected payroll amounts are offset against the payments made on a regular basis so that advances are cleared on an ongoing basis. The closure of this recommendation is requested.	During the interim audit visit, the Board reviewed the contracts in force during 2019, the statements submitted by the contractor and the monthly reconciliations and payments made by UNRWA. In addition, the use of REACH made it possible to compare the payroll information against the payments made.  According to the information provided, during 2019 UNRWA had been, on a monthly basis, certifying and reconciling the statements prior to the approval of payments.  Considering the contract currently in force and the documents on the reconciliation process provided by the Agency, the Board is of the view that the new embedded approach is	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification		
						Implemented	Under implementation	Not implemented
3	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 31	UNRWA agreed with the Board's recommendation to (a) expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and (c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.	The system is under deployment in all field offices. Testing of software enhancements requested by end users is under way, with some delays owing to the coronavirus disease (COVID-19) crisis, and will be completed in the second quarter of 2020.	<p>being properly performed in order to address the issues raised in the recommendation. Therefore, this recommendation is considered implemented.</p> <p>Regarding part (a) of the recommendation, during the physical verification, the Board noticed that not all items had a label with a barcode.</p> <p>Regarding the verifications conducted at the Jordan field office and the Amman headquarters, some items did not have the barcode identifier. At the Lebanon field office, there were no exceptions identified. It was not possible to perform verifications at the field office in the Syrian Arab Republic, the Gaza field office, the West Bank field office and the Gaza headquarters.</p> <p>Regarding part (b), during the physical inspection, the Board was able to see the correct communication between both systems. However, as some items did not have the barcode identifier, it was not possible to check whether the systems were linked for those assets.</p>		X	

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
4	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 36	The Board recommends that UNRWA Lebanon field office (a) ensure that sections and departments provide timely notifications to the Property Management Unit on the new acquisitions, surveyed and transferred assets to allow manual recording and numbering of assets as a short-term solution pending the reactivation of the barcode system; (b) improve communication and build awareness among custodians on raising survey requests and adherence to transfer procedures to ensure timely dissemination of information to the Property Management Unit for updating the assets records; and (c) expedite the reactivation process of the	With regard to part (b) of the recommendation, the Central Support Services Division confirms that the integration with the REACH system has been completed. Barcode enhancements are to be finalized by mid-February 2020. Phase II of the system has been deployed in the Jordan field office and is under deployment in the Lebanon, Gaza and West Bank field offices. The roll-out in the field office in the Syrian Arab Republic, which was not involved in phase I owing to contextual constraints, began in the fourth quarter of 2019. With regard to part (c), the Agency informed the Board that the functionality required was reactivated and remained available to assist with the verification as required.	The link between the REACH system and the barcode system is based on the unique physical identifier. In that regard, the Board considers that it is necessary to label all items to evaluate whether the barcode identifier allows the link between the systems. Therefore, the Board considers this recommendation under implementation.  The main purpose of the recommendation relates to the tracking and monitoring of assets by the system (part (c) of the recommendation). However, during the physical verification, the Board noticed some discrepancies between the system information and the physical characteristics of some assets. Owing to the COVID-19 situation, it was not possible to perform a new physical verification during 2020 to validate the functionality of the system. Therefore, the Board consider this recommendation under implementation.		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
5	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 75	barcode system in the REACH system for easy tracking and monitoring of acquired assets and surveyed and transferred assets from one location to another. UNRWA agreed with the Board's recommendation that it (a) review its procurement manual to include limits for contract renewals in order to enhance fair competition and obtain best value for money; and (b) improve the data collection process to include end users' satisfaction as part of vendors' performance evaluation and ensure that renewal of contract takes into account the results of the Agency's market assessment.	Regarding part (a) of the recommendation, the current version of the procurement manual is being reviewed and the deadline at this stage is the second quarter of 2020. Regarding part (b), subject to the availability of resources, requirements for REACH enhancements to cover vendors' performance evaluation are under elaboration, which, once defined, will subsequently allow for the definition of a timeline.	The Board was informed by UNRWA that this recommendation is subject to the update of the procurement manual and the mandatory assessment of suppliers in the REACH system. Therefore, the recommendation is considered under implementation.		X		
6	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 97	UNRWA agreed with the Board's recommendations that it (a) solicit other sources of funds to complete the remaining work for the project; (b) conduct training for the engineering team on the contract management process to ensure that it takes proactive decisions based on the terms and conditions of contract in order to avoid failures in completing projects; (c) involve legal officers	During 2019, the Agency conducted workshops to discuss the update to the building contract and the contract management process to ensure that terms and conditions of projects were implemented successfully. The Agency conducted a number of discussions on technical instructions, providing guidance on construction to field engineers and senior staff. Furthermore, during a monitoring visit in 2019,	Having reviewed the new evidence provided in October 2019 related to the workshops and the monitoring process carried out during 2019, the Board considers this recommendation implemented.	X			

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			when their intervention is required in events, such as slow progress, which indicate that the work cannot reasonably be completed on the fixed date and that negotiation with donors is needed in order to prolong the funding period; and (d) hold regular meetings to discuss the status of project implementation and the expiry date of the donor funding involving engineers, the External Relations and Communications Department and project officers and maintain regular communication with the executive office in view of a final decision.	specific emphasis was placed on the need to provide training to on-site engineers and project staff on the building contract and construction management process.					
7	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 108	The Board recommends that the Jordan field office (a) ensure that project proposals with a detailed workplan are prepared, in the interests of efficient project implementation and monitoring and to solicit funds; (b) improve preliminary survey and design of construction and maintenance projects and, where feasible, prepare cost estimates on the basis of more detailed information to enable improved accuracy of the cost estimate to be	Regarding part (a) of the recommendation, UNRWA is ensuring that programmes/concerned departments attach workplans to the proposals before submitting to donors. Regarding part (c), the Jordan field office is complying with due dates for submitting progress reports. The only exception is projects funded by the Saudi Fund for Development, on which the frequency of reporting has been set to a monthly basis. This was brought to the	The Board requested information related to the construction projects under the responsibility of the Department of Infrastructure and Camp Improvement and the External Relations and Communications Department at the funding level. Having reviewed the information provided by the Jordan field office, the Board confirms that the evidence is suitable. Therefore, overall, this recommendation is considered implemented.		X		

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			submitted to the donor in order to avoid major changes in the scope of work during project implementation; and (c) ensure that monthly reports are submitted to the donor to comply with the funding agreement.	attention of the donor during one of its missions to the field. Moreover, owing to the specific regulations of this particular donor, the donor representative is made aware of all the stages of the projects that it funds since it needs to approve every single procurement, tender, awarding of contract, variation order, reprogramming activity, etc. before actors in the field take action.					
8	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 119	UNRWA agreed with the Board's recommendation that it develop and deploy a web page for the Department of Security and Risk Management on the Agency intranet in order to improve sharing of security governance documents and other key security-related information and to use the page as a platform to carry out an online security awareness campaign.	UNRWA and the Department of Security and Risk Management provided new information and worked on implementing this recommendation by 2019.	The Board examined the new documentation related to this recommendation during the 2019 period. Based on the current progress, the Board concludes that this recommendation is implemented.	X			
9	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 123	The Board recommends that UNRWA expedite the process of developing business continuity plans for headquarters and field offices to improve continuity of service delivery and enhance the security and safety of the Agency resources during major incidents.	In 2020, the Agency provided documents related to the recommendation. Although it had planned to meet the recommendations in <a href="#">A/72/5/Add.4</a> , chap. II, paras. 119 and 123 by 31 December 2019, it was unable to do so owing to a shortage of staff currently in the Department of	The Agency has made progress in the preparation of its business continuity plan in each field office by drafting business continuity plan working papers. The Board has reviewed and analysed the latest information received and found that the majority of the documents are at a draft		X		

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				<p>Security and Risk Management.</p> <p>In this regard, the Agency disagrees with the Board's assessment and revision of the recommendation.</p> <p>Through the submission of business continuity plans and their review by the Board, the objectives of the recommendation have been met. It was also explained that the plans of the Department of Security and Risk Management were fluid documents providing only guidelines. Effective security-related communication to staff is carried out through various other channels. This has been observed by the Board through its visit to the field, especially to the Lebanon field office during a volatile period. This has been further demonstrated through the recent COVID-19 crisis, during which security-related communication channels with staff were, and still are, effective during this time of uncertainty. Some of these communications were shared with the Board as part of the discussion in the planning of the 2019 year-end audit.</p>	<p>stage, there is no certainty that the documents were developed by the Department of Security and Risk Management, the business continuity plans have not been formally communicated or published in order to make them available to all users, and the majority of the documents have not been updated, some of which are from 2015, 2016 and 2017. Therefore, the Board continues to consider the recommendation under implementation.</p>				

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10	2016	<a href="#">A/72/5/Add.4</a> , chap. II, para. 153	The Board recommends that the West Bank field office (a) establish succession plan on recruitment section so that the absence of one person does not obstruct the recruitment process; and (b) streamline the recruitment process among the hiring departments and human resources and ensure that the detailed interview reports are submitted for appointment within an agreed period of the completed interviews with a view to minimizing delays in the recruitment process.	The West Bank field office human resources unit has the necessary measures in place to provide office coverage to ensure the continuity of its tasks and recruitment process in case of any absences. This succession plan is managed within the respective team and with oversight by the supervisor.  Regarding part (b) of the recommendation, the Human Resources Department has taken steps to avoid delays in the recruitment process and noted that an early warning system should be put in place.	The Agency provided new evidence that shows improvement in the average number of days taken for the recruitment process; therefore, part (b) is considered implemented, in spite of the fact that the recruitment process still does not meet the time frame established by the regulation.  In addition, the West Bank field office provided a plan to replace a staff member during an absence in order to ensure continuity of the recruitment process. This recommendation is therefore considered implemented.	X			
11	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 33	UNRWA agreed with the Board's recommendation that it (a) establish a linkage between salary increment and performance appraisal to ensure that salary increments and promotion of staff are based on performance appraisal, while staff members with uncompleted performance appraisal and unsatisfactory performance are subjected to deferment of annual salary increment as required by personnel directives No. A/3 Rev.1 and No. PD/A/23; and (b) enhance the monitoring of staff performance	The implementation of part (b) of the recommendation has been postponed until 2020.	The Agency has established a periodic monitoring procedure of salary increases through a manual link with a formal opportunity for improvement, a tool meant to manage low performance. Thus, this recommendation is considered implemented.	X			

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			appraisal and ensure that heads of departments and division exercise their supervisory roles with regard to the completion of staff performance appraisal.						
12	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 37	The Board recommends that UNRWA (a) improve its review process in respect of the manual computation of staff entitlements while awaiting the interface between the electronic leave system and the REACH system to minimize the risk of human error; and (b) enhance the time management module in the REACH system through integration with the stand-alone e-leave system to facilitate system computation of leave encashment.	The Agency presented new evidence in order to close the recommendation.	The documentation provided shows improvement in the manual computation of staff entitlements; thus, part (a) of the recommendation is considered implemented. Regarding part (b), e-leave has not yet been integrated with the REACH system. Therefore, the overall recommendation is considered under implementation.		X		
13	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 42	UNRWA field offices agreed with the Board's recommendations that the Agency observe the required time frame for the internal recruitment process for effective and timely service delivery to refugees.	The Human Resources Department has taken steps to avoid delays in the recruitment process and noted that an early warning system should be put in place.	The recruitment trackers provided by the Agency show improvement in the recruitment timeline for 2019. The documents for both field offices present a decrease in the percentage of delayed cases, including fewer days of delay compared with the previous years.  Given the actions taken by UNRWA, the Board considers this recommendation implemented.	X			

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14	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 49	The Board recommends that UNRWA (a) update the existing organizational structure and organizational directive No. 3 to reflect the additional departments and divisions; and (b) indicate the actual number of staff when requesting and accounting for advance grants received from United Nations Headquarters to finance international staff posts under the regular budget.	Given that part (b) of the recommendation is considered implemented and on the basis of the most recent internal discussions in an environment of anticipated Agency-wide change and, hence, shifting priorities, it has been agreed that the completion target for part (a) will be 30 June 2020 (third quarter).	On the basis of internal discussions about Agency-wide changes and the emergence of new priorities, it was agreed that the completion target date for part (a) would be 30 June 2020. Therefore, this recommendation is still considered under implementation.		X		
15	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 89	The UNRWA-Jordan field office agreed with the Board's recommendation to work (a) in coordination with headquarters to develop a comprehensive standard operating procedure, which will set controls for emergency cash assistance from registration to the cash distribution process; (b) institute adequate controls over the registration database to enhance internal checks during registration and changes of records for existing refugees; (c) perform pre- and post-distribution verification to ensure that only the intended beneficiaries receive cash assistance; and (d) ensure that all unregistered refugees not	Parts (b), (c) and (d) of the recommendation are considered closed by the Board. Regarding part (a), the standard operating procedure was developed by the Agency and submitted in March 2020.	The evidence provided by the Agency regarding parts (a), (b), (c) and (d) of the recommendation allow the Board to conclude that those points are closed. Therefore, this recommendation is considered implemented.	X			

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16	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 113	included in the refugee registration information system are attested and registered for effective control. UNRWA-Gaza field office agreed with the Board's recommendation that it (a) ensure that annual procurement plans for medicine and medical supplies are prepared by early January and submitted to the Chief of the Procurement and Logistics Division in the same month for further processing and approval as required under the procurement manual; and (b) work closely with the headquarters to ensure compliance with the established dates in the approved annual procurement plan by issuing purchase requisitions on time to allow the timely release of purchase orders to avoid the risk of stock-out.	During 2019, UNRWA completed a new tender process to establish long-term agreements for the provision of medicines. The new recommended contracts have already been signed by vendors with specific delivery dates.	The Agency established long-term agreement contracts during 2019, which were signed by UNRWA and the vendors in order to avoid delays in the planning of the purchase of medicines. Therefore, this recommendation is considered implemented.	X			
17	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 138	UNRWA agreed with the Board's recommendations that it (a) closely follow up with the guarantors of loan defaulters to recover the long-outstanding loan and liaise with the legal office for legal advice, including enforcement of legal action against the guarantors;	Regarding part (a) of the recommendation, legal actions were taken and collection letters were prepared by the legal office, which will be sent to the intended beneficiaries and guarantors.	After its review, the Board observed that the Agency had prepared collection letters; however, they have not yet been sent to the guarantors. In addition, the Board could not review the eligibility analysis performed prior to granting the loan to avoid granting		X		

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			(b) perform eligibility analysis prior to granting the loan and avoid granting loans to clients whose guarantors refuse to provide monthly income evidence, with a view to reducing the recoverability risks in case of default by clients; and (c) amend the microcredit community support programme guideline of 2012 to reflect the change in the late fee, from 5 per cent to 2 per cent.	Regarding part (b), an eligibility analysis is being conducted according to the standard procedures. Non-UNRWA guarantors who are employed by private companies are providing evidence of their annual income. UNRWA therefore requests that this portion of the recommendation be closed. Regarding part (c), the guidelines contain a mentioned of late fees up to 5 per cent. The Agency therefore does not see a need to amend the guidelines to 2 per cent and requests that this part of the recommendation be closed.	loans to clients whose guarantors refuse to provide monthly income evidence with a view to reducing the recoverability risks in case of client defaults. Finally, the Board could not prove the criteria or methodology of UNRWA in choosing to charge late fees of 2 per cent or up to 5 per cent. Therefore, the Board considers this recommendation under implementation.				
18	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 142	UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.	According to the Agency, the Lebanon field office is working on the implementation of this recommendation and the deadline is the fourth quarter of 2019. It will provide evidence soon, once the contracts are signed.	No new information is available. Therefore, the Board considers the recommendation under implementation.		X		

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19	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 148	The Board recommends that UNRWA-Jordan field office (a) ensure that project workplans are developed and documented prior to implementation of the projects; (b) develop and implement a plan to put in place a field project office equipped with appropriate level of staff; and (c) ensure that project progress reports are prepared at regular intervals for all projects for monitoring the progress of the project and accountability for the resources utilized.	Documents were submitted for verification. Regarding the status of parts (a) and (c) of the recommendation, the Agency considers them as implemented in the Jordan field office; however, the Board may check and decide whether or not to close them.	The Board requested information related to the construction projects under the responsibility of the Department of Infrastructure and Camp Improvement and the External Relations and Communications Department at the funding level. Having reviewed the information provided by the Jordan field office, the Board concludes that parts (a) and (c) are implemented.  Regarding part (b), the Agency explained that the establishment of a strategic project management office would not be possible owing to a lack of resources. Therefore, this part is considered overtaken by events.  Since core points of the recommendation have been implemented, the overall recommendation is considered implemented.	X			
20	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 152	UNRWA agreed with the Board's recommendation that it operationalize the Project Review Committee and ensure that it performs its responsibilities effectively.	The Agency provided copies of minutes of the three quarterly meetings of the Project Review Committee, which were held in 2019, as evidence that the Committee is active.	According to the Board's review, during 2019 the Agency provided evidence to show that the Project Review Committee was operational. Therefore, this recommendation is considered implemented.	X			

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21	2017	A/73/5/Add.4, chap. II, para. 159	<p>The Board recommends that UNRWA (a) document the average time frame for the issue of a closure memorandum by the External Relations and Communications Department after the operational closure of a project for projects which are supposed to be closed and the time frame for administrative closure and financial closure of a project in the system for accountability among the accountable stakeholders; (b) ensure close follow-up in respect of unallocated balances where communication with the donor is needed for reprogramming, refund or transfer to another fund code to allow closure of the projects; (c) close all projects in the system which were indicated by the Department as closed in the project tracker; and (d) develop a work breakdown structure to allocate the pending project fund balance, to avoid the risk of returning the contributed funds to the donors.</p>	<p>In 2019, the Agency provided, for part (a) of the recommendation, a table documenting the average time frame for project closure, by year, from 2012 to 2019. Separate breakdowns are provided for: (a) the average number of days between the terminal disbursement date and the issuance of a closing memo (column A); and (b) the average number of days between the issuance of a closing memo and the closure of the grant in the system (column B). These averages are summed in column C to provide a time frame for the average number of days from the terminal disbursement date to the closure of the grant in the system.</p> <p>The table includes only those grants for which a closing memo has been issued. Grants transferred from the REACH system for which no closing memo has been required have been excluded.</p> <p>Data shows consistent annual improvements since 2017 in the average time required to close grants in the system. Improvements were also noted between 2012 and 2016, although</p>	<p>The Board reviewed the information provided by the Agency and considers that part (a) of the recommendation is implemented.</p> <p>Parts (b) and (c) were subject to sample and evaluation to prove close follow-up and closure of projects. In this regard, these parts are considered implemented.</p> <p>In addition, part (d) is considered overtaken by events.</p> <p>Therefore, overall, this recommendation is considered implemented.</p>	X			

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				<p>this trend was reversed in 2017. This follows the introduction of the REACH system in 2015, which led to a backlog in 2017.</p> <p>On the basis of documented improvements in performance related to the closure of grants, the Agency requests the Board to consider the closure of this part of the recommendation.</p> <p>Regarding part (b), the Agency also submits the above-mentioned table as evidence that close follow-up between the External Relations and Communications Department and donors is resulting in improved performance related to grant closure and requests the closure of this part of the recommendation. A sample of the correspondence between the Department and donors has also been provided.</p> <p>Oversight of unallocated balances is ensured through quarterly meetings of the Project Assessment Committee.</p> <p>Regarding part (c), the project tracker does not list projects that are closed in the system, but does list those that have been completed and are pending</p>				

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				<p>closure in the system. These grants (category 4c) are wrongly labelled as “closed” in the project tracker and henceforth will be relabelled as “completed”.</p> <p>Regarding part (d), the development of a work breakdown structure to allocate project fund balances would not reduce the risk of returning funds to donors. UNRWA manages this risk through close monitoring by project managers, the External Relations and Communications Department, the Finance Department and the Department of Planning. With regard to pending project fund balances, the Agency follows a mandatory process whereby donors are consulted to seek their approval for the reprogramming of remaining funds to an existing work breakdown structure. No pending project fund balance can be added to a work breakdown structure without donor approval.</p>				

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22	2017	<a href="#">A/73/5/Add.4</a> , chap. II, para. 160	The Board recommends that UNRWA enhance communication between the External Relations and Communications Department, the Finance Department and the Department of Planning, to ensure the smooth monitoring of project implementation and timely processing of pending financial and other reports so as to expedite project closure.	The above response to parts (a) and (b) of the recommendation in <a href="#">A/73/5/Add.4</a> , chap. II, para. 159 is also provided as evidence of the close communication between the External Relations and Communications Department, the Finance Department and the Department of Planning, resulting in the expedited closure of completed grants.	The Board reviewed the information provided by the Agency and requested a sample in order to prove this communication; the evidence was subsequently provided. Therefore, this recommendation is considered implemented.	X			
23	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 21	The Board recommends that UNRWA adjust the cash accounts in a timely manner and verify that they tally with the physical cash balances, in order to disclose accurate balances in the financial statements.	The Agency provided evidence to support the write-offs, as requested.	The Board reviewed the evidence provided to support the write-offs for the amounts in question, which were verified in the REACH system and included the necessary authorizations. Therefore, the Board considers this recommendation implemented.	X			
24	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 29	The Board recommends that the Finance Department of the UNRWA West Bank field office ensure proper accounting recognition of canteen revenue transactions and that it enhance communication with the Department of Education to reflect all information in its accounting records.	The West Bank education programme has submitted the 2019 consolidated financial school canteen report for new Israeli shekels and Jordanian dinars to the Finance Department, with the required supporting documents from all area education officers and the bank statements for all schools in the West Bank, in due time to be	The Board has identified differences between the cash journal entries and the canteen revenue report for new Israeli shekels. Therefore, this recommendation is considered under implementation. The West Bank field office mentioned that these differences would be		X		

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				recognized and recorded in the REACH system, as appropriate. The process is in its final stage, the target date for which is the end of 2019.	recorded upon resumption of work at the offices.				
25	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 37	The Board recommends that UNRWA take measures to record the precise quantity of each item in the inventory in REACH, which would allow it to manage the physical inventory in an appropriate manner and to report the information accurately and with integrity.	Following extensive exchanges on the matter, UNRWA considers that a justification for the incident was provided to the Board and remains ready to discuss further, if needed. The closure of this recommendation is requested.	Although an instruction was issued by the organization to control the cases of books recorded as in-kind donations, it was observed that during 2019, a new in-kind donation of books was registered under a single item (one book). However, the value related to this item was more than 650,730.20 Jordanian dinars, providing evidence that the above-mentioned instruction was not being followed. Therefore, this recommendation is considered under implementation.		X		
26	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 38	The Board recommends that the entity review the items entered under material identification code 55101509.0001 and make the appropriate corrections.	Following extensive exchanges on the matter, UNRWA considers that a justification for the incident was provided to the Board and remains ready to discuss further, if needed. The closure of this recommendation is requested.	Given the evidence provided by the Agency, the information surveyed from the REACH system and the Agency's position related to this matter, the recommendation is considered overtaken by events.				X

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27	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 52	The Board recommends that UNRWA implement an objective, accurate, reliable and consistent attendance control mechanism, which considers the entry and exit record as established in the relevant personnel directive, in order to guarantee correct registration of and compliance with the working hours established in area staff rule 101.1.	The Agency disagrees with the recommendation and considers its implementation unfeasible. It also notes that it issued a no pay for no work standard operating procedure, related to strikes in Gaza, to recover the money from workers who did not come to work because of a strike, but that it was not able to recover all of the money for hours not worked. Furthermore, the Agency incorporated amendment 5 into personnel directive No. A/1/PartI/Rev.1, related to maintaining an accurate attendance record at work. This amendment states that staff members' absence and attendance must be recorded in a timely manner in the applicable electronic systems. These electronic systems refer to the automated attendance machines/devices that were installed at the gates of the Amman headquarters in December 2019. Attendance has been monitored since then, and staff members who forget to sign out are reminded the following day to adhere by the instructions to scan in and out using their e-cards.	The Board considers that the amendment to the regulation and the electronic systems installed at the gates are appropriate and sufficient. Therefore, this recommendation is considered implemented.	X			

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28	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 53	The Board recommends that UNRWA headquarters and field offices issue and publish circulars indicating their respective schedule of hours of work, in accordance with personnel directive No. A/1/Rev.1/Amend.1.	The Agency sent an email on 17 October with a circular to remind staff of their working hours. Working hours were also incorporated in annex A of personnel directive No. A/1/PartI/Rev.1, amendment 5.	Given the evidence provided and the analysis thereof, this recommendation is considered implemented.	X			
29	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 63	In the event that UNRWA reissues instructions related to austerity measures, especially overtime restrictions, the Board recommends that the types of overtime to be reduced be clearly specified, as doing so would make it possible to evaluate and quantify the net savings of employee austerity measures at all levels of operations and assess their effectiveness.	The Agency considers that this recommendation should be closed, given that austerity measures no longer apply for the current year.	Considering that the austerity measures are no longer applicable for the period under review and the circumstances that generated the recommendation no longer exist, the Board considers this recommendation overtaken by events.				X
30	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 74	The Board recommends that UNRWA establish unified criteria for the terms regarding the submission of claims for injuries, by reconciling the area staff rule and the personnel directive and maintaining the appropriate distinction between the shorter term needed for the initial notice and the longer term needed for the submission of claims for compensation.	The Agency pointed out that the implementation of this recommendation was moved to the third quarter of 2020 owing to Agency priorities.	Taking into consideration the Agency's statements and the absence of evidence to be analysed. This recommendation is considered under implementation.		X		

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31	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 84	The Board recommends that UNRWA take action to lower the percentage of annual and advance annual leaves starting prior to approval and to allow the situation to occur only in special cases, in order to comply with part I, article 1.1 of personnel directive No. 5/Rev.7, and to issue circulars and/or communications accordingly.	The Agency disagrees with the recommendation and considers its implementation unfeasible. In spite of its disagreement, the Agency incorporated amendment 5 into personnel directive No. A/1/PartI/Rev.1, related to maintaining an accurate attendance record at work.	The Board has reviewed the process of annual and advance leaves for 2019 and has observed that the situation remains unchanged: 61 per cent of applications were submitted after taking the annual leave. UNRWA disagreed with the recommendation, even though the process is regulated in the personnel directive.  This recommendation is considered under implementation.		X		
32	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 92	The Board recommends that UNRWA support its commitments with the appropriate commitment documents, so as to comply with rule 105.9 of the Financial Regulations and Rules of the United Nations.	UNRWA stated that it will review the complementary personnel directive No. CPD/1 (2017) on the contracting of individual service providers, with the objective of strengthening contract management, policy compliance, monitoring and reporting with respect to individual service providers.	The Board requested evidence regarding the review of the complementary personnel directive No. CPD/1 (2017) on the contracting of individual service providers and a sample was taken, after which evidence was provided.  Therefore, this recommendation is considered implemented.	X			
33	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 97	The Board recommends that UNRWA issue an official update to the third version of its procurement manual to take into account the changes in the levels of delegated authority, review requirements, the awarding of authority and the redelegation of authority.	The manual revision has been delayed owing to a lack of resources. It is now included among the Agency's management initiatives for which specific resources are being sought. The target date is the fourth quarter of 2021.	The Board took into consideration the Agency's responses and, owing to the fact that the target date for this task has been moved to the fourth quarter of 2021, this recommendation is considered under implementation.		X		

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
34	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 104	The Board recommends that UNRWA review all administrative instructions and have them updated and aligned with the procurement manual.	The manual revision has been delayed due to a lack of resources. It is now included among the Agency's management initiatives for which specific resources are being sought. The target date is the fourth quarter of 2021.	The Board took into consideration the Agency's responses and, owing to the fact that the target date for this task has been moved to the fourth quarter of 2021, this recommendation is considered under implementation.		X		
35	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 118	The Board recommends that UNRWA increase its internal control measures during the initial stage of the procurement process in order to avoid the use of vendors and suppliers that have been sanctioned or identified as ineligible, whether internally or externally by United Nations organizations.	Following extensive exchanges on the matter, UNRWA considers that a justification for the incident was provided to the Board and remains ready to discuss further, if needed. The closure of this recommendation is requested.	On the basis of the evidence provided by the Agency and the review performed by the Board, during which no similar issues were detected during 2019, this recommendation is considered implemented.	X			
36	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 129	The Board recommends that UNRWA outline, in a manual or in instructions, the conditions, restrictions and requirements for when a given vendor is to be blocked and unblocked.	A standard operating procedure has been drafted with some delay owing to COVID-19 and limited resources. The target date is the second quarter of 2020.	The Board took into consideration the Agency's responses and, owing to the fact that the target date for this task has been moved to the second quarter of 2020, this recommendation is considered under implementation.		X		
37	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 138	The Board recommends that UNRWA comply with regulations during budget execution and that it prepare complete and specific quarterly expenditure reviews on a timely basis.	UNRWA submitted budget technical instruction No. 7 on quarterly expenditure reviews through letter of transmittal No. 7/01.	The Board requested evidence regarding the review of the policy stipulating that quarterly expenditure reviews be included and evidence generated in 2019 about quarterly expenditure for the first, second and third quarters. On the basis of	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
					the analysis of updated budget technical instruction No. 7 and the supporting documents, the Board concludes that this recommendation is implemented.				
38	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 145	The Board recommends that the UNRWA Information and Communications Technology Governance Board hold quarterly meetings, in accordance with its terms of reference, as established by the Agency on 1 December 2015, owing to the importance of oversight for the overall UNRWA information management strategy.	The Information Management Department states that it resumed the Information and Communications Technology Governance Board meetings in 2019. Two meetings were conducted, on 18 February and 28 May 2019. Quarterly meetings are to be scheduled in due time. Meeting minutes will be shared with the Board. Consequently, this recommendation should be closed.	The Board has received and reviewed the meeting minutes and other requested documentation. As a result, the recommendation is considered implemented.	X			
39	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 153	The Board recommends that UNRWA improve access controls for both its switch rooms and its satellite wide area network dish, in order to comply with its information security policy and with technical instruction No. 8 (2017) of the Information Management Department.	Although the Agency sees the recommendation as inapplicable, the Information Management Department is in the process of installing a fence to further protect the satellite wide area network dish.	The Board conducted a physical verification of the implementation of all points indicated in the recommendation, from the satellite wide area network dish to the server rooms and switch rooms, and the Board was able to verify the completion of the work and improvements performed by the Agency. Therefore, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
40	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 160	The Board recommends that the Jordan, West Bank and Lebanon field offices of UNRWA conduct a disaster recovery exercise at least once per year, to comply with the tests required by the UNRWA information security policy and with technical instruction No. 7 (2012) of the Information Systems Division.	The Agency provided evidence from the Jordan field office, which confirms that a disaster recovery exercise was successfully conducted on 20 March 2019. Consequently, this recommendation has been completed for the Jordan field office.	The Board reviewed all information provided by the Agency and noted that the latest evidence related to the West Bank field office did not relate to disaster recovery exercises conducted but to a business continuity plan instead. Therefore, the overall recommendation is considered under implementation.		X		
41	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 170	The Board recommends that the Lebanon field office record accrued interest and late payment fees on an accrual basis, as the loans are granted with maturity dates and conditions determined by and previously known to UNRWA, in order to comply with IPSAS 1.	The Agency provided in 2019 a new analysis that contains the accrued interest of the loans of the Lebanon field office.	The Board has received and reviewed in detail the loans granted by the microcredit programme in the Lebanon field office and, unlike in the previous period, it was identified that the interest expense and accrued interest on these loans had been recorded and had no material differences compared with the trial balance. Therefore, the Board considers this recommendation implemented.	X			
42	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 178	The Board recommends that the management of the UNRWA Microfinance Department establish formal, written procedures and policies to be applied consistently across the Department, supported by training for staff members currently handling the risk management functions.	The Agency sent a duly signed final version of the risk management framework from the Microfinance Department management.	The Board reviewed the risk management framework provided by the Agency and concludes that this recommendation is implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
43	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 182	The Board recommends that the UNRWA Microfinance Department set up and activate an independent system to confirm the loan instalment payments made, along with the remaining outstanding balances, directly with the borrowers. The system may be automated by having messages sent to borrowers on a regular basis, indicating the instalments paid and the loan balance as at the date of the message.	The Agency implemented the recommendation in the West Bank and Gaza, and the implementation is still in progress in Jordan and the Syrian Arab Republic. The task is expected to be finalized by the fourth quarter of 2020 in Jordan, and there is no specific date for implementation in the Syrian Arab Republic.	The Board reviewed the evidence on hand and statements made by the Agency. As a result, this recommendation is considered under implementation.		X		
44	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 187	The Board recommends that the Microfinance Department obtain management approvals over the authority matrix in order for it to be implemented in the Omni application, given the potential for conflict of interest with regard to the segregation of duties.	The Microfinance Department management approved the Omni users authority matrix.	The Agency has established an authority matrix for the Omni application. Therefore, the recommendation is considered implemented.	X			
45	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 188	The Board recommends that UNRWA improve the process of granting access to generic accounts in order to avoid the associated risks, taking into account the following considerations: maintain a formal user access form, along with the management's approvals, to grant or revoke access to generic accounts in order to	The Microfinance Department management endorsed a generic account policy and circulated it to staff to start implementation on 1 November 2019.	The Board reviewed the evidence on hand and statements made by the Agency. As a result, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Recommendation of the Board	UNRWA response	Assessment of the Board	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	
46	2018	<a href="#">A/74/5/Add.4</a> , chap. II, para. 191	establish accountability; disable the current account of the employee before granting the new account, so as to avoid problems associated with the segregation of duties; and have Omni application activities logged and reviewed on a periodic basis by an independent party at the management level, in order to identify any violations and any alarming or excessive actions taken during the period. That review must be formally documented for future reference.	The Board recommends that the UNRWA Microfinance Department perform an immediate review of Omni application users with access to the relevant screens for general provisioning settings, restrict such access on the basis of job description and appropriate management level and remove any unnecessary or inappropriate access.	The Agency has established an authority matrix for the Omni application. The recommendation is considered implemented.	The Agency has provided the current settings of the access rights to the Omni application, and only browse mode is available. Therefore, the recommendation is considered implemented.	X			
<b>Total</b>						<b>46</b>	<b>27</b>	<b>17</b>	<b>0</b>	<b>2</b>
<b>Percentage</b>						<b>100</b>	<b>59</b>	<b>37</b>	<b>-</b>	<b>4</b>

## Annex II

## Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2019</i>	<i>2018</i>	<i>Increase/(decrease)</i>
Cash	3 906	–	3 906
Inventory	1 362 728	745 487	617 241
Property	917 030	713 916	203 114
Outstanding contribution receivables	175 761	–	175 761
Outstanding account receivables	210 409	451 526	(241 117)
Outstanding loans receivables	1 286 675	1 244 163	42 512
<b>Total</b>	<b>3 956 509</b>	<b>3 155 092</b>	<b>801 417</b>

Source: UNRWA information.

## Annex III

### Cases of fraud and presumptive fraud reported to the Board for the year 2019

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
17/01	Field office	Theft	Undetermined	Anonymous complaint detailing many allegations, one of which was the theft of fuel by staff members.	Closed: unsubstantiated
17/02	Field office	General fraud	Undetermined	Submission of a false certificate to obtain employment within the Agency.	Closed: unsubstantiated
17/03	Field office	General fraud	Undetermined	Items from a shelter were being stored in the home of a staff member's brother.	Closed: unsubstantiated
18/04	Field office	General fraud	0	An Administrative Officer submitted a false certificate to obtain employment within the Agency.	Closed: substantiated
18/05	Field office	General fraud	0	False claim about a master's degree by a staff member.	Closed: substantiated
18/06	Field office	General fraud	200.00	An Outreach and Replacement Officer attempted to defraud the Agency by submitting fake outreach activities together with a request for reimbursement of taxi expenses for duty-related visits that did not happen (reported also under case No. 17-0127).	Closed: substantiated
18/07	Field office	General fraud	50.00	Former camp service officer returned his UNRWA laptop with a new hard disk and kept the original UNRWA hard disk.	Closed: substantiated
18/08	Field office	General fraud	Undetermined	A Nursing Officer claimed that all calls were official although some calls seemed to be private.	Closed: management intervention
18/09	Field office	Theft	Undetermined	A laptop and liquid crystal display device were stolen from the health centre although all door locks had been changed recently and no broken windows or doors were found.	Closed: unsubstantiated
18/10	Field office	Theft	4 000.00	A guard stole a car and a horse that were not UNRWA property.	Closed: unsubstantiated
18/11	Field office	General fraud	Undetermined	A false claim was made for reimbursements of medical drugs prescribed to beneficiaries.	Closed: substantiated
18/12	Field office	General fraud	Undetermined	Misuse of an Agency vehicle.	Closed: unsubstantiated
18/13	Field office	General fraud	15 000.00	An UNRWA staff member used another staff member's signature to receive a loan from microfinance.	Closed: substantiated
18/14	Field office	Theft	Undetermined	Alleged theft of stationery from an UNRWA school.	Closed: unsubstantiated
18/15	Field office	Theft	Undetermined	A generator and two air conditioning units, cleaning materials and medicines were stolen from a health clinic and damage was done to the clinic's doors.	Closed: unsubstantiated

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
18/16	Field office	Theft	Undetermined	An electric screwdriver and a fitting machine were stolen.	Closed: substantiated, police caught external thief
19/17	Field office	Theft	Undetermined	The subject allegedly replaced some of the internal parts of some of the information technology equipment with cheaper ones in the computer lab in Khan Yunis elementary school for boys.	Closed: allegation recorded for information purposes as the subject is unknown
19/18	Field office	Fraud	Undetermined	Misuse of an Agency vehicle.	Closed: management intervention.
19/19	Headquarters	Fraud	2 435.42	Staff added families to the refugee registration information system who were not eligible as they were not Palestine refugees.	Closed: substantiated
19/20	Field office	Fraud	Undetermined	Misrepresentation of academic certificate.	Closed: substantiated
19/21	Field office	Theft	Undetermined	Several thefts and misuse of materials and X-ray films from the X-ray division in an Agency hospital.	Closed: management intervention
19/22	Field office	Theft	Undetermined	The subject stole a hard disk out of an UNRWA laptop.	Closed: allegation recorded for information purposes as the subject was on a limited-duration contract that had ended.
19/23	Field office	Fraud	Undetermined	Allegation that one of the invoices for an in-service accident was tampered with.	Closed: unsubstantiated
19/24	Field office	Theft	Undetermined	The subject stole material (one school closet, one bookshelf, one whiteboard, 2.5-inch steel tab, four wood sheets, five wood sheets (size 4.5 m), toilet paper, nine plastic chairs and one pipe wrench) from an UNRWA school storeroom.	Closed: substantiated
19/25	Field office	Fraud	85.00	A staff member approved the selling of sawdust without obtaining approval and did not register the received payment as income.	Closed: substantiated
19/26	Field office	Theft	Undetermined	A staff member stole an air conditioning system and 10 laptops.	Closed: unsubstantiated
19/27	Field office	Fraud	The alleged fraud was external, not internal.	Staff members stole donated items (bicycle, clothes, computer and computer table, and desk).	Closed: unsubstantiated
19/28	Field office	Theft	28.00	A staff member was found stealing some items from his workstation.	Closed: substantiated
19/29	Field office	Corruption	Undetermined	Allegation of receiving a bribe to open bid envelopes of a certain company.	Closed: unsubstantiated
19/30	Field office	General fraud	0	The subject issued food coupons for dead or travelling beneficiaries.	Closed: unsubstantiated

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
19/31	Field office	Theft	0	A job creation programme staff member allegedly stole money from UNRWA staff.	Closed: unsubstantiated
19/32	Field office	General fraud	0	A staff member submitted fabricated medical reports in an attempt to deceive human resources to convene a medical board to assess his medical fitness.	Closed: unsubstantiated
19/33	Field office	Theft	Undetermined	Food distribution staff members took food rations for their own benefit.	Closed: management intervention
19/34	Field office	Entitlements Fraud	0	An UNRWA doctor worked at his private clinic during sick leave.	Closed: unsubstantiated
19/35	Field office	General fraud	Undetermined	Allegations of selling UNRWA vehicle lubricant at a local market.	Closed: unsubstantiated
<b>Total</b>			<b>21 798.42</b>		

Source: Department of Internal Oversight Services.

## **Chapter III**

### **Certification of the financial statements**

#### **Letter dated 31 March 2020 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors**

Pursuant to financial regulations 11.4 and 12.2, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2019.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2019.

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

## Chapter IV

### Financial report for the year ended 31 December 2019

#### A. Introduction

##### Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2019, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

#### B. Financial and budget analysis

##### Summary

2. The year 2019 has been another challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5.6 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2019, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite its internal challenges and the challenges associated with its political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic, political and social instability in Lebanon and the security concerns with which the Agency is faced on a daily basis.

4. Donors continued to provide support, with \$968.7 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic. Following the loss of a key donor, announced in 2018, the Commissioner-General engaged with traditional and new donors to bridge the gap; however, that did not materialize into sufficient donor contributions to bridge the deficit.

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

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

##### Financial performance for 2019

7. The Agency's total revenue and income for 2019 was \$1,000.8 million, compared with total expenses of \$1,173.1 million, resulting in a net deficit of \$172.4 million for 2019.

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

Table IV.1  
**Summary financial performance by fund for the period ended 31 December 2019**

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Total revenues	621.0	23.6	12.9	213.9	162.4	(33.0)	1 000.8
Total expenses	765.0	22.3	10.4	264.7	144.1	(33.3)	1 173.1
<b>Surplus/(deficit) for the year</b>	<b>(144.0)</b>	<b>1.4</b>	<b>2.5</b>	<b>(50.8)</b>	<b>18.3</b>	<b>0.3</b>	<b>(172.4)</b>

9. The programme budget and the emergency appeals recorded deficits of \$144.0 million and \$50.8 million, respectively. The deficit in the programme budget is due to the loss of a key donor and limited contributions, compounded by the unfunded end-of-service liabilities of \$843.6 million, with interest costs of \$28.1 million, service costs of \$43.4 million and past service costs of \$15.4 million contributed during the year. The deficit in emergency appeals is due to reduced income in 2019. The latter deficit was managed, however, by carrying forward balances from the previous year and by the deferral of payables at year end.

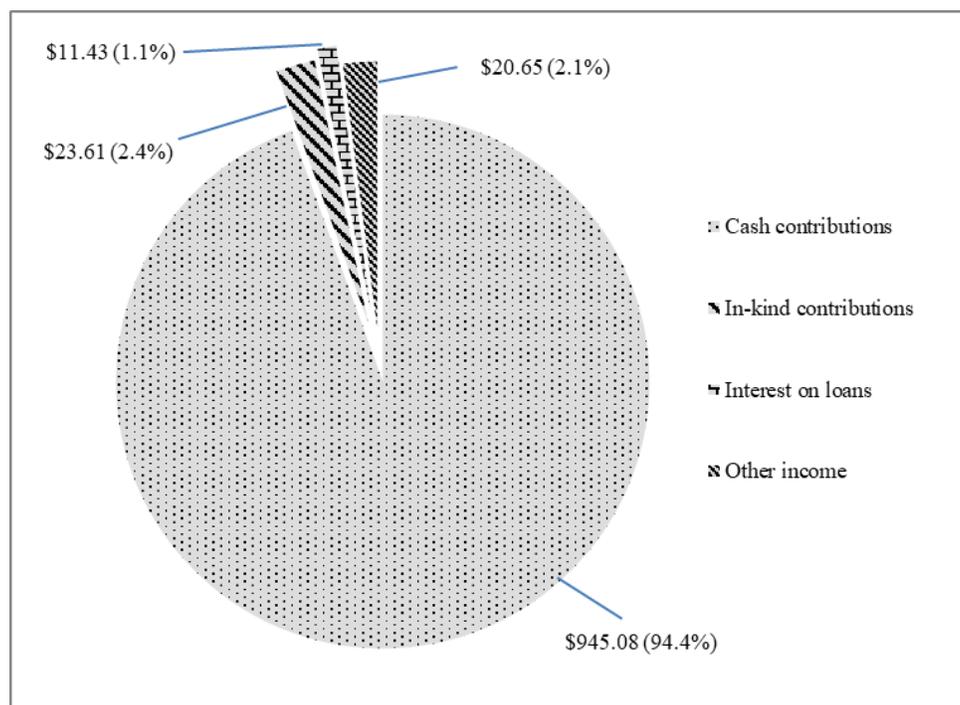
10. The restricted funds and the Microfinance Department reflected surpluses of \$1.4 million and \$2.5 million, respectively. The projects funds recorded a surplus of \$18.3 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

#### **Revenue analysis**

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 94 per cent (\$945.1 million) of total revenue. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$23.6 million. This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.I  
**Revenue and income sources**

(Millions of United States dollars)



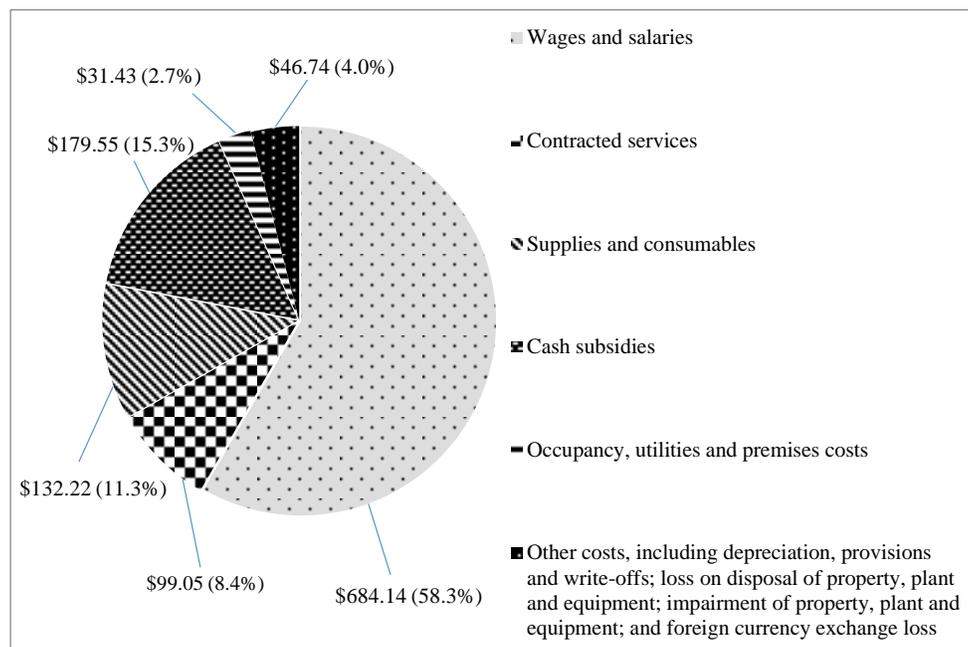
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 74/83), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 74/84) and operations of UNRWA (most recently, resolution 74/85). At its seventy-fourth session, the Assembly extended the Agency's mandate until 30 June 2023 (see resolution 74/83). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 28 members and 4 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is, at the same time, engaged in developing funding from the private sector.

#### Nature of expense analysis

13. The Agency spent a total of \$1,173.1 million in 2019. Staff costs of \$684.1 million represented 58 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II  
Expense analysis by nature of expense

(Millions of United States dollars)



14. A total of \$99.1 million was spent on contracted services, representing expenses related to the Agency's engagement of third parties to perform work on its behalf. Of that amount, \$31.5 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency and which falls below the capitalization threshold. A total of \$25.9 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$132.2 million was spent on supplies and consumables, including \$79.5 million for basic commodities and \$2.3 million for fresh food. An amount of \$26.1 million was spent on medical supplies, and \$4.6 million was spent on text and library books. The sum of \$5.1 million was spent on transportation supplies.

16. A total of \$179.6 million was spent on subsidies, including \$131.4 million distributed to beneficiaries to provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and for rent subsidies. The sum of \$30.5 million was provided as subsidies for the construction and repair of shelters, and \$3.9 million was provided for patient subsidies.

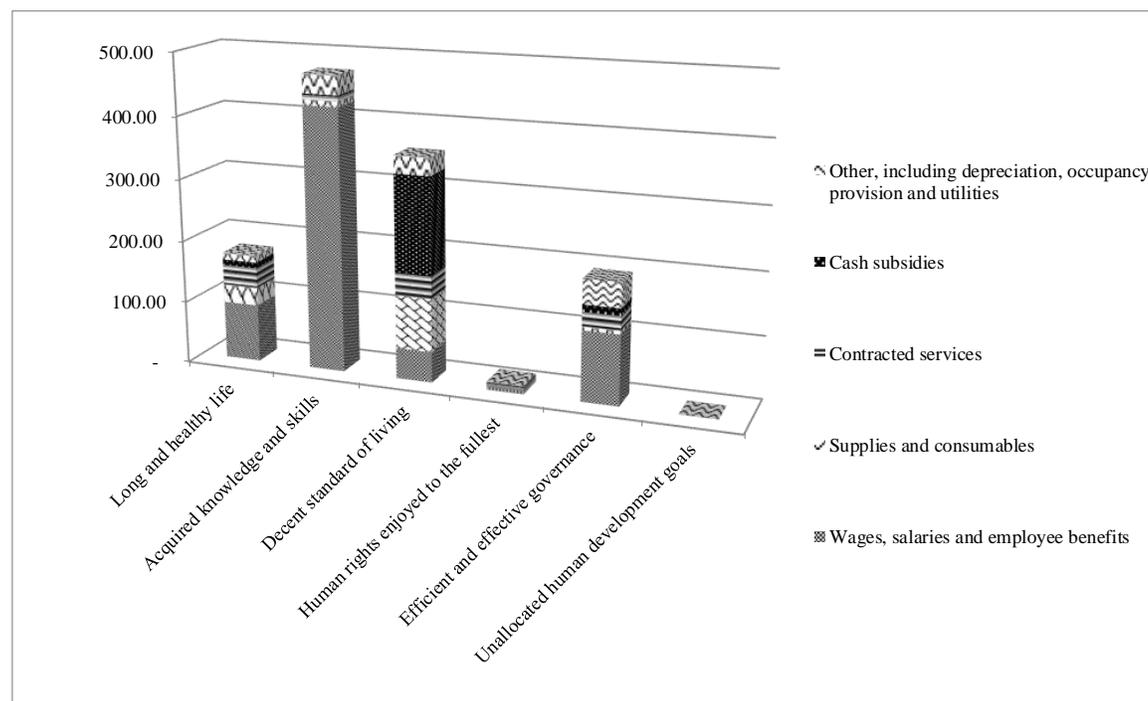
17. Occupancy and utility costs totalled \$31.4 million in 2019. Other expenses, amounting to \$46.7 million, included depreciation, provisions and write-offs, loss on disposal, impairment of fixed assets and foreign currency exchange loss.

#### Human development goals and Agency programmes: expense analysis

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

Figure IV.III  
Expense analysis by human development goal<sup>a</sup>

(Millions of United States dollars)



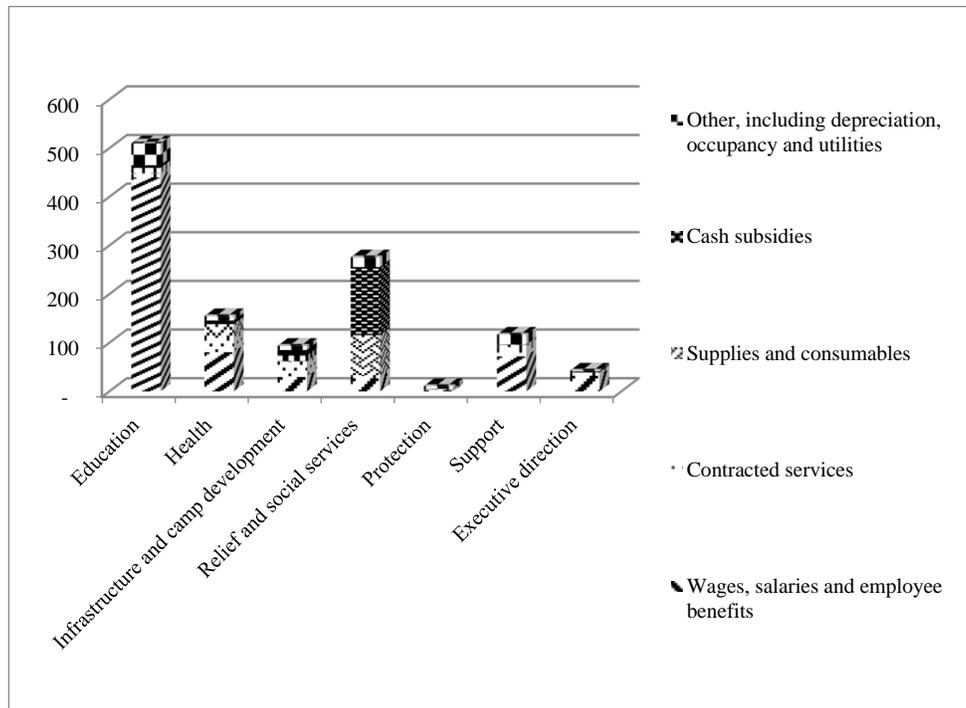
<sup>a</sup> \$33.3 million in inter-segment eliminations are excluded from the analysis.

19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV below shows the 2019 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by human development goal.

20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$174.8 million (14 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (\$155.1 million). Approximately 52 per cent (\$80.6 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 20 per cent (\$28.2 million) spent on medical supplies and consumables and 19 per cent (\$29.5 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 5 per cent (\$7.4 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

21. An amount of \$470.9 million, representing 39 per cent of the Agency's 2019 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme (\$510.0 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

**Figure IV.IV**  
**Expense analysis by programme<sup>a</sup>**  
 (Millions of United States dollars)



<sup>a</sup> \$33.3 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$355.5 million, or 29 per cent, of UNRWA expenses, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp improvement programmes (\$275.9 million and \$94.0 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Twenty-four per cent of the expenses (\$86.0 million) dedicated to the pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$155.8 million was provided in the form of cash subsidies.

23. An amount of \$192.2 million, or 16 per cent, of the Agency’s 2019 expenses enables effective and efficient governance, which supports the activities aimed at accomplishing the four human development goals. Executive direction manages all aspects of the Agency’s work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$43.2 million and \$117.2 million, respectively. Fifty-nine per cent of the expenses for effective and efficient governance (\$112.5 million) was spent on wages and salaries.

25. An amount of \$13.2 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries; safeguarding and advancing the rights of Palestine refugees; strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, together with the services provided to achieve the objectives of the human development goal of a decent standard of living. The Protection Division was established to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were \$11.2 million.

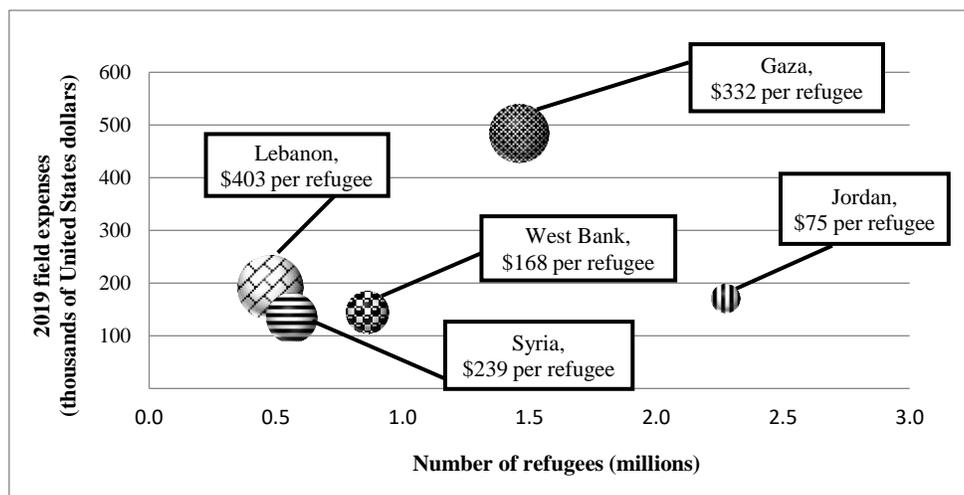
#### **Geographical location: expense analysis**

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

27. The average 2019 expense per refugee in the Gaza field office is \$332. The Gaza Strip has 1,460,315 registered Palestine refugees. Reconstruction of the extensive physical damage and destruction of the 50-day conflict in 2014 advanced despite Israeli restrictions on cement imports, machinery, steel, water pumps, elevators, which slowed progress. Additionally, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and monitoring of the materials the Agency imports into the Gaza Strip. Lack of funding also remains a cause of slow progress. UNRWA continues its efforts to provide relief, education, health and other human development services in the aftermath of the hostilities and deteriorating socioeconomic conditions after almost 13 years of blockade. The Gaza field office supports 8 camps, 276 schools, 2 vocational and technical training centres, 22 primary health centres, 7 community rehabilitation centres and 7 women's programme centres.

28. The Lebanon field office has the lowest number of registered refugees, at just over 476,033, and the average expense per refugee is \$403. Palestine refugees face challenges in relation to access to services and limitations on the right to practise certain professions, and many live in UNRWA refugee camps. The field office supports 12 camps, 65 schools, 1 vocational and technical training centre, 27 primary health centres and 8 women's programme centres. Average expense is higher in Lebanon owing to higher hospitalization and schooling costs.

Figure IV.V  
Average 2019 expenses per registered refugee, by field<sup>a</sup>



<sup>a</sup> \$80.2 million in headquarters expenses and \$33.3 million in inter-segment eliminations are excluded from the analysis.

29. There are more than 858,758 Palestine refugees registered with the West Bank field office, with one quarter of them living in 19 refugee camps. Palestine refugees in the West Bank continue to face several socioeconomic and other protection challenges and concerns arising from the ongoing Israeli occupation. The average 2019 expense per registered Palestine refugee in the West Bank is \$168. In addition to the 19 camps, the field office supports 96 schools, 2 vocational and technical training centres, 43 primary health centres, 15 community rehabilitation centres and 19 women's programme centres.

30. The Syrian Arab Republic field office is mandated to provide services to nearly 562,312 registered Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2019 expense per registered refugee is \$239. The ongoing armed conflict in the Syrian Arab Republic has, among other things, severely affected the economy, including the socioeconomic conditions of the Palestine refugee community. The field office supports 9 camps, 103 schools, the Damascus Training Centre, 24 primary health centres and 12 community rehabilitation centres.

31. Over 2,272,411 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan are understood to have citizenship rights, with the exception of some 166,116 Palestine refugees displaced from Gaza as a result of the 1967 hostilities and their descendants ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. Expense per refugee, at \$75, representing the lowest average in 2019, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 169 schools, 2 vocational and technical training centres, 25 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Commissioner-General's Office, the Department of Finance, the Information

Management and Technology Department, the External Relations and Communications Department and the Protection Division, as well as the departments of education, health, relief and social services, infrastructure and camp improvement and microfinance. The headquarters function is also carried out at representative offices in New York, Washington, D.C., and Brussels and at a liaison office in Cairo. Headquarters expenses comprise primarily wages and salaries (\$49.6 million), contracted services (\$11.7 million) and provisions and write-offs (\$3.0 million), as the value added tax (VAT) and contribution receivables are managed at headquarters in the Gaza Strip and Amman.

### Financial position at the end of 2019

33. The Agency's net assets/equity decreased from \$239.3 million as at 31 December 2018 to a net liability of \$0.8 million as at 31 December 2019, owing to the deficit recorded for the year 2019 (\$172.4 million) and actuarial loss on end-of-service liabilities (of \$77.8 million).

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

Table IV.2

### Summary financial position by fund as at 31 December 2019

(Millions of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund elimination</i>	
Current assets	109.2	14.6	46.1	94.6	192.2	(22.6)	434.0
Non-current assets	476.8	1.1	1.8	–	20.4	–	500.3
<b>Total assets</b>	<b>586.0</b>	<b>15.7</b>	<b>47.9</b>	<b>94.6</b>	<b>212.6</b>	<b>(22.6)</b>	<b>934.3</b>
Current liabilities	155.6	1.1	1.4	19.8	24.7	(22.6)	179.9
Non-current liabilities	750.4	–	4.7	–	–	–	755.1
<b>Total liabilities</b>	<b>906.0</b>	<b>1.1</b>	<b>6.1</b>	<b>19.8</b>	<b>24.7</b>	<b>(22.6)</b>	<b>935.0</b>
<b>Net assets/equity</b>	<b>(320.0)</b>	<b>14.7</b>	<b>41.8</b>	<b>74.8</b>	<b>188.0</b>	<b>–</b>	<b>(0.8)</b>

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

36. The net assets/equity balance of the projects funds showed a balance of \$188.0 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated surplus of \$10.4 million and negative reserves of \$11.2 million.

38. The net current liabilities (current assets less current liabilities) balance for the programme budget is \$46.4 million and the net current assets (current assets less current liabilities) of the Agency were \$254.1 million as at 31 December 2019 (compared with \$371.9 million as at 31 December 2018), indicating a decrease in short-term liquidity. The Agency's current assets amount to 46 per cent of its total assets, whereas current liabilities constitute 19 per cent of total liabilities.

*Cash, cash equivalents and investments*

39. Total cash amounted to \$268.5 million as at 31 December 2019, a small portion of which is held by the programme budget (9.0 per cent) and restricted funds (3.6 per cent), with the majority falling under emergency appeals and projects (23.8 per cent and 54.3 per cent, respectively). UNRWA holds short-term investments of \$264.1 million (including bank deposits), which are classified as cash and cash equivalents.

*Receivables*

40. Contributions receivable represent confirmed agreements outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at \$50.5 million as at 31 December 2019, owing to the programme budget (\$24.5 million), projects (\$23.3 million) and emergency appeals (\$2.8 million).

41. Accounts receivable, net of provision, were valued at \$13.7 million as at 31 December 2019. This amount relates primarily to significant value added tax refund claims of \$107.9 million before provision, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as \$2.7 million related to personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$24.9 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$22.1 million relates to short-term (current) loans receivable.

*Inventories*

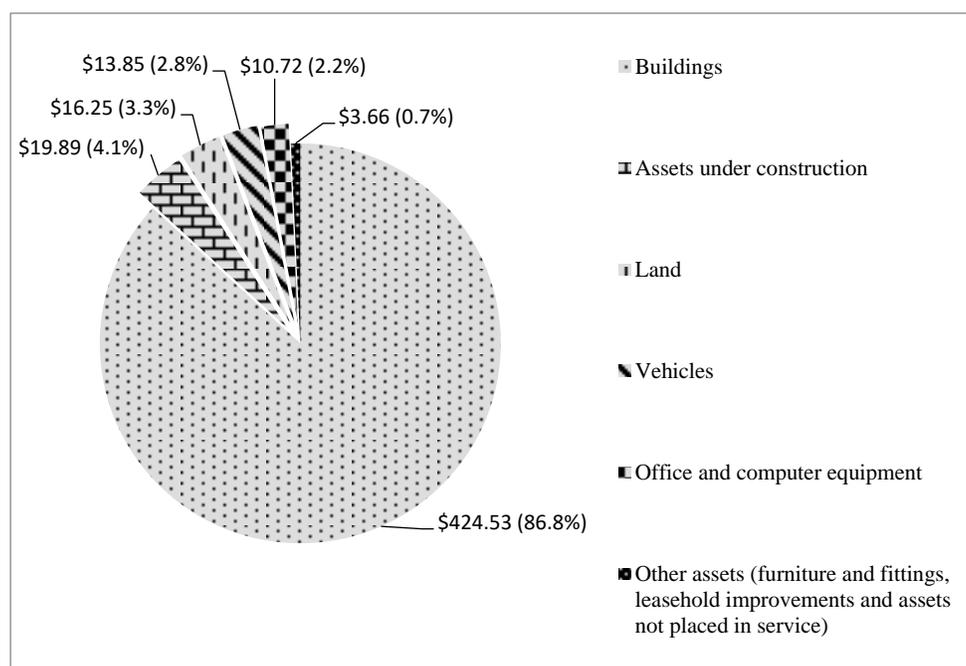
42. The value of the Agency's inventory at the end of 2019 was estimated at \$74.4 million, reflecting a decrease of \$17.6 million as compared with 31 December 2018 due primarily to the reduction of food commodities such as flour. Assets included shelters under construction (\$3.1 million), non-Agency installations (\$13.6 million) and warehouse inventory (\$33.1 million), as well as inventory in transit valued at \$9.3 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$15.1 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at \$0.2 million.

*Property, plant and equipment*

43. The total net carrying amount of property, plant and equipment as at 31 December 2019 was \$488.9 million, representing 52 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure IV.VI  
**Property, plant and equipment**

(Millions of United States dollars)



44. Assets under construction amounted to \$19.9 million as at 31 December 2019, related largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at \$16.3 million as at 31 December 2019. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

#### *Employee benefits liabilities*

46. The Agency has significant liabilities related to post-employment and other long-term employee benefits. Those liabilities amounted to \$843.6 million as at the end of 2019, reflecting an increase of \$117.7 million during the year. The employee benefits liabilities represent 90 per cent of the Agency's liabilities, with \$88.8 million categorized as current liabilities and \$754.8 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due to the change in the discount rate from 4.14 per cent to 3.13 per cent owing to the continuing low interest rate environment of \$75.6 million, payments of \$40.4 million and actuarial gain of \$7.8 million, offset by interest of \$28.1 million and service costs of \$43.4 million incurred during the year.

## **Budgetary analysis**

### *Basis of the budget*

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

### *Explanation of material differences*

48. The 2019 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2018–2019, amounted to \$1,152.9 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2019 programme budget was \$1,066.8 million and is disclosed in financial statement V as “final” budget accordingly. The decrease of \$86.1 million, or 7.5 per cent, is due primarily to the decrease in the final operational budget.

## **C. Enhancing transparency and accountability**

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

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

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

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

## **D. Enterprise and financial risk management**

### **Enterprise risk management**

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

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

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

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

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

### **Financial risk management**

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

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

59. The Agency's employee benefits liabilities totalled \$843.6 million as at 31 December 2019. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method, and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable

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

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

## **E. Responsibility**

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

## Chapter V

### Financial statements for the year ended 31 December 2019

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

#### I. Statement of financial position as at 31 December 2019

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	Note 4	268 522	362 625
Short-term loans receivable	Note 5	22 076	25 142
Contributions receivable	Note 6	50 499	40 316
Accounts receivable	Note 7	13 703	26 269
Other current assets	Note 8	4 809	6 441
Inventories	Note 9	74 401	91 985
<b>Non-current assets</b>			
Other non-current assets	Note 8	50	55
Long-term loans receivable	Note 5	2 805	3 588
Property, plant and equipment	Note 11	488 904	490 984
Intangible assets	Note 12	8 496	15 051
<b>Total assets</b>		<b>934 265</b>	<b>1 062 456</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables and accruals	Note 13	82 666	84 198
Employee benefits	Notes 14 and 15	88 779	84 142
Other current liabilities	Note 16	7 255	1 866
Advance contributions	Note 17	1 205	10 651
<b>Non-current liabilities</b>			
Employee benefits	Notes 14 and 15	754 790	641 708
Other non-current liabilities	Note 16	345	617
<b>Total liabilities</b>		<b>935 040</b>	<b>823 182</b>
<b>Net assets</b>		<b>(775)</b>	<b>239 274</b>
Net assets/equity			
Revaluation and other reserves		(50 079)	17 691
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	38 903	38 825
Accumulated surplus		10 401	182 758
<b>Total net assets/equity</b>		<b>(775)</b>	<b>239 274</b>

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

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

(Thousands of United States dollars)

	<i>Reference</i>	<i>2019</i>	<i>2018</i>
<b>Revenue</b>			
Cash contributions	Note 20	945 079	1 234 481
In-kind contributions	Note 21	23 615	26 595
Interest on loans	Note 22	11 432	11 886
Interest on bank deposits	Note 23	5 664	3 919
<b>Other revenue</b>			
Indirect support cost recovery	Note 25	118	118
Financial derivative gain	Note 10	–	1 091
Miscellaneous revenue	Note 26	14 867	17 147
<b>Total revenue</b>		<b>1 000 775</b>	<b>1 295 237</b>
<b>Expenses</b>			
Wages, salaries and employee benefits	Note 27	684 138	673 816
Supplies and consumables	Note 28	132 218	117 638
Occupancy, utilities and premises costs	Note 29	31 430	22 149
Contracted services	Note 30	99 054	110 544
Subsidies	Note 31	179 551	213 068
Depreciation and amortization	Notes 11 and 12	36 581	37 327
Provisions and write-offs	Note 32	4 004	6 269
Loss on disposal	Note 11	917	714
Impairment of property, plant and equipment	Note 11	268	1 700
Foreign currency exchange loss	Note 24	4 971	6 998
<b>Total expenses</b>		<b>1 173 132</b>	<b>1 190 223</b>
<b>Surplus/(deficit) for the year</b>		<b>(172 357)</b>	<b>105 014</b>

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

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

(Thousands of United States dollars)

	<i>Revaluation and other reserves<sup>a</sup></i>	<i>Reserves, microcredit community support programme and Microfinance Department<sup>b</sup></i>	<i>Accumulated surplus/deficit – unearmarked</i>	<i>Accumulated surplus/deficit – earmarked</i>	<i>Total</i>
<b>Balance at 1 January 2019</b>	<b>17 691</b>	<b>38 825</b>	<b>(222 246)</b>	<b>405 004</b>	<b>239 274</b>
Reclassification of funds	–	–	97 331	(97 331)	–
Surplus/(deficit) for the period	–	–	(144 038)	(28 319)	(172 357)
Changes in revaluation reserve for derivative financial instruments	–	–	–	–	–
Reserves, microcredit community support programme and Microfinance Department, during 2019	–	78	–	–	78
Actuarial losses on staff termination liabilities <sup>c</sup>	(67 770)	–	–	–	(67 770)
<b>Total net assets/equity</b>	<b>(50 079)</b>	<b>38 903</b>	<b>(268 953)</b>	<b>279 354</b>	<b>(775)</b>

<sup>a</sup> See note 33.

<sup>b</sup> See note 19.

<sup>c</sup> See note 15.11.

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

**IV. Statement of cash flow for the year ended 31 December 2019**

(Thousands of United States dollars)

	2019	2018
<b>Cash flows from operating activities</b>		
Surplus/(deficit) for the year	(172 357)	105 014
<b>Adjustment for non-cash items</b>		
Add depreciation and amortization	36 581	37 327
Loss on disposal	906	703
Impairment of property, plant and equipment	268	1 700
Actuarial gain/(loss) on employee benefit liabilities	(67 770)	82 449
(Decrease)/increase in provision for doubtful debts	407	(2 193)
Decrease/(increase) in inventories	17 584	(3 527)
Decrease/(increase) in contributions receivable	(10 001)	6 104
Decrease/(increase) in accounts receivable	11 504	(6 210)
Decrease in loans receivable	4 324	1 583
Decrease in other assets	1 636	2 274
(Decrease) in accounts payable and accruals	(1 533)	(25 983)
(Decrease)/increase in leave encashment and employee benefits	117 719	(89 272)
(Decrease)/increase in other liabilities	5 117	(16 254)
(Decrease)/increase in advance contributions	(9 445)	10 555
<b>Net cash from operating activities</b>	<b>(65 060)</b>	<b>104 270</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	11	11
Purchase of property, plant, equipment and adjustment	(29 005)	(23 004)
Purchase of intangible assets	(125)	(40)
<b>Net cash from investing activities</b>	<b>(29 119)</b>	<b>(23 033)</b>
<b>Cash flows from financing activities</b>		
Increase in capital reserve for Microfinance Department and microcredit community support programme	77	9 964
<b>Net cash from financing activities</b>	<b>77</b>	<b>9 964</b>
Net increase/(decrease) in cash	(94 102)	91 201
Cash balance at the beginning of the year	362 625	271 423
<b>Cash balance at the end of the year</b>	<b>268 522</b>	<b>362 625</b>

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

**V. Statement of comparison of budget and actual amounts for the year ended  
31 December 2019**

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
<b>International staff</b>					
Staff costs		47 554	43 582	36 879	6 703
<b>Area staff</b>					
Basic salary		442 927	378 800	374 188	4 612
Hazard pay and special elements		–	1 058	728	330
Provident Fund Agency contribution		65 624	59 150	55 998	3 152
Special professional occupational allowance, special occupational allowance and others		6 273	14 863	12 439	2 424
Overtime and excess hours supplement		874	678	688	(10)
Currency adjustment factor		2 000	2 372	2 367	5
Special allowance		27 474	27 562	28 196	(634)
Health-related expenses		8 473	11 705	11 262	443
Other miscellaneous staff costs		107	96	155	(59)
Severance cash payment out		45 556	39 242	39 002	240
Limited duration contract		1 205	5 144	2 559	2 585
Temporary staff		7 665	28 268	25 794	2 474
<b>Total staff costs (A)</b>	<b>Note 34</b>	<b>655 730</b>	<b>612 517</b>	<b>590 254</b>	<b>22 264</b>
<b>Non-staff costs</b>					
Supplies		49 246	46 648	41 320	5 328
Utilities		6 168	6 823	6 891	(68)
Maintenance of premises		30 596	31 129	23 975	7 154
Equipment and non-capital construction		271 498	119 211	50 087	69 124
Training		1 476	3 239	1 596	1 643
Travel		1 881	3 110	1 923	1 187
Administrative support services		5 347	4 561	4 048	513
Consultancy services		12 995	14 503	9 812	4 691
Hospital services		26 180	19 820	18 935	885
Miscellaneous services		13 086	18 428	11 199	7 229
Subsidies to hardship cases		57 457	32 905	29 024	3 881
Subsidies to patients		3 089	3 827	3 449	378
Third-party subsidies		2 612	13 500	13 422	78
Other subsidies		235	39 676	29 952	9 724
Cost recovery		(4 360)	(2 900)	(2 265)	(635)
Reserves		19 618	99 819	12 751	87 068
Prior-year adjustments		–	(12)	(12)	–
<b>Total non-staff costs (B)</b>	<b>Note 34</b>	<b>497 125</b>	<b>454 287</b>	<b>256 107</b>	<b>198 180</b>
<b>Total resources requirements (A+B)</b>	<b>Note 34</b>	<b>1 152 855</b>	<b>1 066 804</b>	<b>846 361</b>	<b>220 444</b>

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

### **Notes to the 2019 financial statements**

#### **Note 1**

##### **Mission statement**

1.1 The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA or the Agency) is a United Nations agency established by the General Assembly in 1949 and is mandated to provide assistance and protection to a population of over 5.6 million registered Palestine refugees. Its mission is to help Palestine refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip to achieve their full potential in human development, pending a just solution to their plight. UNRWA services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance. UNRWA is funded almost entirely by voluntary contributions.

#### **Note 2**

##### **Summary of significant accounting policies**

###### **(a) Basis of presentation**

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

2.2 The IPSAS Board has issued two new accounting standards, IPSAS 41: Financial instruments, which replaces IPSAS 29: Financial instruments: recognition and measurement, and IPSAS 42: Social benefits, both of which are effective 1 January 2022, with earlier application encouraged. The Agency is assessing the impact of these new standards.

###### **(b) Accounting convention**

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

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

###### **Functional and presentation currency**

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

###### **Transactions and balances**

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

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

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

#### **Management of currency risks**

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

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

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

#### **(d) Materiality and use of judgment and estimates**

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

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

#### **(e) Significant accounting policies**

##### **Cash and cash equivalents**

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

##### **Revenue**

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

##### *Revenue from non-exchange transactions*

2.15 Unconditional contributions are recognized when the contributions are confirmed in writing by donors. If conditions exist requiring specific performance

and the return of unexpended balances, then revenue is recognized upon provision of the goods and services. At the end of projects and in accordance with the donor agreement, unexpended contributions will be included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities (see note 17) in the statement of financial position, until the criteria for recording revenue are met (see notes 20 and 21).

*Revenue from exchange transactions*

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

**Contributions receivable**

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

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

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

**Accounts receivable**

2.20 Receivables are recognized at their nominal value.

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

**Loans receivable and provision for loan losses**

*Loans receivable*

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

*Provision for impairment of loans*

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

2.24 If, during the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was

recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account.

*Related-party (“insider”) loans*

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

*Accrued interest on loans*

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

*Recoveries*

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

**Financial instruments**

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

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

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

**Financial risk management**

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

**Advances and prepayments**

2.32 Advances and prepayments are recognized at their nominal value.

**Inventories**

2.33 Inventories are stated at the lower of cost or current replacement cost. The cost of inventories includes purchase cost, or fair value if donated in kind, and all other costs incurred in bringing the inventory into custody. Cost is determined using a weighted average cost formula.

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

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

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

**Property, plant and equipment**

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

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

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

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

(Percentage)

<i>Asset type</i>	<i>Depreciation rate</i>
<b>Buildings and land improvements</b>	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
<b>Vehicles</b>	
Heavy trucks	5
Sedans, light buses and light trucks/or buses	10
Other vehicles	14

<i>Asset type</i>	<i>Depreciation rate</i>
<b>Equipment</b>	
Long-life information and communications technology (ICT) equipment, medical equipment and technical vocational training equipment	14
General machinery and equipment, office equipment, medium-life ICT equipment and teaching and school equipment	20
Short-life ICT equipment, computers and printers	33
Microfinance Department office equipment	10
Lease equipment	Shorter of lease term or useful life
<b>Furniture and fixtures</b>	
Fixtures	14
Furniture	10–20

### Capital work in progress

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

### Intangible assets

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

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

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

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

### Software acquisition and development

2.45 Acquired computer software licences are capitalized on the basis of costs incurred to acquire the specific software and bring it into use. Costs directly associated with the development of software for use by the Agency are capitalized as an intangible asset. Development activities include a plan or design for the production of new or

substantially improved products and processes. Development expenditure is capitalized only if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and UNRWA intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the costs of materials and direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of financial performance as incurred: capitalized development expenditure is measured at cost, less accumulated amortization and accumulated impairment losses.

### **Impairment**

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

### **Finance leases**

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

### **Operating leases**

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

### **Payables and accruals**

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

### **Employee benefits**

2.50 The Agency recognizes the following categories of employee benefits:

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

2.51 UNRWA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.52 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan.

UNRWA and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Agency's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements set out in IPSAS 39: Employee benefits. The Agency's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

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

#### **Provisions and contingent liabilities**

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

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

#### **Interest revenue**

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

#### **Indirect support cost recovery**

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

#### **Fund accounting and segment reporting**

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

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

- (a) Unearmarked activities, comprising activities under the programme budget;
- (b) Earmarked activities, which include:
  - (i) Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined budget. This applies to activities related to both cash and in-kind contributions for the regular budget;

- (ii) Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;
- (iii) Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;
- (iv) Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

**Note 3**

**Budget comparison**

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

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

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

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

**Note 4**

**Cash and cash equivalents**

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

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Cash in hand	4 415	3 562
Cash at banks	264 107	359 063
<b>Total</b>	<b>268 522</b>	<b>362 625</b>

4.2 Cash at banks decreased by approximately \$94.956 million owing to lower donor contributions.

4.3 The Agency held funds for other United Nations entities in the amount of \$0.474 million as at 31 December 2019 (compared with \$0.150 million as at 31 December 2018).

4.4 The balances of cash and cash equivalents at banks as at 31 December 2019 were held in the currencies shown in the table below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2020.

Currency	Balance as at 31 December 2019			Balance as at 31 December 2018		
	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)	Currency amount (thousands)	United Nations official rate of exchange	United States dollar amount (thousands)
Australian dollar	183	1.434	128	307	1.424	216
Canadian dollar	135	1.309	103	20 139	1.365	14 754
Swiss franc	663	0.975	680	291	0.987	294
Danish krone	10 520	6.688	1 573	3	6.536	–
Egyptian pound	2 502	16.024	156	856	17.922	48
Euro	81 167	0.896	90 588	39 530	0.876	45 126
Pound sterling	7 742	0.763	10 147	37 171	0.791	46 992
Jordanian dinar	15 593	0.708	22 024	10 471	0.708	14 790
Yen	2 016	109.470	18	1 424	110.750	13
Lebanese pound	2 064 165	1 508.000	1 369	3 960 020	1 514.500	2 615
New Israeli sheqel	8 370	3.460	2 419	19 409	3.774	5 143
Norwegian krone	112 842	8.825	12 787	124 251	8.791	14 134
Swedish krona	176 151	9.346	18 848	153 187	9.019	16 985
Syrian pound	396 938	700.000	567	365 179	434.000	841
United States dollar	102 700	1.000	102 700	197 112	1.000	197 112
<b>Total</b>			<b>264 107</b>			<b>359 063</b>

## Note 5

### Loans receivable

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

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

(Thousands of United States dollars)

	31 December 2019			31 December 2018		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	20 671	1 405	22 076	23 654	1 488	25 142
Non-current	1 697	1 108	2 805	2 409	1 179	3 588
<b>Total</b>	<b>22 368</b>	<b>2 513</b>	<b>24 881</b>	<b>26 063</b>	<b>2 667</b>	<b>28 730</b>

### Provision for loans receivable

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

(Thousands of United States dollars)

	2019			2018		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Beginning balance	(1 621)	(45)	(1 666)	(1 760)	(43)	(1 803)
Additions	(817)	5	(812)	(1 102)	(5)	(1 107)
Less: write-off/ adjustment	1 281	5	1 286	1 241	3	1 244
<b>Ending balance</b>	<b>(1 157)</b>	<b>(35)</b>	<b>(1 192)</b>	<b>(1 621)</b>	<b>(45)</b>	<b>(1 666)</b>

*Provision for loan losses*

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

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

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

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

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

5.7 Based upon the above percentages, if a loan is not serviced, an increasing reserve should be provided for. This provision will be shown in the statement of financial performance for the period. On a monthly basis, an adjustment is made to reflect the changes in the general provision. When a loan is in arrears for 360 days or more, there exists objective evidence of an impairment loss and the loan has been fully provisioned in the general provision, it will be written off. Criteria used to determine that there is objective evidence of an impairment loss may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in payments of interest or principal; breach of loan covenants or conditions; deterioration in the value of collateral; the probability exists that they will enter bankruptcy or other financial reorganization; and observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Recovery of written-off loans will continue to be pursued through the collection and compliance section of the Department.

## Note 6

### Contributions receivable

6.1 Contributions receivable represent confirmed and binding pledges outstanding from donors that are due within 12 months. The following is a breakdown of contributions receivable balances by donor category at the end of the year:

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Due from Governments	44 033	22 829
Due from intergovernmental organizations	7 711	19 340
Due from non-governmental organizations	7 514	6 733
Due from United Nations organizations	255	609
Provision against contributions receivable	(9 014)	(9 195)
<b>Total contributions receivable</b>	<b>50 499</b>	<b>40 316</b>

6.2 Receivables from Governments increased owing to new 2019 pledges signed at end of the year and received in 2020, while receivables from intergovernmental organizations decreased owing to the receipt of prior-period balances in 2019.

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

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

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

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Beginning balance	(9 195)	(14 672)
Reduction in provision/adjustment	6	5 588
Addition during the period	–	(111)
Less: write-offs	175	–
<b>Ending balance</b>	<b>(9 014)</b>	<b>(9 195)</b>

6.6 The reduction in the 2019 provision is due to a write-off of long-outstanding invoices. No new provision or receipts of invoices in provision were recorded in 2019.

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

(Percentage)

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

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

#### Note 7

##### Accounts receivable

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

(Thousands of United States dollars)

	<i>Relevant note</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Value added tax receivable	7.2	107 949	109 557
Other accounts receivable	7.3	10 478	20 373
Less: provisions	7.5	(104 724)	(103 661)
<b>Accounts receivable net of provisions</b>		<b>13 703</b>	<b>26 269</b>

##### Value added tax receivable

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

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Value added tax receivable from the Palestinian Authority	100 875	100 589
Value added tax receivable from the Government of Israel	6 310	7 461
Value added tax receivable from the Government of Lebanon	764	1 507
<b>Total</b>	<b>107 949</b>	<b>109 557</b>

##### Other accounts receivable

7.3 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Miscellaneous receivable	2 493	8 284
Personal accounts of staff members	2 675	2 817
Refundable utility deposits	121	121
Due from Area Staff Provident Fund <sup>a</sup>	5 189	9 151
<b>Total</b>	<b>10 478</b>	<b>20 373</b>

<sup>a</sup> See note 14.1.

7.4 Miscellaneous receivable decreased as compared with 2018 owing primarily to an exercise conducted to clear up long-outstanding debit balances.

### Provisions and write-offs

7.5 Provisions and write-offs comprise the following:

(Thousands of United States dollars)

	31 December 2019				31 December 2018			
	Value added tax	Accounts receivable	Microfinance Department	Total	Value added tax	Accounts receivable	Microfinance Department	Total
Beginning balance	(102 596)	(965)	(100)	(103 661)	(99 304)	(852)	(84)	(100 240)
Additions	(2 752)	(30)	(15)	(2 797)	(4 508)	(139)	(16)	(4 663)
Reduction in provision/adjustment	1 708	26	–	1 734	1 216	–	–	1 216
Less: write-offs	–	–	–	–	–	26	–	26
<b>Ending balance</b>	<b>(103 640)</b>	<b>(969)</b>	<b>(115)</b>	<b>(104 724)</b>	<b>(102 596)</b>	<b>(965)</b>	<b>(100)</b>	<b>(103 661)</b>

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

(Percentage)

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

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

7.8 The 2019 additions for accounts receivable provisions (see note 7.5) reflect a net increase of \$2.797 million (compared with \$4.663 million in 2018).

**Note 8**  
**Other assets**

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$4.859 million as at 31 December 2019 (compared with \$6.496 million in 2018). Included therein are prepayments to staff in the amount of \$0.092 million as at 31 December 2019 (compared with \$0.077 million in 2018).

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2019 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
<b>Current</b>		
Advances to suppliers	4 717	6 364
Prepayment to staff	92	77
<b>Total current</b>	<b>4 809</b>	<b>6 441</b>
<b>Non-current</b>		
Advances to suppliers	50	55
<b>Total</b>	<b>4 859</b>	<b>6 496</b>

**Note 9**  
**Inventories**

9.1 Inventories consist of the following:

(Thousands of United States dollars)

<i>Type</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Warehouse	33 142	49 050
Pharmacy/clinic	15 115	13 472
In transit	9 257	4 440
Production unit	176	168
Shelter under construction	3 069	15 313
Non-Agency installations	13 642	9 542
<b>Total</b>	<b>74 401</b>	<b>91 985</b>

9.2 Warehouse inventory comprises four main categories of items that are distributed to refugees or used to provide services to refugees: medical supplies, general supplies, food and motor transport. The decrease in 2019 is due mainly to the decrease in the procurement of wheat flour and other food commodities by the Gaza field office.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields. The increase in pharmacy/clinic inventory is due to the partial release of controls over purchases.

9.4 Inventory in transit are materials for which significant risks and rewards are transferred to UNRWA and are yet to be received at the warehouse. Such goods are tracked and recorded in the virtual warehouses as inventories. Materials for which goods receipt notes were not recorded are shown as inventory in transit. In 2019, goods in transit increased owing primarily to the receipt of several shipping documents for basic commodities for Gaza for which the actual commodities were received in 2020.

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

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

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Raw materials inventory – embroidery	73	66
Work in progress – embroidery	2	2
Finished goods – embroidery	101	100
<b>Total</b>	<b>176</b>	<b>168</b>

9.7 Inventory adjustment in the amount of \$1.363 million was recorded in 2019 (compared with \$0.745 million in 2018). The increase in the inventory adjustment is due to damage to inventory in containers for Gaza that had been detained at the borders and during security checks.

9.8 In accordance with IPSAS 12: Inventories, inventory has been adjusted to reflect the net realizable value based on current replacement cost. An amount of \$2.544 million has been included in the cost of supplies and consumables (compared with \$1.924 million in 2018) and disclosed in note 28 accordingly.

9.9 Inventory of shelters under construction decreased by \$12.244 million owing primarily to the handover of shelters in Lebanon, while the \$4.100 million increase in non-Agency installations is due to ongoing construction in Gaza.

## **Note 10**

### **Derivative financial instruments**

#### **Nature of financial instruments**

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

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

### Financial derivatives

10.3 Financial derivative forward contracts, if present in a particular year, are revalued during that year; the impact on financial position and on financial performance in 2019 is summarized below.

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Realized gain	–	1 091
Realized (loss)	–	–
<b>Total realized gain</b>	<b>–</b>	<b>1 091</b>
Unrealized gain/asset	–	–
Unrealized loss/(liability)	–	–

10.4 UNRWA did not enter into any hedging contracts during 2019 owing to uncertainty in the timing of the receipt of contributions against the budgeted schedule, high volatility in currency movements and unfavourable exchange rates in the market.

10.5 As at 31 December 2019 there were no outstanding forward contracts.

### Credit risk

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

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

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

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

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

**Interest rate risk**

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

**Foreign currency risk**

10.11 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2019, 24 per cent of contributions to the programme budget were denominated in the United States dollar base currency, and 76 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank and the Syrian pound used in the Syrian Arab Republic.

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

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

10.14 As at 31 December 2019, 39 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. Ten per cent of UNRWA field office balances were denominated in local currencies to support operating activities, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

**Note 11**

**Property, plant and equipment**

11.1 The table below presents a summary of property, plant and equipment as at 31 December 2019.

(Thousands of United States dollars)

Description	2019								2018	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
<b>Cost</b>										
As at 1 January	16 250	580 254	675	5 508	52 909	42 401	23 463	–	721 460	701 460
+ Additions in year	–	29 745	–	204	1 841	780	(3 573)	9	29 006	23 004
(-) Disposals/adjustment in year <sup>a</sup>	–	1 474	–	67	1 515	1 918	–	–	4 974	3 005
<b>(A) Balance as at 31 December</b>	<b>16 250</b>	<b>608 525</b>	<b>675</b>	<b>5 645</b>	<b>53 235</b>	<b>41 263</b>	<b>19 890</b>	<b>9</b>	<b>745 492</b>	<b>721 461</b>
<b>Depreciation</b>										
Balance as at 1 January	–	156 480	638	1 322	39 309	26 728	–	–	224 479	196 507
+ Depreciation in year	–	22 026	32	746	4 608	2 490	–	–	29 901	30 263
(-) Depreciation on disposals/adjustments in year <sup>a</sup>	–	772	–	67	1 404	1 813	–	–	4 056	2 291
<b>(B) Balance as at 31 December</b>	<b>–</b>	<b>177 734</b>	<b>670</b>	<b>2 001</b>	<b>42 513</b>	<b>27 405</b>	<b>–</b>	<b>–</b>	<b>250 323</b>	<b>224 479</b>
<b>Impairment</b>										
Balance as at 1 January	–	5 990	–	–	1	7	–	–	5 998	4 298
+ Impairment in year	–	268	–	–	–	–	–	–	268	1 700
(-) Impairment reversed and on disposal in year	–	1	–	–	–	–	–	–	1	–
<b>(C) Balance as at 31 December</b>	<b>–</b>	<b>6 257</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>7</b>	<b>–</b>	<b>–</b>	<b>6 265</b>	<b>5 998</b>
<b>Net book value as at 31 December (A)-(B)-(C)</b>	<b>16 250</b>	<b>424 534</b>	<b>5</b>	<b>3 644</b>	<b>10 721</b>	<b>13 851</b>	<b>19 890</b>	<b>9</b>	<b>488 904</b>	<b>490 984</b>

<sup>a</sup> See note 11.2.

11.2 Net cost of disposal is \$0.917 million, which comprises the following:

(Thousands of United States dollars)

	2019	2018
Original cost of disposal	4 974	3 005
Accumulated depreciation	(4 056)	(2 291)
Accumulated impairment	(1)	–
<b>Cost of disposal as per note 11.1</b>	<b>917</b>	<b>714</b>

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

(Thousands of United States dollars)

	2019	2018
Loss on disposal	917	714
Gain on disposal	(11)	(11)
Proceeds from sale of assets	11	11
<b>Net disposal/adjustments as per note 11.1</b>	<b>917</b>	<b>714</b>

11.4 In addition to the active assets valued at \$488.904 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$64.562 million.

## Note 12 Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2019			2018	
	Software acquired separately	Software developed internally	Licences and rights	Total	Total
<b>Cost</b>					
As at 1 January	3 401	38 278	528	42 207	42 167
+ Additions in year	7	118	–	125	40
(-)/+ Disposals and adjustments in year	–	–	–	–	–
<b>(A) Balance as at 31 December</b>	<b>3 408</b>	<b>38 396</b>	<b>528</b>	<b>42 332</b>	<b>42 207</b>
<b>Amortization and impairment</b>					
Balance as at 1 January	3 228	23 599	329	27 156	20 093
Amortization in year	101	6 380	199	6 680	7 064
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–
<b>(B) Balance as at 31 December</b>	<b>3 329</b>	<b>29 979</b>	<b>528</b>	<b>33 836</b>	<b>27 156</b>
<b>Net book value as at 31 December (A)-(B)</b>	<b>79</b>	<b>8 417</b>	<b>–</b>	<b>8 496</b>	<b>15 051</b>

**Note 13**  
**Accounts payable and accruals**

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Supplier accounts payable	Note 13.2	24 503	34 585
Accrued expenses	Note 13.3	18 437	21 141
Other accounts payable	Note 13.4	37 201	23 371
Miscellaneous provision	Note 13.5	2 525	5 101
<b>Total</b>		<b>82 666</b>	<b>84 198</b>

**Supplier accounts payable**

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

**Accrued expenses**

13.3 Accrued expenses include the following:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Accrued expenses for services and utilities	12 218	14 617
Area staff group medical insurance	1 799	3 838
Accrued salaries, wages and other expenses	124	211
Other salary-related payable	3 893	294
Payable – reclassifications of accounts receivable balance staff	403	2 181
<b>Total</b>	<b>18 437</b>	<b>21 141</b>

**Other accounts payable**

13.4 Other accounts payable consist of the following:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Deposits received	228	267
West Bank water supply, Palestinian Authority	449	343
Funds held for other United Nations entities	474	150
Interest payable for projects	1 508	2 366
Miscellaneous accounts payable	1 362	1 203
Central Emergency Response Fund	30 000	15 000
Staff liabilities payable	2 542	3 052
Unearned income canteen rent	638	990
<b>Total</b>	<b>37 201</b>	<b>23 371</b>

**Miscellaneous provision**

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

**Note 14**

**Employee pension fund**

**UNRWA Area Staff Provident Fund**

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

14.2 Payments in 2019 amounted to \$87.342 million (compared with \$91.981 million in 2018) and are expected to amount to \$93.986 million in 2020, on the basis of expected increases in staff and Agency contributions. The balances outstanding with the Provident Fund as at 31 December 2019 and as at 31 December 2018 are shown in the table below.

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Opening balance	(9 151)	(1 619)
Employee contributions and repayments of withdrawals	61 819	61 885
Agency contributions	57 829	61 114
Withdrawals	(143 028)	(186 403)
Area Staff Provident Fund employee loans	(39 501)	(41 201)
Area Staff Provident Fund loan commission	167	174
Current account with Provident Fund	66 676	96 899
<b>Total</b>	<b>(5 189)</b>	<b>(9 151)</b>

**United Nations Joint Staff Pension Fund: international staff**

14.3 UNRWA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

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

a defined contribution plan in line with the requirements of IPSAS 39. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

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

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

14.7 The latest actuarial valuation for the Fund was 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.

14.8 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.

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

14.10 Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2016, 2017 and 2018) amounted to \$7,131.56 million, of which 0.32 per cent was contributed by the Agency.

14.11 During 2019, contributions paid to the Fund amounted to \$7.327 million (compared with \$7.572 million in 2018). Expected contributions due in 2020 are approximately \$7.500 million.

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

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

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

## Note 15

### Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Current	88 779	84 142
Non-current	754 790	641 708
<b>Total</b>	<b>843 569</b>	<b>725 850</b>

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Annual leave encashment for area staff	41 912	38 883
End-of-service liability for area staff	799 668	685 330
Short-term employee benefits for international staff not funded through the United Nations regular budget	1 137	1 052
Long-term employee benefits for international staff not funded through the United Nations regular budget	852	585
<b>Total</b>	<b>843 569</b>	<b>725 850</b>

### Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2019. The total employee annual leave liability as at 31 December 2019 amounted to \$41.912 million (compared with \$38.883 million as at 31 December 2018).

### End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2019, total employee benefits liabilities amounted to \$799.668 million (compared with \$685.330 million as at 31 December

2018). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

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

#### **Normal and early retirement benefit**

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA Area Staff Rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following:

(a) All area staff employees, including part-time staff but excluding employees on limited duration contracts, are eligible, and the normal retirement age is considered to be 60, plus a minimum service period of 10 years;

(b) The option of the extension of retirement age from 60 years to 62 years, which was withdrawn for 2018, was reinstated in 2019;

(c) The amount payable is calculated on the basis of the formula of base salary times 11 per cent times the number of completed years of service before 1 January 2015 plus base salary times 12 per cent times the number of completed years of service after 1 January 2015. With effect from 2020, the end-of-service percentages will gradually increase to 12.5 per cent by 2024 (i.e. 12.1 per cent for 2020, 12.2 per cent for 2021, 12.3 per cent for 2022, 12.4 per cent for 2023 and 12.5 per cent for 2024). For calculation purposes, it is assumed that funding is available at the beginning of the year;

(d) The service period is prorated until the last completed month of service;

(e) The base salary is the basic matrix salary without allowances, except in Jordan and the West Bank, where the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar;

(f) For health staff, the qualifying salary for the service period up to 31 December 2016 is the qualifying salary of 31 December 2016 and is frozen at that date, while the qualifying salary for the service period after 31 December 2016 is subject to the new salary scale for health staff, which became effective from 1 January 2017.

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

### Termination in the interests of the Agency

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

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

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

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

### **Death benefits**

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA Area Staff Rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015, plus a supplemental benefit representing 50 per cent of the ending annual salary. With effect from 2020, the end-of-service percentages will gradually increase to 12.5 per cent by 2024 (i.e. 12.1 per cent for 2020, 12.2 per cent for 2021, 12.3 per cent for 2022, 12.4 per cent for 2023 and 12.5 per cent for 2024); or (b) as 200 per cent of the ending annual salary, whichever is greater.

### **Disability benefits**

15.9 Area staff are paid in accordance with UNRWA Area staff rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated insofar as further service with the Agency. In the event of the disability of a staff member on or after 1 September 1987 and subject to paragraphs 3 to 6 of the above-mentioned rule, a disability benefit is computed either: (a) as 11 per cent of the ending annual salary before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015. With effect from 2020, the end-of-service percentages will gradually increase to 12.5 per cent by 2024 (i.e. 12.1 per cent for 2020, 12.2 per cent for 2021, 12.3 per cent for 2022, 12.4 per cent for 2023 and 12.5 per cent for 2024); or (b) as 200 per cent of the ending annual salary, whichever is greater.

### **Reconciliation of end-of-service benefits**

15.10 The interest costs and service costs incurred during the year have been directly accounted for in the statement of financial performance. The amount of interest costs, service costs and past service costs accounted for is shown in the table in note 15.14.

15.11 The amount of actuarial losses presented in the statement of changes in net assets/equity is \$67.770 million, which includes the discount rate change during the year.

15.12 Interest costs and service costs amounted to \$71.482 million as at 31 December 2019 (compared with \$77.701 million for 2018). The actuarial gains are directly accounted for in the statement of changes in net assets/equity. In the 2019 valuation of end-of-service liabilities, actuarial gains were determined to be \$7.823 million, due to experience, and actuarial losses from remeasurements to be \$75.593 million, due to discount rate changes during the year.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2019 is conducted using the same assumptions (demographic and financial) as the valuation for 2018 and results in an actuarial gain of \$7.823 million. That gain is due to experience (i.e. actual experience versus assumptions).

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

(Thousands of United States dollars)

	31 December 2019	31 December 2018
Opening balance as at 1 January	685 330	768 620
Interest costs for the year	28 094	27 131
Service costs for the year	43 388	50 570
Past service costs <sup>a</sup>	15 438	(2 832)
Financial remeasurements <sup>b</sup>	75 593	(43 733)
Payments in the year	(40 352)	(75 709)
Actuarial (gains)	(7 823)	(38 717)
<b>Total</b>	<b>799 668</b>	<b>685 330</b>

<sup>a</sup> Past service costs changed for the year 2019 owing to the adjustment to the retirement age, from 60 to 62 years, and to the change in benefit levels.

<sup>b</sup> For 2019, the discount rate (financial remeasurements) changed from 4.14 to 3.13 per cent and is included in the actuarial gains/(losses) in the statement of changes in net assets/equity.

### Area staff assumptions

15.15 The discount rate (financial remeasurements) used was based on the currency and the term of the underlying liabilities. Where the benefit offered by the Agency provided protection for the fluctuation of the local currency against the United States dollar, the benefit was assumed to be in United States dollars and the applicable United States dollar discount rate was used. This has been the case for the Lebanon, West Bank and Jordan field offices and the Amman headquarters.

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

(Percentage)

Field	Currency	Currency protection	Discount rate	Future escalation
Gaza	United States dollar	No	3.13	2.50
Gaza headquarters	United States dollar	No	3.13	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.13	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.13	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.13	2.50
Lebanon	Lebanese pound	No	3.13	2.50
Syrian Arab Republic	United States dollar	No	3.13	2.50

15.17 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration. However, owing to decreasing interest rates, the discount rate has been revised by management from 4.14 to 3.13 per cent, which is consistent with the yields on investment grade corporate United States bonds with term to maturity, consistent with the duration of the end-of-service liability. The discount rate is set on the basis of the Citi Pension Liability Index – Intermediate, which has a duration of 16 years, consistent with the duration of the end-of-service liability of the Agency (16 years). This index represents a single discount rate that would produce the same present value as calculated by discounting a standardized set of liabilities using the Citi Pension Discount Curve.

15.18 The Citi Pension Discount Curve is a set of yields on hypothetical AA zero coupon bonds whose maturities range from 6 months to 30 years. The yields are used to discount pension liabilities. The Citi Pension Discount Curve is calculated on the basis of a universe of AA rate corporate bonds from the Citi US Broad Investment-Grade Bond Index and the yields of the Citi Treasury model curve. This decrease in the discount rate has resulted in an actuarial loss of \$75.593 million. Hence, the net actuarial loss for the year 2019 is \$67.770 million, which represents 9.81 per cent of the opening balance of the provision.

### Step increments

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

### Exchange rates as at 31 December 2019

15.20 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,508.000; Syrian pound, 700.000.

### Resignation rates

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

### Early retirement rates

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

(Percentage)

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

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

### Mortality

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

### Disability

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

### Disability rate

(Per thousand)

<i>Age</i>	<i>Male</i>	<i>Female</i>
Less than 45	0.50	0.75
45–54	1.00	1.50
55–62	1.50	2.25

### Sensitivity analysis

15.26 The table below illustrates the sensitivity of the results to the base assumptions of a discount rate of 3.13 per cent, a salary escalation of 2.50 per cent and a provision of \$799.794 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Discount rate	+1%	-10.58%	715 146
	-1%	+12.58%	900 437
Salary escalation	+1%	+12.82%	902 353
	-1%	-10.95%	712 252
Early voluntary retirement	+1%	-0.31%	797 291
	-1%	+0.32%	802 391
Resignation rates	+1%	-0.78%	793 570
	-1%	+0.82%	806 359
Mortality	+1%	+0.15%	800 972
	-1%	-0.15%	798 608
Disability	+1%	+0.02%	799 956
	-1%	-0.02%	799 633

### Maturity profile of the defined benefit obligation

15.27 The maturity profile represents the expected future cash flows for the valuation of the end-of-service benefit in the years following the valuation date. The expected payments include all modes of separation and are based on the assumptions used for the valuation. The maturity analysis of the benefit payments and the average duration of the area staff end-of-service benefits are as follows:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Year 1	21 082	50 280
Year 2	29 563	47 218
Year 3	54 273	45 835
Year 4	51 956	55 954
Year 5	62 776	56 389
Years 6 to 10	366 330	344 059
More than 10 years	1 999 738	1 759 141
Duration	16 years	14 years

### International staff end-of-service liability

15.28 The separation costs of international staff funded from the regular budget of the United Nations (158 posts as at 31 December 2019 and 31 December 2018) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities related to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

15.29 As a part of the implementation of IPSAS, UNRWA appointed an actuarial consultant to determine the employee liabilities for international staff members not funded from the United Nations regular budget. The value of liabilities for international staff not funded from the regular budget is summarized below.

(Thousands of United States dollars)

<i>Benefit</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Repatriation grant	258	246
Shipment	438	376
Travel	129	125
After-service health insurance	851	585
Outstanding annual leave	313	306
<b>Total</b>	<b>1 989</b>	<b>1 638</b>

### International staff assumptions

15.30 The discount rate is assumed to be 3.13 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of in-service mortality of active members of the plan will reflect those in the 1996 United States Annuity 2000 mortality table for males and females.

15.31 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency's contribution to the after-service health insurance premium is set at 50 per cent, with the rest paid by the former staff member. Premium rates were used for international staff members not funded from the United Nations regular budget, on the basis of whether they hold United States citizenship or are of other nationalities, as applicable for the region. It is of note that only six employees are expected to qualify for this benefit on the assumption of no contract extension.

### Sensitivity analysis

15.32 The table below illustrates the sensitivity of the results to the base provision of \$1.989 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Discount rate	+1%	-6.3%	1 864
	-1%	+7.9%	2 146
Salary escalation	+1%	+0.1%	1 991
	-1%	-0.1%	1 986
All inflation rates	+1%	+8.1%	2 150
	-1%	-6.6%	1 857
Resignation rates	+1%	–	1 989
	-1%	–	1 989
Mortality	120%	-3.4%	1 922
	80%	+4.4%	2 077

## Note 16

### Other current liabilities

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Goods in transit payable	6 968	1 543
Donor refund payable	15	54
Finance lease liability	272	269
<b>Total</b>	<b>7 255</b>	<b>1 866</b>

16.2 During 2019, goods in transit increased owing primarily to increased shipment in transit at the end of the year, covering mainly basic commodities for Gaza.

### Other non-current liabilities

16.3 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Finance lease liability	345	617
<b>Total</b>	<b>345</b>	<b>617</b>

16.4 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Current	7 255	1 866
Non-current	345	617
<b>Total</b>	<b>7 600</b>	<b>2 483</b>

**Note 17**

**Advance contribution**

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

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Received from Governments	1 205	10 651
<b>Total</b>	<b>1 205</b>	<b>10 651</b>

17.2 In 2019 two countries provided minor advances on 2020 contributions.

**Note 18**

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

**Contingent liabilities**

18.1 The Agency's contingent liabilities as at 31 December 2019 arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement (goods, services and construction contracts) and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities related to these appeals amounted to approximately \$0.086 million as at 31 December 2019 (compared with \$0.168 million as at 31 December 2018).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$11.240 million as at 31 December 2019 (compared with \$12.303 million as at 31 December 2018).

**Contingent assets**

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2019 was \$553.065 million (compared with \$565.905 million as at 31 December 2018).

**Operating lease commitments**

18.5 Operating costs include lease payments in the amount of \$3.337 million recognized as operating lease expenses during 2019 (compared with \$3.891 million in 2018). The amount includes minimum lease payments. No contingent rent payments were made.

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

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Not later than one year	52	138
Later than one year and not later than five years	254	113
<b>Total</b>	<b>306</b>	<b>251</b>

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

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

18.9 These in-kind donations for the use of land have been valued at a fair value of \$3.920 million in 2019 (compared with \$3.885 million in 2018) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of \$3.910 million from sublease payments in 2019 (compared with \$3.115 million in 2018). All subleases are cancellable and contain no contingent lease payments.

#### Finance lease commitments

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

18.12 The Agency has one finance lease starting in 2019 for medical equipment used in clinics. The present and future values are as follows:

(Thousands of United States dollars)

	<i>2019</i>		<i>2018</i>	
	<i>Present value</i>	<i>Future value</i>	<i>Present value</i>	<i>Future value</i>
Not later than one year	272	278	269	278
Later than one year and not later than five years	345	348	617	627
<b>Ending balance</b>	<b>617</b>	<b>626</b>	<b>886</b>	<b>905</b>

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

**Note 19**  
**Revolving loan fund**

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

19.2 The composition of the revolving loan fund as at 31 December 2019 and 31 December 2018 was as follows:

(Thousands of United States dollars)

	<i>31 December 2019</i>	<i>31 December 2018</i>
Microfinance Department	35 147	35 146
Microcredit community support programme	3 756	3 679
<b>Total</b>	<b>38 903</b>	<b>38 825</b>

**Note 20**  
**Cash contributions revenue**

20.1 Total cash contributions revenue by source received in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	<i>2019</i>	<i>2018</i>
Governments	733 813	958 872
Intergovernmental organizations	154 172	200 059
Non-governmental organizations and other entities	11 202	9 560
United Nations organizations	43 905	63 949
Sundry	1 987	2 041
<b>Total</b>	<b>945 079</b>	<b>1 234 481</b>

**Note 21**  
**In-kind contributions revenue**

21.1 Total in-kind contributions revenue by source received in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	<i>2019</i>	<i>2018</i>
Governments	18 950	19 547
Non-governmental organizations and other entities	3 424	5 265
United Nations organizations	1 241	1 783
<b>Total</b>	<b>23 615</b>	<b>26 595</b>

**Note 22**

**Interest on loans**

22.1 Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	2019	2018
Microfinance Department	11 124	11 576
Microcredit community support programme	308	310
<b>Total</b>	<b>11 432</b>	<b>11 886</b>

**Note 23**

**Interest revenue**

23.1 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is \$5.664 million in 2019 (compared with \$3.919 million in 2018).

**Note 24**

**Currency exchange (loss)/gain**

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

(Thousands of United States dollars)

	2019	2018
Realized currency exchange rate gain	2 913	3 867
Unrealized currency exchange rate (loss)	(7 385)	(10 620)
Accounts receivable income realized exchange rate (loss)	(499)	(245)
<b>Total</b>	<b>(4 971)</b>	<b>(6 998)</b>

**Note 25**

**Indirect support cost recovery**

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

25.2 The total indirect support cost recovery from projects revenue for 2019 is \$33.099 million (compared with \$36.208 million in 2018). Of this amount, \$32.584 million (compared with \$16.126 million in 2018) was used to cover the critical emergency appeal requirements during the year. The total revenue from indirect support cost is \$33.217 million (compared with \$36.326 million in 2018), offset by the cost of projects in 2019 by \$33.198 million (compared with \$36.183 million in 2018), and the remaining amount of indirect support cost recovery is \$0.118 million in 2019 (unchanged compared with 2018) from Junior Professional Officer programmes.

**Note 26**  
**Miscellaneous revenue**

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2019	2018
Canteen lease revenue	3 911	3 115
Sundries	9 101	7 864
Profit on income-producing activities	101	68
Reimbursed provision revenue	1 892	6 820
Income received from United Nations agencies	42	58
Refunds to donors	(180)	(778)
<b>Total</b>	<b>14 867</b>	<b>17 147</b>

26.2 The reimbursed provision revenue reported in 2019 represents refunds of Israeli VAT provisioned in previous years. Refunds to donors represent amounts that have been recorded as revenue but are refunded to donors in accordance with the terms of donor agreements.

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

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

(Thousands of United States dollars)

	2019	2018
International staff	41 196	40 328
<b>Area staff</b>		
Basic salaries, allowances and benefits	573 159	561 268
Area Staff Provident Fund contributions	58 365	60 964
Health-related expenses	11 418	11 256
<b>Total</b>	<b>684 138</b>	<b>673 816</b>

**Note 28**  
**Supplies and consumables**

28.1 The composition of supplies and consumables in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	<i>2019</i>	<i>2018</i>
Basic commodities	79 477	61 443
Clothing supplies	658	3 934
Fresh food	2 298	1 794
Medical supplies	26 136	21 679
Miscellaneous supplies	13 747	14 758
Sport supplies	211	136
Textbooks and library books	4 583	3 973
Transportation supplies	5 108	9 921
<b>Total</b>	<b>132 218</b>	<b>117 638</b>

28.2 The increase in basic commodities in 2019 is due to the extension of the fourth round of distributions from the year 2018 to mid-January 2019 and to the increase in the number of beneficiaries in Gaza, while the increase in medical supplies is due primarily to the opening of a new health clinic and the use of health points and a new mobile dental unit in the Syrian Arab Republic and to the deteriorating health situation in Gaza.

28.3 The decrease in clothing supplies is due to the reduction in in-kind donations of clothes during 2019.

28.4 The decrease in transportation supplies is due to the decrease in electricity cuts and an improvement in the management of fuel resources in Gaza.

## Note 29

### Occupancy, utilities and premises costs

29.1 Occupancy, utilities and premises costs in 2019 and 2018 included the following:

(Thousands of United States dollars)

	<i>2019</i>	<i>2018</i>
Rental of premises	7 477	7 737
Maintenance of premises	17 359	8 283
Utilities	6 594	6 129
<b>Total</b>	<b>31 430</b>	<b>22 149</b>

29.2 The increase in maintenance of premises costs is due to maintenance works implemented during the year in 25 schools in the West Bank, funded from projects funds.

## Note 30

### Contracted services

30.1 The composition of services expenses in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	2019	2018
Construction and equipment	31 479	36 389
Contractual costs	11 549	11 222
Hospital costs	25 914	24 325
Miscellaneous, including accruals	1 927	6 193
Consultancy costs	13 016	16 629
Demurrage and port charges	11 265	11 467
Training costs	1 241	1 705
Travel	2 663	2 614
<b>Total</b>	<b>99 054</b>	<b>110 544</b>

30.2 Net construction and equipment decreased as compared with the previous year owing to the reduction in construction work in Gaza and an increase in construction in Lebanon. The decrease in consultancy costs resulted from the replacement of teaching consultants with hired staff in Lebanon to cover the additional needs of refugee children from the Syrian Arab Republic and the completion of an enterprise resource planning consultancy contract during the year at headquarters.

**Note 31**  
**Subsidies**

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

(Thousands of United States dollars)

	2019	2018
Cash subsidies to beneficiaries	131 364	141 293
Patient subsidies	3 940	4 613
Subsidies for the construction and repair of shelters	30 458	45 568
Subsidies to third parties	13 789	21 594
<b>Total</b>	<b>179 551</b>	<b>213 068</b>

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

31.3 Cash subsidies in 2019 decreased significantly owing to the reduction in subsidies provided to beneficiaries for the temporary shelter cash assistance programme and reduced spending on the job creation programme. The reduction in subsidies for the construction and repair of shelters is due to the completion of major and minor repairs to damaged shelters under the Gaza reconstruction projects following the 2014 war.

**Note 32**  
**Provisions and write-offs**

32.1 The composition of provisions and write-off expenses in 2019 and 2018 was as follows:

(Thousands of United States dollars)

	2019	2018
Provisions and write-off expenses on accounts receivable	2 797	4 663
Provisions and write-off expenses on contributions receivable	179	78
Provisions and write-off expenses on loans receivable	822	1 107
Provisions and write-off expenses for advances to international staff	29	22
Write-off overstated receivables and others	177	399
<b>Total</b>	<b>4 004</b>	<b>6 269</b>

**Note 33**  
**Segment reporting**

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

**(a) Sources of funds**

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

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

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

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

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

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

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

**(b) Human development goals**

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

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

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

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

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

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

**(c) Programme**

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

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

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

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

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

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

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

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

**(d) Geographical locations**

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

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

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

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

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

**Segment reporting by fund: financial position as at 31 December 2019**

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	24 258	9 690	24 878	63 789	145 879	28	268 522
Short-term loans receivable	–	1 405	20 671	–	–	–	22 076
Contributions receivable	24 489	–	–	2 759	23 251	–	50 499
Accounts receivable	35 276	30	44	24	435	(22 106)	13 703
Other current assets	4 183	–	469	103	54	–	4 809
Operational Microfinance Department account with UNRWA	–	489	–	–	–	(489)	–
Inventories	20 950	2 973	–	27 906	22 572	–	74 401
<b>Non-current assets</b>							
Other non-current assets	50	–	–	–	–	–	50
Long-term loans receivable	–	1 108	1 697	–	–	–	2 805
Property, plant and equipment	468 342	22	55	38	20 447	–	488 904
Intangible assets	8 425	–	71	–	–	–	8 496
<b>Total assets</b>	<b>585 973</b>	<b>15 717</b>	<b>47 885</b>	<b>94 619</b>	<b>212 638</b>	<b>(22 567)</b>	<b>934 265</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Payables and accruals	62 045	1 059	503	16 273	24 658	(21 872)	82 666
Employee benefits	88 406	–	373	–	–	–	88 779
Operational Microfinance Department account with UNRWA	–	–	489	–	–	(489)	–
Other current liabilities	3 691	4	–	3 537	23	–	7 255
Advance contributions	1 440	–	–	–	–	(235)	1 205
<b>Non-current liabilities</b>							
Employee benefits	750 089	–	4 701	–	–	–	754 790
Other non-current liabilities	345	–	–	–	–	–	345
<b>Total liabilities</b>	<b>906 016</b>	<b>1 063</b>	<b>6 066</b>	<b>19 810</b>	<b>24 681</b>	<b>(22 596)</b>	<b>935 040</b>
<b>Net assets/equity</b>	<b>(320 043)</b>	<b>14 654</b>	<b>41 819</b>	<b>74 809</b>	<b>187 957</b>	<b>29</b>	<b>(775)</b>
Revaluation and other reserves	(51 090)	–	–	–	–	1 011	(50 079)
Capital reserve: microcredit community support programme and Microfinance Department	–	3 756	35 147	–	–	–	38 903
Accumulated surplus/(deficit)	(268 953)	10 898	6 672	74 809	187 957	(982)	10 401
<b>Total net assets/equity</b>	<b>(320 043)</b>	<b>14 654</b>	<b>41 819</b>	<b>74 809</b>	<b>187 957</b>	<b>29</b>	<b>(775)</b>

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**Segment reporting by fund: financial performance as at 31 December 2019**

(Thousands of United States dollars)

	<i>Unearmarked activities</i>		<i>Earmarked activities</i>				<i>Total</i>
	<i>Programme budget</i>	<i>Restricted funds</i>	<i>Microfinance Department</i>	<i>Emergency appeals</i>	<i>Projects</i>	<i>Inter-fund balances</i>	
<b>Revenue</b>							
Cash contributions	609 935	–	–	177 243	157 901	–	945 079
In-kind contributions	–	16 764	–	3 662	3 189	–	23 615
Interest on loans	–	308	11 124	–	–	–	11 432
Interest on bank deposits	2 924	54	796	472	1 418	–	5 664
<b>Other revenue</b>							
Indirect support cost recovery	26	607	–	32 584	–	(33 099)	118
Miscellaneous revenue	8 099	5 912	951	(65)	(90)	60	14 867
<b>Total revenue</b>	<b>620 984</b>	<b>23 645</b>	<b>12 871</b>	<b>213 896</b>	<b>162 418</b>	<b>(33 039)</b>	<b>1 000 775</b>
<b>Expenses</b>							
Wages, salaries and employee benefits	618 088	3 900	6 101	36 724	19 608	(283)	684 138
Supplies and consumables	34 371	12 546	220	80 258	4 823	–	132 218
Occupancy, utilities and premises costs	10 560	4 061	328	784	15 697	–	31 430
Contracted services	32 990	1 288	1 421	22 565	40 742	48	99 054
Indirect support costs	–	2	18	20 447	12 632	(33 099)	–
Subsidies	24 863	450	–	103 628	50 610	–	179 551
Depreciation and amortization	36 428	–	153	–	–	–	36 581
Provisions and write-offs	3 167	5	832	–	–	–	4 004
Loss on disposal	856	–	1	–	60	–	917
Impairment of property, plant and equipment	268	–	–	–	–	–	268
Foreign currency exchange loss	3 431	2	1 339	297	(98)	–	4 971
<b>Total expenses</b>	<b>765 022</b>	<b>22 254</b>	<b>10 413</b>	<b>264 703</b>	<b>144 074</b>	<b>(33 334)</b>	<b>1 173 132</b>
<b>Surplus/(deficit) for the year</b>	<b>(144 038)</b>	<b>1 391</b>	<b>2 458</b>	<b>(50 807)</b>	<b>18 344</b>	<b>295</b>	<b>(172 357)</b>

**Segment reporting by human development goal: expenses as at 31 December 2019**

(Thousands of United States dollars)

	<i>Long and healthy life</i>	<i>Acquired knowledge and skills</i>	<i>Decent standard of living</i>	<i>Human rights enjoyed to the fullest</i>	<i>Effective and efficient governance and support in the Agency</i>	<i>Unallocated human development goal</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	92 606	422 046	49 399	7 852	112 518	–	(283)	684 138
Supplies and consumables	29 522	9 916	85 958	265	6 557	–	–	132 218
Occupancy, utilities and premises costs	2 069	9 489	3 581	142	16 149	–	–	31 430
Contracted services	32 402	6 277	35 625	2 623	22 079	–	48	99 054
Indirect support costs	3 515	3 863	21 607	373	3 741	–	(33 099)	–
Subsidies	8 965	1 826	155 782	1 466	11 512	–	–	179 551
Depreciation and amortization	5 561	16 545	2 623	405	11 427	20	–	36 581
Provisions and write-offs	–	–	837	–	3 167	–	–	4 004
Loss on disposal	141	666	43	20	47	–	–	917
Impairment of property, plant and equipment	5	245	–	18	–	–	–	268
Foreign currency exchange loss	–	–	–	–	4 971	–	–	4 971
<b>Total</b>	<b>174 786</b>	<b>470 873</b>	<b>355 455</b>	<b>13 164</b>	<b>192 168</b>	<b>20</b>	<b>(33 334)</b>	<b>1 173 132</b>

**Segment reporting by programme: expenses as at 31 December 2019**

(Thousands of United States dollars)

	<i>Education</i>	<i>Health</i>	<i>Infrastructure and camp improvement</i>	<i>Relief and social services</i>	<i>Protection Division</i>	<i>Support department</i>	<i>Executive direction</i>	<i>Inter-fund balances</i>	<i>Total</i>
Wages, salaries and employee benefits	440 029	80 605	29 745	26 897	2 729	72 129	32 287	(283)	684 138
Supplies and consumables	12 279	28 235	1 658	83 994	929	4 814	309	–	132 218
Occupancy, utilities and premises costs	20 428	1 555	2 037	1 195	–	5 356	859	–	31 430
Contracted services	7 379	29 517	30 639	4 647	1 540	19 058	6 226	48	99 054
Indirect support costs	5 129	3 663	4 600	17 213	312	1 563	619	(33 099)	–
Subsidies	5 456	7 356	23 172	140 124	599	710	2 134	–	179 551
Depreciation and amortization	18 406	4 113	1 935	1 006	53	10 344	724	–	36 581
Provisions and write-offs	–	–	–	837	–	3 167	–	–	4 004
Loss on disposal	666	12	164	8	41	23	3	–	917
Impairment of property, plant and equipment	245	–	6	17	–	–	–	–	268
Foreign currency exchange loss	–	–	–	–	4 971	–	–	–	4 971
<b>Total</b>	<b>510 017</b>	<b>155 056</b>	<b>93 956</b>	<b>275 938</b>	<b>11 174</b>	<b>117 164</b>	<b>43 161</b>	<b>(33 334)</b>	<b>1 173 132</b>

**Segment reporting by geographical location: expenses as at 31 December 2019**

(Thousands of United States dollars)

	<i>Gaza field</i>	<i>Lebanon field</i>	<i>Syrian Arab Republic field</i>	<i>Jordan field</i>	<i>West Bank field</i>	<i>Headquarters</i>	<i>Inter-fund balances</i>	<i>Total</i>
Expenses								
Wages, salaries and employee benefits	270 836	87 914	51 644	122 996	101 454	49 577	(283)	684 138
Supplies and consumables	100 570	6 302	7 760	10 724	6 181	681	–	132 218
Occupancy, utilities and premises costs	5 359	4 652	1 472	11 189	8 078	680	–	31 430
Contracted services	21 181	42 864	5 940	7 385	9 973	11 663	48	99 054
Indirect support costs	15 105	5 530	8 484	1 915	1 547	518	(33 099)	–
Subsidies	53 994	41 577	57 007	13 552	11 291	2 130	–	179 551
Depreciation	16 311	3 092	1 813	2 718	5 685	6 962	–	36 581
Provisions and write-offs	74	5	(16)	675	234	3 032	–	4 004
Loss on disposal	872	44	–	–	1	–	–	917
Impairment of property, plant and equipment	–	–	268	–	–	–	–	268
Foreign currency exchange loss	–	–	–	–	–	4 971	–	4 971
<b>Total</b>	<b>484 302</b>	<b>191 980</b>	<b>134 372</b>	<b>171 154</b>	<b>144 444</b>	<b>80 214</b>	<b>(33 334)</b>	<b>1 173 132</b>

**Note 34**

**Presentation of budget information**

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

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

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

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

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

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

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

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

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

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

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

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2019 is presented below.

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
<b>Actual amounts on a comparable basis (statement V)</b>	<b>796 274</b>	<b>50 087</b>	<b>–</b>	<b>846 361</b>
Basis differences	(37 408)	(79 535)	–	(116 943)
Timing differences	–	–	–	–
Entity differences	(34 606)	329	77	(34 200)
Presentation differences	(789 320)	–	–	(789 320)
<b>Actual amounts in the statement of cash flow (statement IV)</b>	<b>(65 060)</b>	<b>(29 119)</b>	<b>77</b>	<b>(94 102)</b>

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

emergency appeals fund, the Microfinance Department fund and the earmarked fund of the programme budget.

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2018–2019 programme budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	<i>Total expenses</i>
<b>Actual amounts on a comparable basis (statement V)</b>	<b>846 361</b>
Basis differences	89 679
Timing differences	–
Entity differences	237 092
<b>Actual amounts in the statement of financial performance (statement II)</b>	<b>1 173 132</b>

### Explanations of material differences

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

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

34.16 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2019 budget allocation at year-end.

34.17 The 2019 programme budget, as reflected in the Blue Book for 2018–2019, amounted to \$1,152.9 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. On a modified cash basis, the final 2019 budget was \$1,066.8 million, representing a decrease of \$86.1 million, or 7.46 per cent. This is disclosed in financial statement V as “final” budget. The \$86.1 million decrease is a reflection of the decrease in the final budget, due mainly to a decrease in the final programme budget from \$858.7 million to \$766.4 million (including in-kind) and an increase in the final projects budget from \$294.1 million to \$300.4 million, including restricted funds (earmarked projects).

#### *Utilization of the budget*

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

(a) *Staff costs*. Implementation rate is 96.4 per cent. The underutilization of \$22 million is due to: (i) a high vacancy rate for international staff (funded by assessed contributions); and (ii) underspending under fixed-term area staff, daily paid and limited duration contracts by \$15.6 million, owing to management actions adopted to bridge the cash shortfall under the programme budget;

(b) *Supplies*. Implementation rate is 88.6 per cent. The underutilization of \$5.3 million is due to the receipt of project funds and the commitment of funds at year-end that have been carried forward to 2020;

(c) *Maintenance of premises and equipment.* Implementation rate is 49.3 per cent. The underspending of \$76.2 million is due to the late receipt of donations that were allocated at year-end 2019 but carried forward to 2020;

(d) *Training, travel, administrative services and consultancy.* Implementation rate is 68.4 per cent. The underutilization is due to continuous management actions adopted to meet the cash shortfall under the programme budget;

(e) *Hospital and miscellaneous services.* Implementation rate is 78.8 per cent. The underspending is due to projects related to service purchase orders yet to be implemented in the next financial period, in line with the lifespan of the projects, and extended hospital contracts;

(f) *Subsidies to hardship cases, subsidies to patients, third-party subsidies and other subsidies.* The implementation rate is 84.4 per cent. The underspending of cash subsidies is due to commitments of funds of grants that will be distributed early next year;

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

### Note 35

#### Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. In addition, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. On 13 December 2019, by its resolution 74/83, the Assembly renewed the mandate of UNRWA operations until 30 June 2023.

### Note 36

#### Related parties

36.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2019 was as follows:

(Thousands of United States dollars)

Description	Total remuneration	Outstanding advances and loans	Number of individuals
Key management personnel	6 561	317	28
Family member of key management personnel	104	8	1
<b>Total</b>	<b>6 665</b>	<b>325</b>	<b>29</b>

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

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

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

36.5 A company partially owned by one family member of a member of key management personnel had transactions with the Agency under a long-term agreement signed in 2016. The staff member in question became part of the Management Committee in April 2019. The total value of the Agency's transactions with this company for 2019 was \$0.265 million. The company has been a supplier to the Agency since 1995, and its revenues from UNRWA account for less than 10 per cent of its operations.

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

**Note 37**

**Subsequent events**

37.1 The Agency's reporting date is 31 December 2019 for the 2019 IPSAS financial statements. As at the date of approval and signing of these accounts, there have been no material events, whether favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have had an impact on these statements. Although the coronavirus disease (COVID-19) became a global event in 2020, the Agency continues to deliver on its mandate to the degree allowed by local authorities. The impact on operations is indeterminable at the present time.

**Note 38**

**Date and approval**

38.1 The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2020.

