



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 2021

and

Report of the Board of Auditors

General Assembly

Official Records

Seventy-seventh Session

Supplement No. 5D



**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 2021

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Report of the Board of Auditors



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Note

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

Contents

<i>Chapter</i>	<i>Page</i>
Letter of transmittal	5
I. Report of the Board of Auditors on the financial statements: audit opinion	6
II. Long-form report of the Board of Auditors	9
Summary	9
A. Mandate, scope and methodology	13
B. Findings and recommendations	14
1. Follow-up on previous recommendations	14
2. Financial overview	14
3. Asset and inventory management	18
4. Health programme management	21
5. Relief and social services management	24
6. Contributions receivable	26
7. Human resources management	26
8. Programme and project management	28
9. Procurement and contract management	29
10. Information and communications technology	30
11. Education management	32
12. Infrastructure and camp improvement programme management	32
13. Microfinance Department	33
C. Disclosures by management	37
1. Write-off of cash, receivables and property	37
2. Ex gratia payments	37
3. Cases of fraud and presumptive fraud	37
D. Acknowledgement	38
Annexes	
I. Status of implementation of recommendations up to the financial year ended 31 December 2020	39
II. Summary of assets written off	55
III. Cases of fraud and presumptive fraud reported to the Board for the year 2021	56
III. Certification of the financial statements	58

IV.	Financial report for the year ended 31 December 2021	59
A.	Introduction	59
B.	Financial and budget analysis.....	59
C.	Enhancing transparency and accountability	70
D.	Enterprise and financial risk management.....	71
E.	Responsibility	72
V.	Financial statements for the year ended 31 December 2021	73
I.	Statement of financial position as at 31 December 2021	73
II.	Statement of financial performance for the year ended 31 December 2021	74
III.	Statement of changes in net assets/equity for the year ended 31 December 2021	75
IV.	Statement of cash flow for the year ended 31 December 2021	76
V.	Statement of comparison of budget and actual amounts for the year ended 31 December 2021 ...	77
	Notes to the 2021 financial statements.....	78

Letter of transmittal

**Letter dated 21 July 2022 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, together with the financial report and the audited financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2021.

(Signed) Jorge **Bermúdez**
Comptroller General of the Republic of Chile
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 2021 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 2021 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 2021 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, UNRWA 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 UNRWA 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:

(a) 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;

(b) 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;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by UNRWA;

(d) Draw conclusions as to the appropriateness of Agency'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; and

(e) 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

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

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

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

(Signed) Hou Kai
Auditor General of the People's Republic of China
(Lead Auditor)

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

21 July 2022

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 5.7 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs 27,852 area staff and 179 international staff at its five fields of operation in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

The Board of Auditors has audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2021. Owing to the impact of the coronavirus disease (COVID-19) pandemic, the audit was conducted remotely in Beijing and covered UNRWA headquarters and its Gaza and West Bank field offices.

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2021 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (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 2021, which were prepared in accordance with the International Financial Reporting Standards.

In addition, the Board performed an annual audit of the Microfinance Department of UNRWA and issued an unqualified opinion on its financial statements for the year ended 31 December 2021. The material management issues in relation to the Department are included in the present long-form report.

Overall conclusion

UNRWA reported a surplus of \$77.0 million for 2021, which represented an improvement in financial performance when compared with the deficit of \$145.1 million reported for the previous year. The surplus is attributable mainly to an increase in cash contributions from Governments, especially the resumption of contributions by one of the major donors of \$320.3 million.

The Board did not identify material deficiencies in accounts and records that might affect the fair presentation of the financial statements of UNRWA. However, the Board noted the following areas in need of improvement: asset and inventory management; health programme management; relief and social services management; budget and fundraising; procurement and contract management; information and communications technology; and the microfinance programme.

Key findings

Food stock disposal and loss

The Board reviewed the food disposal records of the Agency and noted that its 2021 food stock disposals amounted to \$265,108. Of the \$220,644 in transit losses, the insurance claim supporting documents for only \$117,021 had been provided by 17 May 2022. In addition, for the \$44,464 in food sweeping losses, discrepancies

were identified between the summary sheets and the survey reports/destruction certificates provided by the Agency. Food disposal and loss may lead to waste, and there is currently insufficient evidence to conclude that food disposal is handled in a reasonable manner.

Deficiencies in the storage and distribution of food inventory

The Board noted that, in the REACH system (the UNRWA enterprise resource planning system): (a) for three types of food, namely, canned sardines, sunflower oil and white crystal sugar, with a closing balance of \$3.81 million as at 31 December 2021, the batch numbers and best-before dates were not documented; (b) there were two batches of expired food inventory, 5,800 kg valued at \$2,183 and 450 kg valued at \$348; and (c) the consumption posting date of 41.9 tons of wheat flour valued at \$13,000 was after the best-before date. The distribution of food without referring to the best-before date could expose the Agency to the risk of distributing food without enough remaining shelf life or food expiration. Late recording of food issuance could lead to overdue and inaccurate food stock records.

Expired medicines dispensed to patients

The Board noted that eight batches of expired medicines recorded in the e-Health system at eight health centres of the West Bank field office were dispensed to patients after their expiry dates, totalling 69,703 medicines in different units and involving 1,170 patients. In the absence of information on medicine use in the Qalqilya hospital, the Board could not assess whether expired medicines had been issued to patients of the hospital or if medicines that were beyond their best-before dates had been extended with the approval of a pharmacist. In addition, there were some discrepancies noted between the data in the REACH system and the actual data. The dispensing of expired medicines to patients could pose a risk of bringing potential harm to refugees' health and generate community complaints that could undermine the credibility of the Agency.

Improper management of expired medicines

The Board noted that 17 batches of medicine worth \$71,985 had already expired at the central pharmacy of the West Bank field office, but were recorded in the system as "available stock" for "unrestricted use". The expiry dates ranged from 31 December 2019 to 30 August 2021. In addition, the West Bank field office provided survey reports for five batches of the expired medicines and donation documents for two batches, but no survey report or written documents concerning write-off for the other 10 batches.

High proportion of delayed delivery of goods

The Board noted that delivery was delayed with respect to 34 purchase orders for goods at headquarters and 303 (or 54 per cent) open purchase orders for goods at the Gaza field office in 2021. Furthermore, there was no clearly stated liquidated damages clause in the UNRWA general conditions of contract for procurement. Furthermore, no claims were made to the vendors for liquidated damages for late delivery.

High interest rates of microfinance products

The Board enquired about the annual interest rates for the three largest loan products in terms of outreach, in four field offices accounting for 95 per cent of the total, and noted that the minimum interest rate was 24 per cent. The Board also noted that, on average, salaries and other related expenses accounted for 76 per cent of total

operating expenses of the Microfinance Department over the past three years. Operating expenses for 2021 decreased by 8.1 per cent compared with 2019, while salaries for senior management increased by 16.5 per cent and salaries for other staff decreased by 4 per cent. In addition to the high interest rates charged, the Microfinance Department also charged refugees a 1 per cent penalty for overdue monthly instalments. At 2021 year-end, the actual total value of microfinance loans was \$25.42 million, or 86 per cent of the adjusted yearly goal. Loan officer productivity continued to decrease from 2019 to 2021.

Insufficient provision of loans for young refugees

In total, there were 29,111 loans disbursed to clients in 2021. However, young start-up loans were not issued in 2021 and 2020. The Board noted that loans to youth under the microenterprise credit product represented 2.4 per cent of the total loans disbursed in 2021. It is important that the Agency continue to make efforts to diversify its product portfolio, especially by improving the design of loan products for young refugees to meet their specific needs.

Main recommendations

In the light of the findings mentioned above, the main recommendations from the Board are that UNRWA:

Food stock disposal and loss

(a) **Enhance the internal control procedures, such as storage and transportation management, to improve the efficiency of food use;**

Deficiencies in the storage and distribution of food inventory

(b) **Enhance batch management of canned sardines, sunflower oil and white crystal sugar by flagging them as batch managed items in the REACH system and recording the necessary information accurately, completely and on a timely basis, so to ensure the accuracy of the issuance time sequence of food in stock and make food procurement and distribution plans more reasonable;**

Expired medicines dispensed to patients

(c) **Take measures to strengthen the management of the whole supply chain system for medicines, especially for expired medicines, from the request to distribution to the patient, to ensure that expired medicines are removed from the available stock in a timely manner so as to absolutely avoid the issuance of expired medicines to refugees;**

(d) **Integrate the inventory of vaccines and other medicines into the e-Health system for unified management and post hospital medicine use records in the REACH system in a timely and accurate manner in order to facilitate closer and more efficient tracking of actual medicine consumption;**

Improper management of expired medicines

(e) **Take measures to strengthen the management of expired medicines, with complete survey reports prepared and accurate electronic records maintained, and that the values of medicines destroyed or donated to other institutions are promptly written off;**

High proportion of delayed delivery of goods

(f) **Conduct a feasibility study to introduce a clearly stated clause of liquidated damages in contracts for the procurement of goods and services to ensure that the liquidated damages clause is applied in accordance with the procurement manual;**

(g) **Strengthen the management of purchase orders and accelerate the progress of execution to reduce the delays in delivery;**

High interest rates of microfinance products

(h) **Work on the reduction of the Microfinance Department's interest rates for the three basic loan products, incorporating considerations of cutting operating expenses and improving its loan productivity;**

Insufficient provision of loans for young refugees

(i) **Continue to expand its outreach to young refugees.**

Follow-up on previous recommendations

As at 31 December 2021, of the 51 outstanding recommendations up to the financial year ended 31 December 2020, 29 (57 per cent) had been implemented, 21 (41 per cent) remained under implementation and one (2 per cent) had been overtaken by events. The Board acknowledged the efforts made by UNRWA in implementing previous recommendations and encourages UNRWA to continue to work on implementing the remaining recommendations.

Key facts

5.7 million	Population of Palestinian refugees served by UNRWA in 2021
27,852	UNRWA area staff (local staff)
179	UNRWA international staff
\$971.64 million	Total assets
\$1,073.13 million	Total liabilities
\$1,283.68 million	Total revenue
\$1,206.68 million	Total expenses
\$1.03 billion	UNRWA final budget 2021
\$77 million	Surplus for the year 2021

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly in its 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 5.7 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 28,031 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 2021, 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 2021 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 as well as at the field offices in Gaza and the West Bank, under regulation 7.5 of the Financial Regulations

and Rules of the United Nations. Specific areas covered during the audit included financial management, programme and project management, procurement and contract management, asset management, human resources management, health programme management, relief and social services, information and communications technology (ICT), and management of the Microfinance Department.

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 had been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up on previous recommendations

8. The Board noted that there were 51 outstanding recommendations up to the year ended 31 December 2020, of which 29 (57 per cent) had been implemented, 21 (41 per cent) were under implementation and one (2 per cent) had been overtaken by events.

9. The Board has carried out an analysis of the 21 recommendations that were under implementation and noted that one (4.8 per cent) is related to asset management; one (4.8 per cent) is about human resources management, five (23.8 per cent) fall under the category of ICT, five (23.8 per cent) call for corrective action with respect to relief and social services, one (4.8 per cent) is related to programme and project management, one (4.8 per cent) is related to procurement and contract management, four (19.0 per cent) are related to the Microfinance Department and three (14.2 per cent) are related to health programme management.

10. With regard to the ageing of those 21 pending recommendations, 1 (4.8 per cent) has remained open for five years, 2 (9.5 per cent) have been open for four years, 1 (4.8 per cent) has been open for three years, 5 (23.8 per cent) are two years old and 12 (57.1 per cent) were made one year ago.

11. The Board acknowledges the efforts made by UNRWA to increase the implementation status of previous recommendations and encourages the Agency to continue to work towards 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

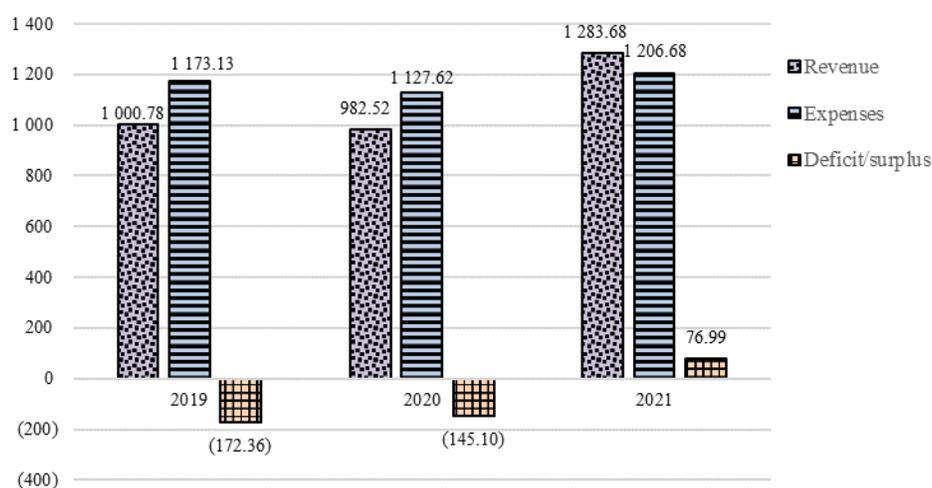
12. In 2021, the revenue of UNRWA increased by \$301.16 million (from \$982.52 million in 2020 to \$1,283.68 million in 2021). This increase was due mainly to an increase in cash contributions by \$298.52 million.

13. UNRWA reported a surplus of \$76.99 million for the year ended 31 December 2021 (2020: deficit of \$145.10 million). The reported surplus is due primarily to increased contributions from four donors, especially the resumption of contributions by one of the major donors of \$320.31 million.

14. Revenue and expenses for the past three years are shown in figure II.I.

Figure II.I
Revenue and expenses, 2019–2021

(Millions of United States dollars)



Source: Financial statements of UNRWA for 2021.

15. The programme budget, which finances the core activities of the Agency, reflected a significant decrease in the deficit by 50.26 per cent, from a deficit of \$183.57 million in 2020 to a deficit of \$91.30 million in 2021. The decrease in the deficit in the programme budget was due to an increase in revenue of 22.77 per cent, mainly for cash contributions. Emergency appeals recorded a surplus of \$108.83 million owing to funding for the future related to the coronavirus disease (COVID-19) pandemic. The project funds recorded a surplus of \$60.64 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a deficit of \$0.74 million, owing to the constrained financial markets resulting from the COVID-19 pandemic. The details are presented in table II.1.

Table II.1
Financial performance by fund group for the year ended 31 December 2021

(Millions of United States dollars)

Description	Unearmarked activities			Earmarked activities			Total
	Programme budget	Restricted funds	Microfinance Department	Emergency appeals	Projects	Inter-fund balances	
Revenue	725.58	24.40	7.80	433.40	130.35	(37.86)	1 283.68
Expenses	816.88	24.28	8.54	324.56	69.71	(37.30)	1 206.68
Surplus/(deficit)	(91.30)	0.12	(0.74)	108.83	60.64	(0.56)	76.99

Source: Financial statements of UNRWA, segment reporting by fund: financial performance as at 31 December 2021.

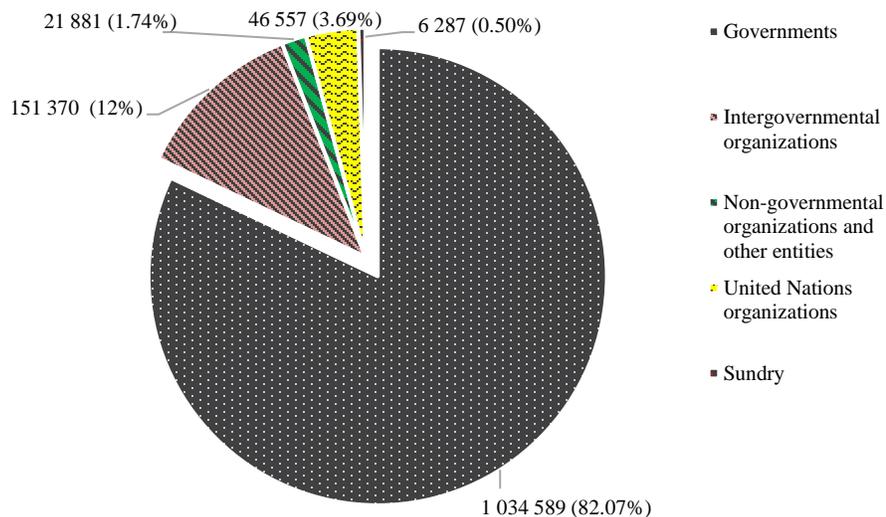
Composition of contributions revenue

16. Of the total contributions of \$1,260.68 million reported during 2021, \$1,214.13 million (96.31 per cent) represent voluntary contributions from

Governments, intergovernmental organizations, non-governmental entities and sundry donors, while the remaining balance of \$46.55 million (3.69 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: Financial statements of UNRWA for 2021 (information presented in accordance with notes 20 and 21, including cash and in-kind contributions revenue).

Financial position

17. The Board analysed the financial statements for the year 2021 on the basis of the key financial indicators. Table II.2 contains key financial ratios computed from the statement of financial position. The ratio analysis indicates that liquidity has increased compared with 2020. In that sense, overall net assets increased from a deficit of \$217.90 million in 2020 to a deficit of \$101.49 million in 2021, including a decrease in the reserves deficit from a deficit of \$121.68 million in 2020 to a deficit of \$82.27 million in 2021. The increase in net assets is attributed to a significant increase in cash and cash equivalents and contributions receivable, coupled with a decrease in other current liabilities and payables and accruals.

18. That analysis is consistent with the increase in working capital from \$168.50 million in 2020 to \$288.64 million in 2021 and the increase in the ratio of current assets to current liabilities from 1.80 in 2020 to 2.36 in 2021. In addition, UNRWA had a quick ratio of 1.95 (2020: 1.41) to cover each dollar of immediate current liabilities when they fall due. Furthermore, the total assets could cover 90.54 per cent of the total liabilities at year-end. All ratios indicate an increase in liquidity compared with 2020.

19. 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 2021 year-end, the programme budget had a current ratio and a quick ratio of 0.32 and 0.22, respectively, to cover each dollar of current liabilities.

Table II.2
Ratios of key financial indicators

<i>Ratio</i>	<i>31 December 2021 (all funds)</i>	<i>Programme budget 2021</i>	<i>31 December 2020 (all funds)</i>	<i>Programme budget 2020</i>
Cash ratio^a				
(Cash + short-term investments): current liabilities	1.68	0.03	1.24	0.20
Quick ratio^b				
(Cash + short-term investments + accounts receivable): current liabilities	1.95	0.22	1.41	0.32
Current ratio^c				
Current assets: current liabilities	2.36	0.32	1.80	0.46
Solvency ratio^d				
Total assets: total liabilities	0.91	0.50	0.80	0.52

Source: Financial statements of UNRWA for 2021 and 2020.

^a 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.

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

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

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

20. Total liabilities of UNRWA stood at \$1,073.13 million as at 31 December 2021, with post-employment and other long-term employee benefits of \$952.54 million representing 88.76 per cent of the total liabilities. Long-term employee benefits liabilities were \$860.86 million, compared with \$869.78 million reported in the previous year, showing a decrease of \$8.92 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.

21. The Board noted a large increase in cash balances maintained by UNRWA. As at 31 December 2021, UNRWA had cash balances amounting to \$356.97 million, compared with \$260.69 million reported as at 31 December 2020. Of the \$356.97 million, \$6.39 million (1.79 per cent) was available for programme budget (unearmarked) activities, while \$350.58 million (98.21 per cent) was available for earmarked activities.

22. Furthermore, the Board noted a decrease in the accrued expenses of UNRWA. As at 31 December 2021, UNRWA had accrued expenses amounting to \$16.94 million, compared with \$58.28 million reported as at 31 December 2020. Of the \$16.94 million, \$5.38 million (31.76 per cent) was other salary-related payable, compared with \$43.61 million as at 31 December 2020. The reduced salary-related payable is attributable to the settlement of salary payables from the prior year. The decrease in the accrued expenses was due to timing differences in basic commodities receipts.

Budget performance

23. The original 2021 programme budget (modified cash basis), as reflected in the Blue Book¹ for 2020–2021, was \$1,080.93 million. On a modified cash basis, the final 2021 budget was \$1,033.06 million, representing a decrease of \$47.87 million (or 4.43 per cent). This is mainly a reflection of the decrease in the final budget from \$918.4 million to \$823.3 million (including in-kind contributions) and an increase in the final projects budget from \$162.5 million to \$209.8 million, including restricted funds (earmarked projects).

3. Asset and inventory management*Food stock disposal and loss*

24. As stated in the UNRWA disposal of goods manual, destruction of goods is performed internally and a delivery note is not required. The Administrative Officer must print the certificate of destruction to complete the process of goods destruction; this is done outside of the System Applications and Products (SAP) system.

25. The Board reviewed the food disposal records of UNRWA and noted that the value of food disposals in 2021 amounted to \$265,108 and mainly included the following eight categories: 7,272 tins of canned sardines, 3,900 kg of whole milk, 3,903 litres of sunflower oil, 12,505 kg of sugar, 607,850 kg of wheat flour, 29,893 kg of rice, 12,075 kg of dried red lentils and 9,929 kg of dried chickpeas.

26. UNRWA explained that, of the \$265,108 in food disposals: (a) \$220,644 were considered “reimbursable transit losses”, that is, food stock damaged in transit and claimable from insurance companies or suppliers; and (b) \$44,464 were from the sweeping of distribution centres during the year 2021 and represented storage damage involving a small proportion of the total distributed quantities.

27. UNRWA further explained that of the \$220,644 in transit losses, claims totalling \$156,266 had been processed; a further \$52,225 was claimable but currently in process, and the survey reports would be submitted to the insurance company for reimbursement. An amount of \$11,843 fell in the low-value category (less than \$300 per claim) and was not claimable under the contract with the insurance company, and an amount of \$310 was transit damage related to the field office in the Syrian Arab Republic. The Board requested the supporting documents, including the claim application by UNRWA and related processing documents from the insurance company. As at 17 May 2022, the supporting documents for only \$117,021 of the \$220,644 had been provided by UNRWA.

28. An analysis provided by UNRWA indicates that 2,909 tons and 4,568 litres of food stock with a total value of \$44,464 have been disposed of from storage. UNRWA also provided summary sheets, survey reports and destruction certificates for those disposals. However, in all of the 48 disposal-related purchase orders, discrepancies were identified between the summary sheets and the survey reports/destruction certificates, with the maximum difference of \$16,391 in one purchase order. There is therefore insufficient evidence to conclude that the reported amount of food disposal from storage is accurate and reliable.

29. The Board also noted that food losses in 2021 amounted to \$556, which included 60 kg of whole milk, 75 litres of sunflower oil and 400 kg of sugar.

¹ 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.

30. UNRWA explained that the food losses were due to stock take discrepancies found in the third and fourth quarters of 2021 owing to incorrect stacking.

31. The Board is of the view that the above-mentioned food disposal and loss may lead to waste and that there is currently insufficient evidence that food disposal is handled in a reasonable manner.

32. The Board recommends that UNRWA further enhance internal control procedures, such as storage and transportation management, to improve the efficiency of food use.

33. UNRWA disagreed with the recommendation, owing mainly to the immateriality of the disposed amounts and the situation with regard to checks by authorities, which was outside of the Agency's control. UNRWA also explained that some claims were still being processed and were open with the insurance provider. UNRWA therefore could not provide documentation for those claims during the audit period.

34. UNRWA stated that it was fully committed to following effective and efficient stock management operations aimed at managing food distribution efficiently and with minimal damage. In addition, in an effort to continually strengthen operations, UNRWA had initiated work on a new and updated warehousing management manual, which will include all policies and instructions to be followed with regard to inventory and warehousing management.

35. The Board holds that, even if the amount of those claims being processed were deducted, excluding the low-value category and transit damage related to the field office in the Syrian Arab Republic from the total transit losses amount, supporting documents for \$39,245 were not provided as of the time of audit. Furthermore, there was a data discrepancy between the supporting documents for the sweeping loss and the summary sheets provided. Although the disposal amount accounts for a relatively low proportion of the total amount of food storage, the incomplete and insufficient supporting documents and the loss during storage and transportation indicate the necessity of further enhancement of food disposal management.

Deficiencies in the storage and distribution of food inventory

36. The financial technical instructions prescribe that the system shall facilitate recording and approval of transactions for receipt of in-kind inventory items, in-kind non-inventory items and in-kind assets (plant, property and equipment) through pre-defined workflow.

(a) Lack of recording of batch numbers and best-before dates

37. The Board reviewed the food stock movements by category in the REACH system and noted that canned sardines, sunflower oil and white crystal sugar, which presented a closing balance of \$3.81 million at the end of 2021, were not documented with batch numbers and best-before dates.

38. UNRWA explained that these items in the REACH system material master data were migrated from the former system without being flagged as batch managed items and that corrective actions would be taken.

39. The Board is of the view that managing canned sardines, sunflower oil and white crystal sugar without batch number or best-before date records indicates that those food inventories cannot be distributed in shelf life sequence, which exposes UNRWA to the risk of distributing food without enough remaining shelf life or food that has expired.

(b) Expired food inventory in the REACH system

40. The Board noted that, at the end of April 2022, there were two batches of expired food inventory in the REACH system, with one batch weighing 5,800 kg (valued at \$2,183.13) and the other weighing 450 kg (valued at \$348.30).

41. The Board is of the view that the expired food in the REACH system needs to be dealt with in a timely and reasonable manner.

(c) Late recording of food issuance

42. The Board noted that, in the REACH system, the consumption posting date of 41.9 tons of wheat flour valued at \$13,000 was later than their best-before date. For instance, 16,680 kg of wheat flour (valued at \$5,244.44) with the batch number F2/201/G5 and a best-before date of 11 November 2020 and 10,440 kg (valued at \$3,289.49) and 14,790 kg (valued at \$4,650.20) of wheat flour with the batch number F2/201/G14 and a best-before date of 1 January 2021 showed consumption posting dates of 15 March 2021.

43. UNRWA explained that it had never distributed expired food to refugees. The reason for this issue was the late recording of food distribution in the REACH system.

44. The Board is of the view that late recording of food issuance could lead to overdue and inaccurate food stock records, which could adversely affect the formulation and implementation of procurement and distribution plans.

45. The Board recommends that UNRWA enhance batch management of canned sardines, sunflower oil and white crystal sugar by flagging them as batch managed items in the REACH system and recording the necessary information accurately, completely and on a timely basis, so to ensure the accuracy of the issuance time sequence of food in stock and make food procurement and distribution plans more reasonable.

46. UNRWA agreed with the recommendation.

Weaknesses in the issuance of food inventory on a first expiry-first out basis

47. The UNRWA guidelines on the storage and upkeep of supplies provide that issuance of supplies such as food inventory will be made on a first expiry-first out basis. It is important to monitor closely the expiry dates of supplies to ensure timely issuance.

48. The Board noted that the warehouse in the Jabaliya distribution centre, which is under the purview of the Gaza field office, issued three different batches of wheat flour with three different best-before dates on the same day. According to the records in the REACH system, at the end of October 2021, only batch F/1052/1 (28,875 kg), valued at \$11,983 and with the earliest best-before date (31 October 2021), was left in the warehouse, while the other two batches with later best-before dates had already been consumed.

49. UNRWA explained that batch F/1052/1 had actually been issued in July 2021, but it was improperly reflected in the REACH system due to inadvertent input error. The warehouse managers always check the best-before dates of commodities to ensure that those expiring first are issued first, regardless of their dates of receipt.

50. As supporting documentation, UNRWA only provided cart notes of receipt of the three batches in the Jabaliya distribution centre, which made it difficult for the Board to validate whether the first expiry-first out approach was being properly implemented and whether batch F/1052/1 had been issued.

51. The Board also noted that in the REACH system, as of the end of April 2022, in a number of cases food inventories with later best-before dates were distributed before those with earlier best-before dates. For instance, 422,000 kg of wheat flour with a best-before date of 30 March 2022 was issued on 23 June 2021, while 25,425 kg of wheat flour with a best-before date of 30 October 2021 was issued on 25 December 2021.

52. UNRWA explained that, in normal situations, the warehousing and distribution team records inventory transactions in the REACH system on a quarterly basis. The reason for the above-mentioned issue was the late recording of food distribution in the REACH system.

53. The Board is of the view that there exists a risk that it will not be possible to issue some food inventories in accordance with the first expiry-first out principle owing to late recording of food issuance in the REACH system.

54. The Board recommends that UNRWA distribute food inventories on a first expiry-first out basis, with detailed documentation, to improve the management of inventories.

55. UNRWA agreed with the recommendation.

Outdated property management manual

56. The UNRWA property management manual, which describes the procedures governing the physical control and management of UNRWA property, plant and equipment, came into effect on 1 January 2010.

57. The Board noted that the manual contained some outdated content, such as the property management system and the inventory management system, which had been replaced by REACH and barcode systems.

58. UNRWA explained that, subject to the availability of resources, it was envisaged that the manual would be reviewed in 2022, in coordination with all internal stakeholders, for internal implementation in the first quarter of 2023.

59. The Board is of the view that the manual provides significant guidance and is the basis for the Agency's management of property, plant and equipment. In the Board's opinion, the outdated contents may cause confusion and inconvenience to users and increase the risk of inappropriate application of the provisions of the manual.

60. The Board recommends that UNRWA review the property management manual and update it according to the current situation.

61. UNRWA agreed with the recommendation.

4. Health programme management

Expired medicines dispensed to patients

62. Strategic outcome 2 of the UNRWA medium-term strategy for the period 2016–2021 is entitled “refugees’ health is protected and the disease burden is reduced”. UNRWA will achieve the strategic outcome through the continued provision of universally accessible quality primary health care and the implementation of the Agency's successful Family Health Team reforms. In paragraph 109 of the medium-term strategy, it is stated that the right to health is a fundamental human right, to which all individuals are entitled. It is also an instrumental element of human development.

63. The Board reviewed the records of medicine receipt and distribution in the REACH system and noted that, at health centres in the West Bank and Gaza field offices, 24 batches of medicines were recorded as “clinic consumption” after their expiry.

64. UNRWA explained that the health centres use the e-Health system, which is a clinical medical recording system to manage medical stocks, but the health centre in the West Bank field office, Qalqilya hospital, has a stand-alone system to manage medicines that is not connected to the e-Health system. In addition, all other medical stocks, including vaccinations, laboratory items and other non-clinical items, are managed outside the e-Health system, using a manual inventory management system.

65. The Board noted that 14 batches of expired medicines managed by the clinics in the West Bank field office could be found in the e-Health system. Eight batches attributable to the Qalqilya hospital were not in the system. The Board further noted that the vaccines in Gaza were reviewed by verifying paper tally sheets and recorded manually.

66. The Board also noted that eight batches of 69,703 expired medicines in different units recorded in the e-Health system at eight health centres of the West Bank field office were dispensed to 1,170 patients after their expiry dates. Table II.3 shows the quantity of expired medicines dispensed to patients and the quantity of patients involved, according to the e-Health records.

Table II.3
Expired medicines dispensed to patients in the West Bank field office

<i>Batch number</i>	<i>Medicine</i>	<i>Expiry date</i>	<i>Quantity dispensed after expiry</i>	<i>Unit</i>	<i>Value (United States dollars)</i>	<i>Number of patients involved</i>
FBC923A	Bisoprolol	30 June 2021	66 853	Tablet (5 mg)	769.44	909
173131222	Amoxicillin	30 June 2021	1 325	Capsule (500 mg)	27.34	51
7C09	Chlorpromazine	29 February 2020	899	Tablet (100 mg)	12.85	4
72553	Sodium valproate	30 May 2020	180	Tablet (200 mg)	13.68	1
HPS912A	Phenytoin sodium	30 June 2021	180	Tablet (100 mg)	4.16	1
QB17006.	Calamine lotion 15%	30 June 2020	127	Bottle	317.55	79
JAZ908A	Amoxicillin and clavulanic acid (250 mg + 62.5 mg/5 ml oral suspension)	2 July 2021	110	Bottle	102.39	104
EF8D010	Paracetamol (120mg/5ml oral suspension)	30 December 2020	29	Bottle (50 ml)	6.28	21
Total			69 703		1 253.69	1 170

Source: E-health system.

67. In the absence of information on medicine use in the Qalqilya hospital, the Board could not assess whether expired medicines had been issued to patients of the hospital or if the best-before dates of medicines had been extended with the approval of a pharmacist.

68. UNRWA stated that it was still analysing the situation of the eight batches of expired medicines recorded at Qalqilya hospital and needed more time to determine what had happened. As of the end of April 2022, the Board had not received any definite feedback on this matter.

69. UNRWA further stated that it would enhance the new e-Health system, including the batch management module, and improve data management in the REACH system. In addition, it would finalize the standard operating procedure under development to ensure the correct supply chain management between the central pharmacy and the

health centres. A system random check would be made on a monthly basis to the clinics by a designated staff member to check on some critical medicines.

70. In addition, the Board noted some discrepancies between the data in the REACH system and the actual data. The main reasons for these discrepancies included: (a) the same batch number was used for some medicines that were disposed of after expiry and for unexpired medicines that were transferred from other clinics; (b) some batches of medicine were not expired when consumed, but owing to system technology issues and for other reasons, they were marked with the batch number of expired medicines; and (c) the stock consumption of vaccines in Gaza was recorded manually in the clinics using paper-based tally sheets. Consumption was entered into the REACH system as bulk consumption using stock-take data, resulting in delays in used date and entry date.

71. Furthermore, the Board noted that the management of medicine was also subject to decentralized systems, such as a separate system for the hospital in the West Bank and manual administration of vaccines in Gaza, which were not administered through the e-Health system. This led to untimely data uploading and the imprecision of some data. It was impossible to verify the daily medicine consumption of manually uploaded batch data. At the headquarters level, it was impossible to effectively track medicine through the REACH system and the e-Health system, which could affect the safety and use of medicine.

72. The Board is of the view that the dispensing of expired medicines to patients may pose a risk of bringing potential harm to refugees' health and generate community complaints that could undermine the credibility of the Agency. In addition, decentralized management of expired medicines will lead to untimely and inaccurate records of medicines, which may increase the risk of misuse of expired medicines.

73. The Board recommends that UNRWA take measures to strengthen the management of the whole supply chain system for medicines, especially for expired medicines, from the request to the distribution to the patient, to ensure that expired medicines are removed from available stock in a timely manner so as to absolutely avoid the issuance of expired medicines to refugees.

74. The Board also recommends that UNRWA integrate the inventory of vaccines and other medicines into the e-Health system for unified management and post hospital medicine use records in the REACH system in a timely and accurate manner in order to facilitate closer and more efficient tracking of actual medicine consumption.

75. UNRWA agreed with the recommendations.

Improper management of expired medicines

76. The UNRWA Department of Health technical instruction on management of central medical stores requires that survey reports and a written record of all stock consigned to the area of expired or damaged medical products be maintained and that the responsible authority be informed in writing that stock is to be written off.

77. The Board noted that 17 batches of medicines worth \$71,985 had already expired at the central pharmacy of the West Bank field office, but were recorded in the system as "available stock" for "unrestricted use". The expiry dates ranged from 31 December 2019 to 30 August 2021.

78. The Board further noted that the West Bank field office provided survey reports for 5 batches of the expired medicines and donation documents for 2 batches, but no survey report or written documents on write-off for the other 10 batches.

79. The West Bank field office explained that all of the expired medicines had been moved to designated areas called the black zone and provided a list of stock in the black zone containing all of the 10 expired medicines. These medicines were not yet destroyed owing to the Agency's lack of authority to do so in accordance with relevant government rules. The Board was not able to verify the physical stock in the black zone during the remote audit.

80. The Board is of the view that expired medicines should be managed with extra care and be stored, recorded, disposed of and written off in strict accordance with established rules.

81. The Board recommends that UNRWA ensure that its West Bank field office takes measures to strengthen the management of expired medicines, with complete survey reports prepared and accurate electronic records maintained, and that the values of medicines destroyed or donated to other institutions are promptly written off.

82. UNRWA agreed with the recommendation.

Lack of guidance on medical referral audits

83. Article XVI of the UNRWA Department of Health technical instructions and management protocols on the hospitalization support programme (HD/HPP/5/2019) requires that audits of medical referrals be performed regularly, and at least twice per year, by each Field Chief of the Department of Health or delegated staff.

84. The Board noted that there was no evidence indicating that the Gaza or West Bank field offices performed such audits in 2021. Furthermore, during the audit for fiscal year 2020, the Board noted that neither the Jordan nor the Lebanon field office carried out biannual audits in line with the technical instruction.

85. The Gaza and West Bank field offices explained that they did monitor and review hospital invoices on both daily and monthly bases.

86. The Board further noted that the Department of Health had not issued any guidance on medical referral audits, although the Department explained that it had been working closely with field offices on improving the work.

87. The Board is of the view that medical referral audits are essential in ensuring the accountability of the Agency's hospitalization support programme and should be conducted, recorded and reported in accordance with unified standards.

88. The Board recommends that UNRWA issue specific guidelines on conducting and reporting medical referral audits to ensure that biannual audits of hospitalization referrals are regularly performed, properly documented and well reported.

89. UNRWA agreed with the recommendation.

5. Relief and social services management

Unclear employment exclusion criteria in food assistance

90. In the UNRWA medium-term strategy for the period 2016–2021, it is stated that, under strategic outcome 5, UNRWA will target, first, the abject poor, who are not able to meet their basic food needs, through direct cash and food assistance and through preferential treatment in other services. In addition, in the occupied Palestinian territory emergency appeal 2021 it is stated that “in 2021, UNRWA will shift away from a resource-intensive poverty assessment that assigns refugees to categories of absolute or abject poverty to one unified food basket that is provided to all registered refugees physically present in Gaza, with certain exclusions around employment status”.

91. The Board reviewed the food assistance distribution list of the Gaza field office and noted that the field office had provided a universal food basket to 1.13 million individuals from 232,178 families by the end of September 2021, including 34,164 employed people, of whom 34,116 were employed by the relevant authority. Moreover, the current information on employment of beneficiaries with the relevant authority had not been updated, and there were no clear employment exclusion criteria applied in food assistance.

92. UNRWA stated that the reason for deciding to offer universal food assistance was the increasingly high poverty level, which had reached nearly 80 per cent, based on the Agency's assessments of beneficiaries using the Poverty Assessment System. Under such circumstances, there was no poverty assessment and targeting approach that was effective or efficient. Furthermore, the relevant authority had not been able to pay salaries to its employees on a regular basis for several years, and the money paid was only a proportion of the salaries. Considering that any information currently held by UNRWA on employment with the relevant authority may not be up-to-date, UNRWA had not expanded its beneficiary caseload since the announcement of universal food assistance and had maintained its previous caseload, which was based on poverty assessments and respective targeting.

93. The Board is of the view that lack of clear employment exclusion criteria may lead to a risk that ineligible people in employment status benefit from food assistance and the refugees in abject and absolute poverty are not able to get priority for basic food security, especially when the total amount of food assistance is insufficient.

94. The Board recommends that UNRWA make efforts to communicate with the relevant authority to obtain updated information on employment status and set up specific employment exclusion criteria in food assistance.

95. UNRWA agreed with the recommendation.

Ineffective hotline services for beneficiaries

96. In the UNRWA medium-term strategy for the period 2016–2021, it is stated that, in order to better deliver on its commitment to being accountable to affected populations, the Agency should improve its engagement with Palestine refugees and better reflect their voices in a number of ways, including exploring the Feedback channel for refugee voices.

97. The telephone hotline, which was implemented beginning in 2016, is a hotline service for beneficiaries of food and cash assistance. The Board reviewed the post-distribution monitoring reports for field offices and noted that: (a) in the West Bank field office, 77 per cent of the respondents had no knowledge about the free phone hotline; (b) in the Jordan field office, approximately 30 per cent of the respondents didn't know about the availability of an e-card hotline that they could use for any questions related to the modality of distribution; and (c) in the field office in the Syrian Arab Republic, in terms of communication with UNRWA to seek clarifications or ask questions, the majority of respondents (71 per cent) reported that they preferred to visit UNRWA offices to seek clarification, and only one per cent of respondents preferred to use the hotline.

98. UNRWA stated that it was the beneficiaries' choice how to communicate with the Agency and that many were used to reaching out via the relief workers following their cases in the West Bank. Throughout the COVID-19 pandemic period, for instance, UNRWA had placed brochures in the hygiene kits and food baskets that had been distributed to families in quarantine. In addition, the e-cards were usually loaded with cash outside of duty hours, while the hotline was turned off, and this was one of the reasons that some people in Jordan did not use it. For cultural reasons, Palestine

refugees in the Syrian Arab Republic preferred to report to an UNRWA office to obtain answers to their inquiries, rather than contacting the office by telephone.

99. UNRWA further stated that the extent to which the hotline was being used rather than other channels of communication depended on beneficiary preferences. The Agency could exert more effort to expand communication; however, it could not guarantee any expanded utilization.

100. The Board is of the view that the influence and recognition of the hotline are still very small, although it has been established for many years. Furthermore, it is important to promote the use of the hotline as a measure to mitigate COVID-19 risks as well as for the sake of convenience.

101. The Board recommends that UNRWA exert more effort to expand communication and promote the knowledge of the hotline service among beneficiaries for better utilization of the hotline.

102. UNRWA agreed with the recommendation.

6. Contributions receivable

Deficiencies in the monitoring of contributions receivable

103. In paragraph 183 of the UNRWA finance technical instructions, it is stated that the Accounts Control Section will print out an aging report and contact third parties (i.e. donors and other agencies) with outstanding balances on a monthly basis. In paragraph 186 of the instructions, it is stated that third parties with troubled accounts will be contacted, if the accounts are yet not paid, and such accounts will be transferred to the Legal Department and a provision will be established by the Finance Department.

104. The Board noted that there were six long-outstanding contributions receivable of a sister United Nations agency between 2009 and 2017, which amounted to \$445,867.

105. The Board reviewed the communication records about those receivables and noted that the issue was discussed within UNRWA in November 2017 and in December 2019. After that, there was no evidence indicating that there had been further communication on the receivables.

106. UNRWA explained that, in the case of those receivables, contact was ongoing until the end of 2019; however, owing to the COVID-19 pandemic and the full engagement of the Agency's Department of Health and the sister agency with pandemic health issues, the follow-up ceased in 2020. To date, there is no evidence that the agency will not pay the pending invoices. UNRWA will keep the invoices pending and continue follow-up.

107. The Board is of the view that the contribution receivables need to be followed up more frequently to assess the possibility of collection.

108. The Board recommends that UNRWA keep close contact with the United Nations agency on outstanding contribution receivables and settle the issue as soon as possible.

109. UNRWA agreed with the recommendation.

7. Human resources management

Inaccurate staff data in the information system

110. As a best practice of information system management, data consistency and accuracy should be ensured in information systems, and any data anomalies and redundancy should be avoided.

111. The Board reviewed UNRWA post data as at 31 December 2021 in the REACH system and noted that there were 718 records of the Gaza field office showing “1 January 1900” in the “vacancy from” column. The same was true of 164 records of the Jordan field office, 96 records of the field office in the Syrian Arab Republic, 35 records of the West Bank field office, 11 records of headquarters and 4 records for international staff. The same issue was also noted in the “valid from” column in the same table.

112. UNRWA stated that utilization of the date of 1 January 1900 was due to a decision taken by the SAP consultants in coordination with the responsible department at the time of data migration from the RAMCO system (the old system) to the REACH system.

113. The Board is of the view that accurate information records are vital for effective staff management, and the application of an accurate information system is an effective means to reduce compliance risks.

114. The Board recommends that UNRWA check the data in the information system and correct any inaccuracies in a timely manner to ensure an accurate data basis for management.

115. UNRWA agreed with the recommendation.

Training plans not fully implemented

116. UNRWA area staff personnel directive A/22/Rev.5 establishes that the conduct of all staff development activities will be guided by the principle of identifying organizational and individual needs and focus on results, quality and cost-effectiveness. Planning, monitoring and evaluation therefore comprise an integral part of all staff development activities. Staff development is to be managed in coordination with the programme management work planning and budget cycles, in order to identify the human resources interventions necessary to support effective implementation of the implementation plans within allocated financial envelopes.

117. The Board reviewed the implementation of the training plans of the West Bank field office for 2021 and noted that, of the 130 training plans, 20, including a mandatory training plan, were not implemented as planned. The Board also checked 191 online courses of 37 individuals from 16 June 2021 to 15 October 2021 and noted that the viewing time of each individual was less than 1 per cent of the courseware’s running time.

118. In addition, the Board reviewed the implementation of a total of 135 training plans of the Gaza field office in 2021 and noted that, as of the end of October 2021, only 10 training plans had been completed, accounting for 7 per cent of the total training plans. Of the 135 training plans, 60 mandatory plans and 53 important plans were not completed by the end of October 2021.

119. The West Bank field office explained that the plans would not be completed, as there were no available funds during the year to support them. There were approximately 11,000 courses on the LinkedIn platform, and the staff had access to all those courses, some of which were mandatory and others of which were optional. UNRWA provided department heads with reports about the completion rate for those courses for them to follow up on the training of their staff.

120. The Gaza field office explained that it considered that both the delivery of training sessions to staff and self-care during the spread of COVID-19 and the last hostility in Gaza in May 2021 were equally important. The courses mentioned were funded by the project funds and the field office would continue to deliver the agreed training plan.

121. The Board is of the view that the fact that a large number of training projects, particularly mandatory projects, have not been fully implemented as planned may affect the ability of the Agency to enhance the capacity of its staff members.

122. The Board recommends that UNRWA ensure that its West Bank field office and Gaza field office formulate feasible training plans and expedite their implementation, particularly of the mandatory training plans, so as to continuously improve the capacity of their staff.

123. UNRWA agreed with the recommendation.

8. Programme and project management

Delay in issuance of annual operational plan and compact letters

124. According to the time frame set in UNRWA organizational directive No. 21, the annual operational plan is to be approved and promulgated in December of the year prior to its implementation. Subsequent to the approval of the annual operational plan, the Commissioner-General enters into a management compact with each Director for the year in question. In addition, it is stated in article 1.3 of the budget technical instructions on programme budget implementation and monitoring that the compact letter addressed to each field/headquarters department Director annually will reference accountabilities and responsibilities that must be adhered to.

125. The Board noted that the 2021 annual operational plan of UNRWA was promulgated on 4 July 2021, 19 compact letters were issued on 18 July 2021 and 7 compact letters were placed on hold and not issued by the end of 2021.

126. Furthermore, the Board noted that all of the 19 compact letters issued were effective for the period from July 2021 to December 2022, which implied that the compact letters were not being issued on an annual basis and did not cover the first half of 2021.

127. UNRWA explained that, in practice, the issuance of the annual operational plan followed the finalization of the annual budget. The overall delay in the issuance of the annual operational plan and subsequent delay in issuing management compacts was due to the delay in finalizing the annual budget of 2021 and related administrative and operational instructions, which was linked to the financial situation at that time. Given the delay in generating the compact letters, UNRWA decided to have the compacts extended for a period of 18 months.

128. The Board is of the view that management compacts are an important management tool of the Agency to ensure the chain of command from the Commissioner-General to Directors, while also holding them accountable, and are used as a basis for Directors' performance evaluations. Furthermore, organizational directives are promulgated by the Commissioner-General to prescribe the authorities and duties of the Agency's principal offices, and the operations of the Agency should be evaluated and embodied in the organizational directives.

129. The Board recommends that UNRWA have compact letters issued on a timely basis following a strict annual cycle in order to strengthen management and facilitate performance evaluation.

130. The Board also recommends that UNRWA evaluate the annual operational planning cycle and update organizational directive No. 21 on the basis of the evaluation.

131. UNRWA agreed with the recommendations.

9. Procurement and contract management

High proportion of delayed delivery of goods

132. According to chapters 11.2 and 13.3.2 of the UNRWA procurement manual (2015), a contract will, at a minimum, include a liquidated damages clause, and such damages are usually enforced when delays result in extra costs or loss of revenue or other benefits to UNRWA.

133. The Board reviewed all 309 purchase orders for goods at headquarters as at the end of September 2021 and noted that goods for 34 purchase orders were not delivered on time, with a maximum delay of 227 days. The contracts for those purchase orders did not include a liquidated damages clause; accordingly, no liquidated damages were claimed against the vendors in those cases.

134. The Board also reviewed the list of purchase orders for 2021 at the Gaza field office and noted that, as at 30 September 2021, the delivery of goods was delayed for 303 open purchase orders, which accounted for 54 per cent of the total quantity of goods to be received. The delay time ranged from 29 days to 457 days. In addition, from a sample of seven of those delayed orders, the Board noted that the contracts did not include a relevant liquidated damages clause. The Gaza field office did not charge liquidated damages for the delayed delivery of goods caused by the supplier.

135. The Board further noted that there was no clearly stated liquidated damages clause in the UNRWA general conditions of contract for procurement.

136. UNRWA explained that some of the purchase orders were delayed in the Gaza field office because of port and shipping restrictions, while some of the purchase orders required partial delivery upon end-users' request, regardless of the stated issuance date.

137. The Board holds that the high proportion of delayed deliveries may indicate a weakness in the management and follow-up of purchase orders. In addition, the lack of a clearly stated clause of liquidated damages or charge for liquidated damages for late delivery may weaken the ability of UNRWA to ensure timely delivery of procured items.

138. The Board recommends that UNRWA conduct a feasibility study to introduce a clearly stated clause of liquidated damages in contracts for the procurement of goods and services to ensure that the liquidated damages clause is applied in accordance with the procurement manual.

139. The Board further recommends that UNRWA strengthen the management of purchase orders and accelerate the progress of execution to reduce delays in delivery.

140. UNRWA agreed with the recommendations.

No performance evaluation of vendors in the Gaza field office

141. According to paragraph 3.3, on vendor management, of the UNRWA procurement manual (2015), the performance of existing vendors should be evaluated on a regular, ongoing basis. The performance evaluation for vendors consists of three levels, as follows: (a) no contract is awarded by a procuring office until performance reports are received from the Contract Management Unit for all the potential vendors; (b) actual performance is evaluated after contract execution; and (c) all executed contracts are rated and reported to the vendors, with recommendations by the Contract Management Unit.

142. The Board noted that, since January 2020, the Gaza field office had neither submitted an evaluation report after a contract was executed nor rated all executed contracts and reported to the vendors.

143. The Gaza field office explained that, during 2020 and 2021, the follow-up mechanism of systematic performance evaluation continued. However, no formal letters for performance evaluation were issued, owing to delays caused by the global blockade after the outbreak of COVID-19.

144. The Board is of the view that the not evaluating the performance of existing vendors on a regular basis was not in compliance with the requirements of the UNRWA procurement manual.

145. The Board recommends that UNRWA ensure that its Gaza field office conducts regular performance evaluations of existing vendors to facilitate the management of vendors.

146. UNRWA agreed with the recommendation.

10. Information and communications technology

Information and Communications Technology Governance Board meetings not held since 2020

147. Section 3.4 of the final version of the Information and Communications Technology Governance Board terms of reference, released on 10 February 2019, establishes that the frequency of its meetings will be not less than quarterly.

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

149. The Board noted that the last meeting was held on 12 December 2019. Those members of the Governance Board who were outside of headquarters in Amman joined the meeting via Microsoft Teams. The meeting of the first quarter of 2020 was cancelled owing to the outbreak of COVID-19. No meeting had been held since 2020.

150. UNRWA stated that the Governance Board had been put on hold by the Executive Office until new terms of reference were written to make it part of the newly established Executive Advisory Group, which had been functioning since the end of October 2021. The Board noted that the terms of reference had been revised twice, on 15 November 2020 and 13 April 2021, and were still in draft status.

151. Upon request for the document that had put the Governance Board on hold, the Board was provided with an email dated 19 October 2020 from the Commissioner-General addressed to the members of the Management Committee, in which it was indicated that proposed changes related to the Governance Board would be discussed further by the Deputy Commissioner-General with concerned directors or the appropriate chairperson.

152. Taking into consideration the important responsibilities of the Governance Board and the fact that it has not met for nearly two years, the Board is of the view that it is practical and feasible to hold videoconferences during the COVID-19 pandemic, and it is critical for UNRWA to release the new terms of reference in a timely manner.

153. The Board recommends that UNRWA revise and release the new terms of reference of the Governance Board within a time-bound framework and convene

the Governance Board meetings as required for it to perform its responsibilities related to ICT governance.

154. UNRWA agreed with the recommendation.

Limited outputs to measure the successful implementation of the cloud strategy

155. In section 3.4 of the Department of Information Management and Technology cloud strategy for the period 2020–2024, it is stated that the successful implementation of the strategy would be measured by the migration and integration of Agency-wide email and two critical applications to the cloud in two years.

156. The Board was informed that the Agency had moved all of its on-premise email servers to the cloud in accordance with the strategy. The digital learning platform was designed and launched on the cloud. There was also a plan to move a number of applications to the cloud.

157. The Board noted that the cloud strategy did not include a road map of implementation for migrating the Agency-wide email and two critical applications to the cloud. Since September 2021, as part of its cloud-first strategy implementation, the Department had been implementing a project, which was not covered under the cloud strategy, to migrate eight systems to the cloud, where applicable before July 2022, and the earliest deliverables would be available in October 2021.

158. Considering that 138 enterprise and non-enterprise systems and applications with different technologies are owned by different business owners from different lines of business and field offices at UNRWA, the Board holds that the outputs to measure the successful implementation of the strategy are limited and do not cover the full five-year period of implementation.

159. The Board recommends that UNRWA further assess the existing systems and applications that could be migrated and integrated to the cloud and update the outputs of the cloud strategy with a road map of implementation to match its five-year period.

160. UNRWA agreed with the recommendation.

No training of business continuity awareness for any staff members of the Department of Information Management and Technology

161. In section 4.6 of the information management and technology business continuity plan published in November 2020, it is stated that business continuity awareness training is to be conducted for all members of the Department of Information Management and Technology and incorporated into background and contextual information, exercises and drills.

162. In order to review the conduct of the business continuity awareness training, the Board requested information on the training plan and the results achieved since the release of the plan. UNRWA informed the Board that no such training had been conducted for staff members of the Department.

163. The Board is of the view that business continuity is of significance in supporting the ability of UNRWA to remain operational after an adverse event, as cyberthreats increase and the tolerance for downtime decreases. Training on business continuity awareness could improve the ability of Department staff to respond to emergencies in a timely manner and reduce the risk of data loss and reputational harm

164. The Board recommends that UNRWA design and conduct business continuity awareness training for all staff members of the Department of Information Management and Technology.

165. UNRWA agreed with the recommendation.

11. Education management

Proportion of classes with more than 40 students exceeding thresholds

166. In the UNRWA medium-term strategy for the period 2016–2021, it is stated that the reform of the Agency's education programme was designed to help meet the evolving demands of an education system in the twenty-first century by ensuring transformative and systemic change at the policy, strategic and operational levels. The implementation of the education reform is a long-term investment in strengthening the Agency's provision of basic education so that it is more responsive to the educational challenges of Palestine refugee students. In addition, in the UNRWA annual operational report 2020, strategic outcome 3, on the completion by school-aged children of quality, equitable and inclusive basic education, shows baseline indicators for the proportion of classes exceeding thresholds of less than or equal to 25 students and more than 40 students of 4.1 per cent and 52.7 per cent, respectively.

167. The Board noted that the percentage of classes with more than 40 students in the Gaza field office was 61.4 per cent in the academic year 2018/19 and 63.9 per cent in 2019/20, both of which are higher than the baseline of 52.7 per cent. In the academic year 2020/21, the percentage of classes with more than 40 students in the Gaza field office was 63.3 per cent, indicating no significant improvement over the previous year.

168. The Board further noted that the Gaza field office tried to address the problem of class size by building schools and increasing the number of classes. There were four schools under construction in 2021 in Gaza, which would be beneficial to 3,400 students. However, according to the construction progress report, the construction of those four schools had been postponed. The revised completion dates for two schools, in Zannah and Mashtal, had been changed from early April 2021 to the end of December 2021.

169. The Gaza field office explained that the percentage of classes with more than 40 students depended mainly on the overall average class size. For the 2019/20 and 2020/21 scholastic years, the average class size was 41.2. This is governed by the UNRWA headquarters norms and standards issued every year to guide the fields in their class formation exercise. Most of the UNRWA schools in the Gaza field office were purpose-built schools. The Gaza field office would continue to expect a high percentage for the indicator of more than 40 students, even with the additional schools to be built.

170. The Board is of the view that the delay in the construction of two schools has affected 2,000 students in the academic year 2021/22. The high proportion of classes with more than 40 students might have an influence on the delivery of quality basic education to school-aged children.

171. The Board recommends that UNRWA ensure that its Gaza field office accelerate the progress of school construction, put the newly constructed schools into use as soon as possible and use flexible methods in setting class sizes to decrease the proportion of classes with more than 40 students.

172. UNRWA agreed with the recommendation.

12. Infrastructure and camp improvement programme management

Non-compliance of the application for the contract time extension

173. The infrastructure and camp improvement programme technical instruction No. 1 provides that contractors should be encouraged to notify the Director of Works in writing at the earliest possible opportunity of any event which may result in a delay

of the completion of the contract. In addition, extensions of time, if justified, must be issued immediately and not left to the end of the contract period.

174. The Board reviewed the extension of time approvals for construction works at the Gaza field office in 2021 and noted that 8 of 16 approvals (or 50 per cent) were submitted after the end of original contract period and approved after the revised completion date.

175. UNRWA explained that both they and the contractors were dealing with several emerging, unforeseen conditions with factors of uncertainty, such as the COVID-19 pandemic, wars, and frequent and prolonged periods of border closure by relevant Governments.

176. The Board is of the view that the approvals made after the revised completion date are neither reasonable nor in compliance with the technical instruction.

177. The Board recommends that UNRWA ensure that its Gaza field office examine the causes of delay, approve the extension to contractors in a timely manner and issue the extension of time approvals as early as possible during or after the unforeseen or emergency circumstances.

178. UNRWA agreed with the recommendation.

13. Microfinance Department

High interest rates of microfinance products

179. In its previous audit report (A/76/5/Add.4), the Board highlighted the issue of the high annual interest rate (24 per cent) for the three largest loan products (microenterprise credit, women's household credit and the consumer lending product) in four field offices and recommended that UNRWA review the interest rates of the three loan products on a regular basis and work on the reduction of the interest rates.

180. UNRWA informed the Board that the Microfinance Department had reviewed the interest rates and determined that it was not feasible to decrease its interest rates, given the fact that the Department is not financed by the General Fund and donors' grants and has to be sustainable on its own to achieve future growth and expand into new geographical areas.

181. The Board continued its review of this issue and noted that the high interest rates adopted by the Microfinance Department continued to exist during the 2021. Through its analysis of the operating results of the Microfinance Department in 2021, as well as comparative figures from previous years, the Board determined that 2021 operating expenses had decreased by 8.1 per cent compared with 2019, while the salaries of senior management had increased by 16.5 per cent.

182. On average, salaries and other related expenses accounted for 75.7 per cent of the total operating expenses in the past three years. In spite of the COVID-19 pandemic and the deterioration in profit results in 2020, the salaries of senior management increased by 9.1 per cent. In 2019, there were seven members of senior management, while in 2020 and 2021 there were six. The salaries of senior management have nevertheless continued to increase.

183. UNRWA explained that the increase in the salaries of senior management was due to the implementation of currency adjustments in accordance with the UNRWA management decision to protect the devaluation of the dollar in the West Bank and Gaza field offices.

184. The Board noted that, in addition to the high interest rates charged, the Microfinance Department charged refugees a 1 per cent penalty for overdue monthly instalments. From 2019 to 2021, the average yearly penalty income was calculated at

\$215,408, or 2.6 per cent of the average operating income. This also adds a burden for the refugees who can't afford to repay on time.

185. The Board also noted that the planned result for 2021 (i.e. the number of clients receiving microfinance loans) was 48,005 at year-end and that it had been revised by the Microfinance Department to 35,238. The actual number of clients receiving microfinance loans amounted to 29,111, or 83 per cent of the adjusted yearly goal. The actual total value of microfinance loans was \$25.42 million, or 86 per cent of the adjusted yearly goal. Loan officer productivity continued to decrease from 2019 to 2021.

186. The Board revisited the issue of the Microfinance Department's operational self-sufficiency, which indicates whether the microfinance programme has earned sufficient operating revenue to cover its total expenses. The Board noted that the Department's operational self-sufficiency for the five years from 2017 to 2021 was 147 per cent, 148 per cent, 136 per cent, 65 per cent and 107 per cent, respectively, indicating that the Department was far beyond self-sustaining, in spite of the COVID-19 circumstances and the difficulties faced in 2020. In addition, it noted that, since its adoption, the interest rate calculation equation had not been dynamically reviewed to take into account the change in operational conditions.

187. UNRWA explained that the Microfinance Department was committed to the continuous review of its interest rate. The microenterprise credit and the consumer lending product interest rates had not decreased, while the West Bank women's household credit interest rate decreased from 26.4 per cent to 24 per cent in 2018 and the women's household credit interest rate in the Syrian Arab Republic decreased from 30 per cent to 24 per cent in 2019.

188. The Board reiterates its recommendation that UNRWA work on the reduction of the Microfinance Department's interest rates for the three basic loan products, incorporating considerations of cutting operating expenses and improving its loan productivity.

189. UNRWA disagreed with the recommendation and stated that review of the interest rates is part of ongoing operations. A decision to change will depend on a multitude of factors.

190. The Board is of the view that, given the decrease in overall operating expenses and the improvement in the Department's operational self-sufficiency, UNRWA has room to explore the possibility of reducing the interest rates for microfinance loan products.

Insufficient provision of loans for young refugees

191. The Microfinance Department offers eight different loan products, which target households as well as micro-businesses and small enterprises, to support consumption and family investment in education, health and housing.

192. The Board reviewed the distribution of the loan products and noted that there were a total of 29,111 loans disbursed to clients in 2021. They mainly related to the consumer loan product, the microenterprise credit and the women's household credit, which accounted for 93 per cent of the total number of loans. Other loan products, such as the household lending product and microenterprise credit plus, only accounted for 6 per cent of the total number of distributions. Young start-up loans were not issued in 2020 and 2021.

193. UNRWA explained that young start-up loans were discontinued owing to low demand, and that it was working on providing loans to youth under the microenterprise credit product by merging the two products together and stipulating that the start of the business must be at least three months before the loan is to be

provided. In this way, UNWRA mitigates the risk that the business may not be established after the loan is received. The idea is that when a person has invested a certain amount of money, he or she will be serious about continuing the business.

194. In the UNRWA medium-term strategy for the period 2016–2021 it is stated that the standard definition of youth used in the Agency refers to those between the ages of 15 and 24. The Board noted that loans to youth under the microenterprise credit product accounted for 2.4 per cent of the total loans disbursed in 2021.

195. The Board is of the view that it is important for UNRWA to continue to make efforts to diversify its product portfolio, especially by improving the design of loan products for young refugees to meet their specific needs.

196. The Board recommends that UNRWA continue to expand its outreach to young refugees.

197. UNRWA agreed with the recommendation.

Non-compliance with the operational manuals

198. The operational manual for the field office in the Syrian Arab Republic prescribes that for amounts over 600,001 Syrian pounds, a guarantor is mandatory. The operational manual for the West Bank field office prescribes that if a guarantor applies to the Microfinance Department for a loan, he or she must bring a guarantor for a loan. In addition, the West Bank operational manual indicates that for microenterprise credit or consumer loan product loans in amounts of 200 to 400 Jordanian dinar, the repayment period is up to 11 months.

199. The general terms of the Microfinance Department operational manuals stipulate that the age of the client must be between 18 and 75 years. The Jordan consumer loan product operational manual prescribes that borrowers must be at least 18 years of age and not more than 75 years old at the end of the loan life.

200. The Board reviewed the list of loans disbursed in 2021 and noted that 12 loans over 600,001 Syrian pounds were without guarantors in the Syrian Arab Republic and that 5 West Bank guarantors had applied and been granted a loan for themselves, without bringing any guarantors.

201. The Board also noted that six loans were issued to people under 18 years of age and three loans were issued to people over 75 years of age, and that six Jordanian borrowers would be over 75 years old at the end of the loan life.

202. Furthermore, the repayment periods of six loans in amounts of 200 to 400 Jordanian dinar were between 12 and 15 months, which exceeds the repayment periods prescribed in the West Bank operational manual.

203. UNRWA stated that, of the 12 loans without guarantors in the Syrian Arab Republic, 3 have guarantors that were not entered into the loan management information system. The management also stated that the age calculation in the system was not restricted to the exact number of days.

204. The Board is of the view that the checks about mandatory guarantors are of importance to strictly adhere to the operational manuals and that loan applicants' ages should be thoroughly reviewed in accordance with the operational manuals.

205. The Board recommends that UNRWA strengthen compliance with the operational manuals and enhance controls over mandatory guarantors to ensure that only eligible clients can apply for loans.

206. UNRWA agreed with the recommendation.

Excessive cash and cash equivalents on hand and no specific investment strategy for funds

207. With regard to the mission of the Microfinance Department, the Board was informed that the Department endeavoured to improve the quality of life of small business owners, microentrepreneurs and poor households through the provision of credit and other financial services that sustain jobs, decrease unemployment, reduce poverty, economically empower women and youth and provide income-generating and asset-building opportunities to Palestine refugees and other proximate poor and marginal groups.

208. The Board noted that cash and cash equivalent balances amounted to \$27.29 million at the end of 2021 and \$29.24 million as at 31 December 2020. In Jordan, short-term and long-term loan receivables totalled \$6.29 million, while the cash and cash equivalent amount was \$12.30 million, or almost twice the amount of the loan receivables.

209. The Board further noted that revenue from interest on bank deposits amounted to \$807,382 in 2021 and \$900,291 in 2020. Interest rates on bank deposits held in United States dollars ranged from 2.25 per cent to 3.25 per cent and on bank deposits held in Jordanian dinar from 1.5 per cent to 5.50 per cent. The interest rates were negotiated with banks to get the best price. There was no independent investment strategy being applied to the cash on hand.

210. UNRWA informed the Board that the cash volume was high because of the sharp decrease in operations following the COVID-19 crisis. During 2021, the Microfinance Department only disbursed in a conservative manner; it would reduce the amount it invested in the market in 2022. The revolving fund was intended for investment in the loans portfolio. At the end of 2021, the revolving fund account amounted to \$35.15 million.

211. The Board is of the view that the large amount of holdings in cash could have an influence on the efficiency of funds usage and the provision of credit services to Palestine refugees.

212. The Board recommends that UNRWA establish a specific investment strategy for excessive cash of the Microfinance Department to enhance the efficiency of fund utilization.

213. UNRWA agreed with the recommendation.

Not integrating the expected credit loss calculator in the loan management information system

214. The finance technical instruction of the Microfinance Department stipulates its recognition of the credit loss provision on all financial assets using the expected credit loss methodology under International Financial Reporting Standard 9 and requires it to be calculated in the loan management information system and uploaded in the financial management system (SAP).

215. The Board noted that the delinquency and provisioning reports for the calculation of expected credit loss for outstanding loan portfolios were not integrated in the loan management information system, and the expected credit loss was calculated manually.

216. UNRWA stated that there was no integration between the loss provisioning and International Financial Reporting Standard 9 calculations that were shown in the SAP trial balance and the loan management information system at the time of audit. This project was in progress with the ICT provider company. The Microfinance Department was fully utilizing the Excel sheet calculator based on a management

decision and careful analysis, and this was the case for all other microfinance instructions in Palestine thus far. However, the automation and integration of the International Financial Reporting Standard 9 calculator was expected in 2022.

217. The Board considers that the expected credit loss calculation is complex and that it involves dynamic processes based on rising credit risk identified in three stages of an outstanding loan portfolio. Manually calculating the expected credit loss using the Excel sheet calculator might increase the risk of inaccurate calculation and manual adjustments.

218. The Board recommends that UNRWA automate and integrate the expected credit loss calculator in the loan management information system so as to avoid manual misstatement and improve efficiency.

219. UNRWA agreed with the recommendation.

C. Disclosures by management

220. 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

221. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to \$2.71 million had been recognized during the year; outstanding loans receivables of \$1.71 million; accounts receivable losses of \$0.16 million; inventory losses of \$0.69 million, identified through inventory valuation; property losses of \$0.15 million; and cash losses of \$1 (see annex II).

2. Ex gratia payments

222. As required by financial regulation 11.5, UNRWA reported ex gratia payments amounting to \$55,321.75 for 2021. The payments were mainly for beneficiaries in judgments of the UNRWA Dispute Tribunal related to special unpaid leave and personal injury.

3. Cases of fraud and presumptive fraud

223. 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.

224. 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.

225. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by

UNRWA and disclosed in the present report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 47 cases of fraud and presumptive fraud in 2021 to the Board. Of those cases, investigations of 20 cases (43 per cent) were completed during the year, with quantified losses of \$3,705.61. The remaining 27 cases (57 per cent) were still under investigation. As at 31 December 2021, the cumulative number of cases under investigation were as follows: 2 relate to 2018, 5 relate to 2019, 11 relate to 2020 and 27 were reported during 2021. 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 completed during 2021 is contained in annex III to the present report.

D. Acknowledgement

226. 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) **Jorge Bermúdez**
Comptroller General of the Republic of Chile
Chair of the Board of Auditors

(Signed) **Hou Kai**
Auditor General of the People's Republic of China
(Lead Auditor)

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

21 July 2022

Annex I

Status of implementation of recommendations up to the financial year ended 31 December 2020

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
1	2016	A/72/5/Add.4 , 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 deployment of the barcode system will be completed in all field offices before the end of the second quarter of 2022. Recruitment of the head of the Procurement and Logistics Division for Lebanon, Gaza and the West Bank are in progress and the implementation will be accelerated.	The Board reviewed the information provided by the Agency. Based on current progress, the Board considers this recommendation under implementation.		X		
2	2016	A/72/5/Add.4 , 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.	A collection of business continuity plan documents of headquarters and field offices, including documents related to COVID-19, was provided by the management. Management stated that those documents were already in place and would be continually updated.	Given the statements made by the Agency, and the provision of the relevant documents, the Board considers this recommendation implemented.	X			
3	2017	A/73/5/Add.4 , 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	Part (a): the new organizational directive No.2 came into effect on 24 August 2021. An organization-wide communication was sent out on 15 September 2021 and an updated copy of the organizational directive is	The Board requested and was provided with the updated organizational directive and considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
4	2017	A/73/5/Add.4 , chap. II, para. 138	requesting and accounting for advance grants received from United Nations Headquarters to finance international staff posts under the regular budget. 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; (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.	available on the Agency's intranet. Part (b) is already considered implemented. UNRWA indicated that it was not providing loans currently owing to the economic and financial crisis in the country; however, as soon as it resumed, point (b) would be implemented fully. The target date is the third quarter of 2022.	After reviewing the actions taken and statements provided by the Agency, the Board considers parts (a) and (c) of this recommendation implemented. However, part (b) of this recommendation is considered under implementation. Overall, this recommendation is considered under implementation.		X		
5	2017	A/73/5/Add.4 , chap. II, para. 142	UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.	Owing to the COVID-19 pandemic, the mission to review the whole programme was put on hold because of travel restrictions. The Agency announced a consultant position to start working on the restructuring of the whole programme, including enhancements. The target date is the third quarter of 2022.	Taking into consideration the Agency's statements and the fact that the target date is the third quarter of 2022, the Board considers this recommendation under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
6	2018	A/74/5/Add.4 , 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 has reviewed the policy and the Board's observation and have concluded that the Board was correct in noticing that the current policy was not aligned with paragraphs 5 and 6 of area staff rule 106.4. On 1 March 2022, the Agency provided the Board with a table summarizing the misalignment and how the Department of Human Resources proposes to re-align.	The Board reviewed the document provided by the Agency and noted that the unified criteria for the terms regarding the submission of claims for injuries has been established. Therefore, the Board considers this recommendation implemented.	X			
7	2018	A/74/5/Add.4 , 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 Department of Human Resources has taken multiple actions in 2021/2022 to increase staff compliance with annual and advance annual leave not starting prior to approval. Non-compliance dropped from 76 per cent in the third quarter of 2021 to 59 per cent in the first quarter of 2022.	Given the actions taken and statements provided by the Agency, and the review performed by the Board, this recommendation is considered under implementation.		X		
8	2018	A/74/5/Add.4 , chap. II, para. 104	The Board recommends that UNRWA review all administrative instructions and have them updated and aligned with the procurement manual.	The new procurement manual and organizational directive No.10 have been approved and promulgated, with an effective date of 1 November 2021.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
9	2018	A/74/5/Add.4 , 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.	The new procurement manual has been approved and promulgated, with an effective date of 1 November 2021. Also, the standard operating procedure on vendor registration was put in place on 21 May 2021.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
10	2018	A/74/5/Add.4 , 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 SMS service was launched in Jordan on 23 September 2021. In the Syrian Arab Republic, the situation is complicated since there is no service provider in compliance with the Microfinance Department technical requirements.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
11	2019	A/75/5/Add.4 , chap. II, para. 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.	The West Bank field office has been proactive in providing support and training on a timely basis to ensure that the appropriate codes are selected. It also continues to monitor the selections and provides guidance and support for compliance with the guidelines.	Based on the statements made by the Agency and random inspections of the related information on assets in the purchase orders provided, the Board considers this recommendation implemented.	X			
12	2019	A/75/5/Add.4 , chap. II, para. 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.	The segregation of access rights, which involves adding a validation that prevents the overlapping of human resources roles when processing the same record, has been deployed on the production server, and it has been successfully tested.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
13	2019	A/75/5/Add.4 , chap. II, para. 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.	The review of roles in the refugee registration system is currently being validated in a workshop with field registration staff and will be finalized by the second quarter of 2022.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
14	2019	A/75/5/Add.4 , chap. II, para. 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.	The matrix of roles in the refugee registration information system is currently being validated in a workshop with field registration staff and will be finalized by the second quarter of 2022.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
15	2019	A/75/5/Add.4 , chap. II, para. 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 International Public Sector Accounting Standards (IPSAS) framework.	The Agency did not accept this recommendation (see A/75/5/Add.4 , chap. II, paras. 127 and 128). The Agency is of the opinion that the Board did not address the relevant department for appropriate information on the details. In addition, the Board was not able to properly assess the scenario, leading to an invalid recommendation. The Agency welcomes the Board to review the replacement cost methodology in order to assess the applicability of the recommendation.	Given the evidence provided by the Agency, the information surveyed from the REACH system and the Agency's position related to this matter, this recommendation is considered overtaken by events.				X

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
16	2019	A/75/5/Add.4 , chap. II, para. 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.	The management stated that the central pharmacy had finished the batch control for all the items available and for the newly received quantities in the central pharmacy stores.	Given the statements made by the Agency and its system sampling review, the Board considers this recommendation implemented.	X			
17	2019	A/75/5/Add.4 , chap. II, para. 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.	Project implementation is in progress and will be completed by the end of the fourth quarter of 2021.	Based on the information provided by UNRWA and the review performed by the Board, this recommendation is considered implemented.	X			
18	2019	A/75/5/Add.4 , chap. II, para. 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.	Single roles in supply chain and finance have been reviewed, and updates are under way to ensure that single roles are not directly assigned to users. The review of single roles used in human resources and single roles related to two or more modules is under way with a view to completing the exercise. The target date will be the third quarter of 2022.	Based on the information provided by UNRWA and its analysis thereof, the Board considers this recommendation under implementation.		X		
19	2019	A/75/5/Add.4 , chap. II, para. 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.	An information management lifecycle policy has been developed; however, it has not been submitted to the Executive Committee as resources are required to implement the policy. Given the Agency's financial situation, this is currently on hold. The target date will be the first quarter of 2023.	Based on the information provided by UNRWA and the review performed by the Board, this recommendation is considered under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
20	2019	A/75/5/Add.4 , chap. II, para. 202	The Board recommends that UNRWA unify the regulations applicable to headquarters and the different field offices.	An information management lifecycle policy has been developed, but it has not been submitted to the Executive Committee, as required. Given the Agency's financial situation, this is currently on hold. The target date will be the first quarter of 2023.	Based on the information provided by UNRWA and the review performed by the Board, this recommendation is considered under implementation.		X		
21	2020	A/76/5/Add.4 , chap. II, para. 29	The Board recommends that UNRWA analyse the historical data and push forward the clearance of outstanding balances of provisions in compliance with its financial technical instructions.	The older cases have been written off. The current process will significantly strengthen oversight and monitoring so that such instances do not occur in the future. In addition, as part of the separation process, the Agency receives clearance from the Department of Finance before processing separation payments.	Based on its review of the supporting documents for written-off cases and records in the REACH system, the Board considers this recommendation implemented.	X			
22	2020	A/76/5/Add.4 , chap. II, para. 35	The Board recommends that UNRWA pay close attention to the key indicators in the resource mobilization strategy monitoring framework and make further efforts to meet the yearly targets set by the Agency.	Some other factors, such as donor preference for earmarked contributions, regional politics and the economic status of donor countries in the context of the COVID-19 pandemic, may lead to limited results in some areas. The annual workplan of the Department of External Relations sets out the course of action of the Agency, in the light of the ever-changing fundraising environment, to meet the targets of the resource mobilization strategy. The Agency constantly adjusts its practice in order to minimize the impact of those factors and ensure the best attainable results under the circumstances.	Taking into consideration the Agency's statements and analysis of the evidence regarding the annual workplan, the Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
23	2020	A/76/5/Add.4 , chap. II, para. 41	The Board recommends that UNRWA develop and maintain a registry of lessons learned in accordance with the UNRWA project procedures manual and expedite the establishment of the unit that will be in charge of it.	Recruitment for the position of Head of the Strategic Project Management Office is currently under way. In this regard, to broaden the pool of candidates for interview, the vacancy was readvertised from 16 November to 6 December 2021. The second round of written tests for the position is being graded, with interviews expected to be scheduled in April 2022. The Agency emphasizes that its recruitment for this post is almost complete, with administrative steps to be completed soon.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
24	2020	A/76/5/Add.4 , chap. II, para. 47	The Board recommends that UNRWA resume the drafting of the emergency response handbook and expedite its deployment.	Progress is being made on the development of the emergency handbook and the work has been informed by an after-action review, which was completed following the May 2021 Gaza conflict. The Department of Planning will again seek to mobilize additional capacity through the United Nations Volunteers to further the development of the handbook.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
25	2020	A/76/5/Add.4 , chap. II, para. 53	The Board recommends that UNRWA prepare a multi-year plan for the progressive deployment of the e-tendering platform in the field offices.	Deployment of the e-tendering system in UNRWA field offices is being conducted as and when necessary. UNRWA is progressively building the capacity of local businesses to promote e-tendering and will progressively deploy such a tool in accordance with local market preparedness and maturity, in order not to limit competition. The Central	The Board understands the effort UNRWA is currently making and the progress it has already made. However, some more actions still need to be taken for the implementation of e-tendering Agency-wide by the first quarter of 2023. The Board therefore considers this		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				Support Services Division will therefore continue building the capacity of local businesses. The target date for full deployment of the e-tendering system will be the first quarter of 2023.	recommendation under implementation.				
26	2020	A/76/5/Add.4 , chap. II, para. 59	The Board recommends that UNRWA set a timetable for the renewal of the procurement instructions and update those instructions in a timely manner so as to better guide procurement activities.	The new procurement manual and organizational directive No.10 have been approved and promulgated, with an effective date of 1 November 2021.	Given the statements made by the Agency and documents provided, the Board considers this recommendation implemented.	X			
27	2020	A/76/5/Add.4 , chap. II, para. 65	The Board recommends that UNRWA prepare an annual master procurement plan for the major procurement activities.	The procurement plan was prepared by UNRWA in 2021.	Given the statements made by the Agency and the document reviewed, the Board considers this recommendation implemented.	X			
28	2020	A/76/5/Add.4 , chap. II, para. 72	The Board recommends that UNRWA review the procedure of asset classification and strengthen its controls to avoid improper classification and thus ensure accurate calculation of depreciation.	The Agency has updated the process and communicated with the various parties to ensure compliance with the policy.	Based on the statements made by the Agency and supporting documents provided, the Board considers this recommendation implemented.	X			
29	2020	A/76/5/Add.4 , chap. II, para. 79	The Board recommends that UNRWA develop Agency-wide plans and procedures to ensure that the selection process is completed within the maximum time period.	UNRWA has revised and implemented the international staff selection policy and the area staff selection policy, which has streamlined the recruitment process. In 2021 and 2022, the Department of Human Resources was requested to recruit staff for 31 international posts. The average time to complete the	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
30	2020	A/76/5/Add.4 , chap. II, para. 86	The Board recommends that UNRWA ensure compliance in performance evaluations for non-teaching and teaching staff members at the headquarters and field office levels, respectively, and link the e-performance system with a reward system to ensure the achievement of the set goals.	recruitment process for those posts was less than 70 days, which is well below the 120 days allocated in the key performance indicator. This demonstrates the Agency's commitment to completing all the recruitments within the time frame.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
31	2020	A/76/5/Add.4 , chap. II, para. 93	The Board recommends that UNRWA further decrease the discrepancy rate of REACH and the Education Management Information System and develop integration between the two systems to ensure the consistency of all information system data related to human resources.	The Agency reached discrepancy rates of 0.5 per cent in the Education Management Information System and 1.24 per cent in the REACH system as at 16 June 2021 and has maintained those rates since then. Five more measures were developed to reduce the error rate. The Agency continues to work on procedures to ensure that the level of discrepancies remains low.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
32	2020	A/76/5/Add.4 , chap. II, para. 100	The Board recommends that UNRWA verify and add the missing staff in the e-performance system in a timely manner and further integrate REACH with the e-performance system.	The e-performance staff list was checked against the REACH system staffing table twice during 2021 to verify and ensure that every staff member is under performance management. A report was generated to verify that every staff member had defined reporting lines and to ensure that every staff member was under supervision. In addition, integration between the REACH system and the e-performance system is already established, and e-performance forms are automatically generated for beginning of the performance cycle. Moreover, the Department of Human Resources introduced an e-performance system reform project to simplify the evaluation process.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
33	2020	A/76/5/Add.4 , chap. II, para. 106	The Board recommends that UNRWA appoint the prevention of sexual exploitation and abuse focal points on the basis of gender equality so as to comply with the Agency's rules and procedures.	The Agency explained that it was currently in a period of transition, as it was taking steps to change the policy and planned to change the criteria for the prevention of sexual exploitation and abuse focal points and would address the gender representation issues through new procedures on sexual exploitation and abuse in early 2021. General staff circular No. 07/2010 would be revised in the second quarter of 2021 after the necessary resources had been secured.	The Board took into consideration the Agency's statements and reviewed the documents provided by UNRWA. The policies and procedures for the prevention of sexual exploitation and abuse focal points have been updated. This recommendation is therefore considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
34	2020	A/76/5/Add.4 , chap. II, para. 112	The Board recommends that the Lebanon field office work together with headquarters to assess the possible impact of the absence of the management compact and issue the management compact in 2021.	The compact letter was signed by the Director of UNRWA Affairs in the Lebanon field office on 9 August 2021.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
35	2020	A/76/5/Add.4 , chap. II, para. 118	The Board recommends that UNRWA update organization directive No. 26 and its information security policy in a timely manner to accommodate its current information and communications technology environment.	Both documents have been developed and the updated policies have been submitted for approval. The Target date will be the second quarter of 2022.	Based on the information provided by UNRWA and the current progress in updating the policies, the Board considers this recommendation under implementation.		X		
36	2020	A/76/5/Add.4 , chap. II, para. 124	The Board recommends that UNRWA update the disaster recovery plans to comply with the latest organizational structure and service, and periodically review the disaster recovery plans in order to make them responsive to the continuously evolving information technology environment.	The disaster recovery policy document is under review and is expected to be released by the end of the first quarter of 2022. The disaster recovery plans will be updated in accordance with the new policy once it is issued and are expected to be released by the end of the second quarter of 2022.	Based on the information provided by UNRWA and the review performed by the Board, this recommendation is considered under implementation.		X		
37	2020	A/76/5/Add.4 , chap. II, para. 131	The Board recommends that UNRWA take concrete actions to perform a disaster recovery test for the REACH system as required by the disaster recovery policy.	UNRWA successfully completed the disaster recovery test exercise for the REACH system on 25 September 2021. Site-to-site connectivity was completed on 14 September 2021. Disaster recovery testing support documents are provided.	The Board reviewed the report of the disaster recovery test exercise and considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
38	2020	A/76/5/Add.4 , chap. II, para. 137	The Board recommends that UNRWA set the company code in the REACH production system to be productive to ensure data integrity and avoid accidental data loss.	The recommendation has been implemented and completed. UNRWA requests closure of this recommendation.	The Board reviewed the supporting documents and checked the configuration in the REACH production system. The company code is set to be productive. Therefore, the Board considers this recommendation implemented.	X			
39	2020	A/76/5/Add.4 , chap. II, para. 143	The Board recommends that the Lebanon field office record backup operations in the annual backup log form, as required in Information Management Department technical instruction No. 6.	The recommendation has been implemented and completed. UNRWA requests closure of this recommendation.	The Board reviewed the annual backup log form and considers this recommendation implemented.	X			
40	2020	A/76/5/Add.4 , chap. II, para. 149	The Board recommends that the Lebanon field office conduct a backup restore test operation, with a proper record in the restore log, at the end of the second and fourth quarters of each year, in accordance with Information Management Department technical instruction No. 6.	Backup/restore tests with a proper record in the restore log were conducted at the end of the second and fourth quarters. The recommendation has been implemented and completed. UNRWA requests closure of this recommendation.	The Board reviewed the restore log and noted that the backup restore test operation was conducted in the second and fourth quarters. The Board therefore considers this recommendation implemented.	X			
41	2020	A/76/5/Add.4 , chap. II, para. 156	The Board recommends that UNRWA update the guidelines on procurement and delivery of supplies to health centres to reflect the current organizational structure and the changed information system environment.	Guidelines have been finalized and are ready for circulation widely after the designer's review. They are currently with the Department of Health designer for review and finalization of the design in accordance with UNRWA guidelines.	Given the statements made by the Agency and the supporting documents provided, the Board considers this recommendation implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
42	2020	A/76/5/Add.4 , chap. II, para. 163	The Board recommends that UNRWA take measures to integrate the hospitalization management function with REACH and e-Health.	The work is under way and the planned link of the hospitalization management system to e-Health and eventually to REACH is targeted for the fourth quarter of 2023.	The Board took into consideration the Agency's statements and considers this recommendation under implementation.		X		
43	2020	A/76/5/Add.4 , chap. II, para. 172	The Board recommends that the Jordan and Lebanon field offices assess the existing operational model for the hospitalization support programme and expedite the development of a field technical instruction in the current context.	The UNRWA field offices will provide the relevant updated instructions. The target date will be the fourth quarter of 2022.	The Board took into consideration the Agency's statements and considers this recommendation under implementation.		X		
44	2020	A/76/5/Add.4 , chap. II, para. 178	The Board recommends that the Jordan and Lebanon field offices conduct regular audits on medical referrals and process and analyse the audit result in a timely manner, to monitor the appropriateness of the referrals and the quality of medical care provided by the hospitals.	After implementing the field-specific technical instruction by the fourth quarter of 2021, the audit activity for medical referrals will take place by the fourth quarter of 2022.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
45	2020	A/76/5/Add.4 , chap. II, para. 186	The Board recommends that UNRWA take corrective action where appropriate to recover subsidies under the social safety net programme given to staff members, strengthen the verification of refugees' enrolment and exclude those who do not meet the required criteria to ensure that refugees in real need of assistance can be enrolled.	Social safety net programme transfers to UNRWA employees could not be recovered, given the significant hardships, such as the deteriorating economic environment and high inflation rates in Jordan, Lebanon and the Syrian Arab Republic. No UNRWA employee is eligible for the universal food assistance rolled out in 2021. UNRWA continues to implement its policy that no UNRWA employee shall benefit from relief assistance.	Although verification has been strengthened, given the fact that transfers to UNRWA employees have not been recovered, the Board considers this recommendation under implementation.		X		

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
46	2020	A/76/5/Add.4 , chap. II, para. 195	The Board recommends that UNRWA update the refugee registration information system to identify and delete the abnormal registration data and ensure the accuracy, integrity and completeness of data in the system.	An alternative approach to digital identity verification is under development. The removal of persons who are over 100 years old from the records is regularly executed. The recommendation has been implemented and UNRWA requests its closure.	Given that the digital identity verification is under development, the Board considers this recommendation under implementation.		X		
47	2020	A/76/5/Add.4 , chap. II, para. 200	The Board recommends that the Lebanon field office hold appeals committee meetings regularly in accordance with the relevant regulations and rules.	Owing to the current severe socioeconomic conditions and tensions among the Palestinian community, the negotiations have not yet started. They may take place after the socioeconomic survey that is to be conducted in Lebanon. Based on the result and the new update of the social safety net programme, this recommendation will be implemented, possibly in the first or second quarter of 2023.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
48	2020	A/76/5/Add.4 , chap. II, para. 206	The Board recommends that UNRWA review the microcredit community support programme administrative fee on a regular basis to ensure full compliance with the programme guidelines.	The recruitment of a consultant is in process and will be completed in July 2022, when she or he will start with the review of the programme.	Given the statements made by the Agency and the target date of July 2022, the Board considers this recommendation under implementation.		X		
49	2020	A/76/5/Add.4 , chap. II, para. 211	The Board recommends that UNRWA conduct a thorough eligibility analysis of loan applicants and guarantors and work on decreasing the portfolio at risk.	By 31 December 2021, the portfolio at risk had been reduced from 22.14 per cent to 5.99 per cent.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			

No.	Audit report year	Report reference	Board's recommendation	Management's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
50	2020	A/76/5/Add.4 , chap. II, para. 218	The Board recommends that UNRWA make more effort to increase its loan products among Palestine refugees.	By 31 December 2021, both the number and the percentage of loans distributed to refugees had increased.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered implemented.	X			
51	2020	A/76/5/Add.4 , chap. II, para. 227	The Board recommends that UNRWA review the interest rates of its three loan products on a regular basis and work on the reduction of the interest rates.	The review for 2021 has been completed, and the result was that the Microfinance Department cannot reduce its interest rate for these three products for the year.	Given the statements made by the Agency and the review performed by the Board, this recommendation is considered under implementation.		X		
Total						29	21	0	1
Percentage						57	41	0	2

Annex II

Summary of assets written off

(United States dollars)

<i>Category</i>	<i>2021</i>	<i>2020</i>	<i>Increase/(decrease)</i>
Cash	1	4	(3)
Inventory	692 399	298 294	394 105
Property	146 636	31 235	115 401
Outstanding contribution receivables		1 265 096	(1 265 096)
Outstanding account receivables	164 313	342 469	(178 156)
Outstanding loans receivables	1 708 594	1 024 690	683 904
Total	2 711 943	2 961 788	(249 845)

Source: UNRWA information.

Annex III

Cases of fraud and presumptive fraud reported to the Board for the year 2021

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
21/01	Field office	Theft	Not determined	Allegations that a school attendant stole 3 or 4 kits of stationery from the school	Investigated: substantiated
21/02	Field office	Fraud	Not determined	Allegations that an UNRWA teacher used a fake university degree upon their assignment with UNRWA	Investigated: substantiated
21/03	Field office	Fraud	Not determined	Allegations that an UNRWA staff member used a false university degree upon their assignment with UNRWA	Recorded for information
21/04	Field office	Fraud	Not determined	Allegations of unjustified consumption of fuel	Investigated: unable to substantiate
21/05	Field office	Corruption	Not determined	A staff member was alleged not to have conducted proper verifications of car logs to identify home-office-home charges	Investigated: substantiated
21/06	Field office	Fraud	0	A staff member allegedly submitted a false certificate of non-employment to the Agency and engaged in outside activities without appropriate approval	Investigated: substantiated
21/07	Field office	Corruption, bribery	Not determined	A staff member allegedly engaged in bribery and bid-rigging	Investigated: unable to substantiate
21/08	Field office	Fraud	3 426.55	Allegations of fuel theft by an UNRWA driver	Investigated: substantiated
21/09	Field office	Fraud	Not determined	The subject allegedly provided the Agency with a forged document to obtain a dependency allowance for an adult son	Investigated: substantiated
21/10	Field office	Fraud	Not determined	A staff member allegedly misrepresented academic qualifications in a job application	Investigated: unable to substantiate
21/11	Field office	Fraud	0	Daily-paid personnel allegedly misrepresented academic qualifications in their job application	Investigated: substantiated
21/12	Field office	Fraud	0	Allegations of insurance fraud by UNRWA teachers	Investigated: substantiated
21/13	Field office	Theft	279.06	Following a cash count, a difference between the imprest fund balance and the cash count balance was noted	Investigated: substantiated
21/14	Field office	Theft	0	A school attendant allegedly took 6,000 books from the school without informing the school administration	Investigated: unable to substantiate
21/15	Field office	Fraud	0	A staff member used a fake degree to be appointed to a post	Investigated: substantiated
21/16	Field office	Fraud	0	Allegations of misrepresentation of academic qualifications	Recorded for information

<i>Year/number</i>	<i>Level</i>	<i>Case type</i>	<i>Loss (United States dollars)</i>	<i>Description</i>	<i>Outcome</i>
21/17	Field office	Theft	Not determined	Theft of water closets at Shatila Camp	Investigated: substantiated
21/18	Field office	Theft	Not determined	Theft of materials from a reconstruction project site office	Investigated: unable to substantiate
21/19	Field office	Corruption	0	Facilitating the allocation of temporary shelters in exchange for money	Investigated: unable to substantiate
21/20	Field office	Corruption	0	Charging beneficiaries illegal commission in exchange for uploading their documents in the system	Investigated: unable to substantiate
Total			3 705.61		

Source: UNRWA Department of Internal Oversight Services.

Chapter III

Certification of the financial statements

Letter dated 31 March 2022 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 2021.

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 2021.

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

Chapter IV

Financial report for the year ended 31 December 2021

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 2021, 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. Despite the fact that the continued financial challenges in the Agency's cash flow were exacerbated by the continued global coronavirus disease (COVID-19) pandemic in 2021, the Agency has successfully delivered on its mandate by playing an essential role in providing vital services for the well-being, human development and protection of more than 5.7 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2021, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the COVID-19 challenges and the challenges associated with its cash flow; political and security environment – specifically, access problems in the West Bank; the continuing blockade of the Gaza Strip; the May 2021 hostilities; 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 \$1,228.2 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries, address emergencies in the Gaza Strip and the Syrian Arab Republic and tackle the challenges of COVID-19 throughout its fields of operation. With the return of funding from a key donor, who had suspended funding in 2018 for the programme budget, the Agency was able to deliver on its mandate in 2021, however, the carried over deficit from these years hinders the smooth operations of its work.

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 2020–2021 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 2021

7. The Agency's total revenue and income for 2021 was \$1,283.7 million, compared with total expenses of \$1,206.7 million, resulting in a net surplus of \$77.0 million for the year.

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 2021

(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	725.6	24.4	7.8	433.4	130.4	(37.9)	1 283.7
Total expenses	816.9	24.3	8.5	324.6	69.7	(37.3)	1 206.7
Surplus/(deficit) for the year	(91.3)	0.1	(0.7)	108.8	60.6	(0.6)	77.0

9. The programme budget recorded a deficit of \$91.3 million and the emergency appeals recorded a surplus of \$108.8 million. The deficit in the programme budget is due primarily to end-of-service costs of \$82.7 million incurred in 2021, with interest costs of \$23.6 million, service costs of \$59.1 million and actuarial gains of \$34.9 million contributed during the year. This deficit is further exacerbated by the donor preference to contribute to earmarked funds, compared with the programme budget. The surplus in emergency appeals is due to funds received towards the end of the year, which will be spent during the subsequent year(s).

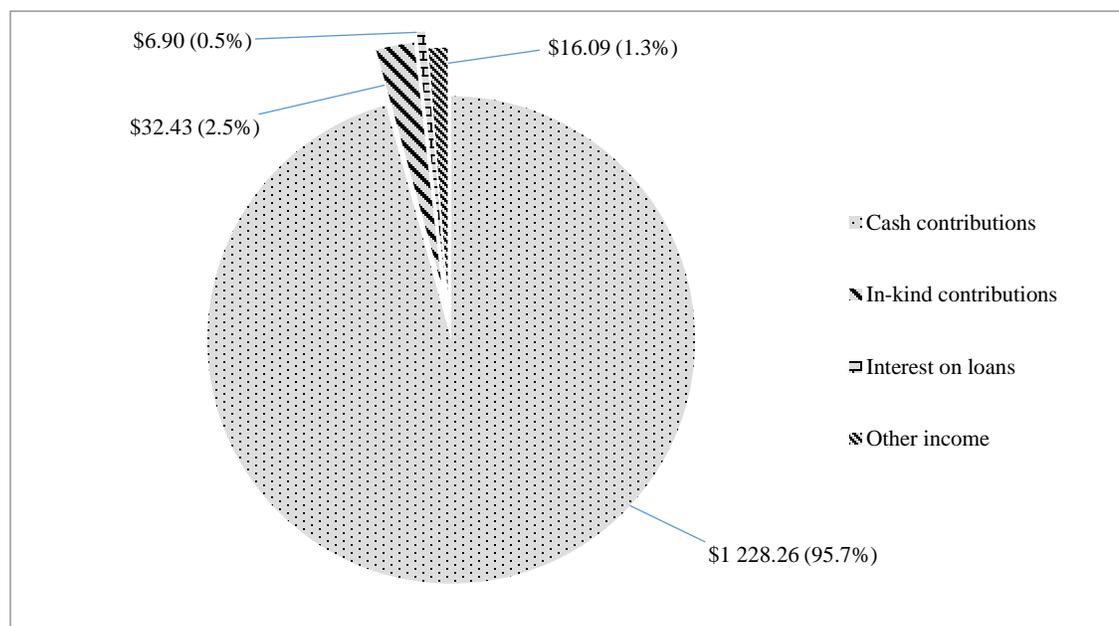
10. The restricted and project funds reflected surpluses of \$0.1 million and \$60.6 million, respectively, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods. The Microfinance Department recorded a deficit of \$0.7 million, owing to the constrained financial markets arising from the impact of COVID-19.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 96 per cent (\$1,228.2 million) of total revenue (see figure IV.I). In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at \$32.4 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.1
Revenue and income sources

(Millions of United States dollars)



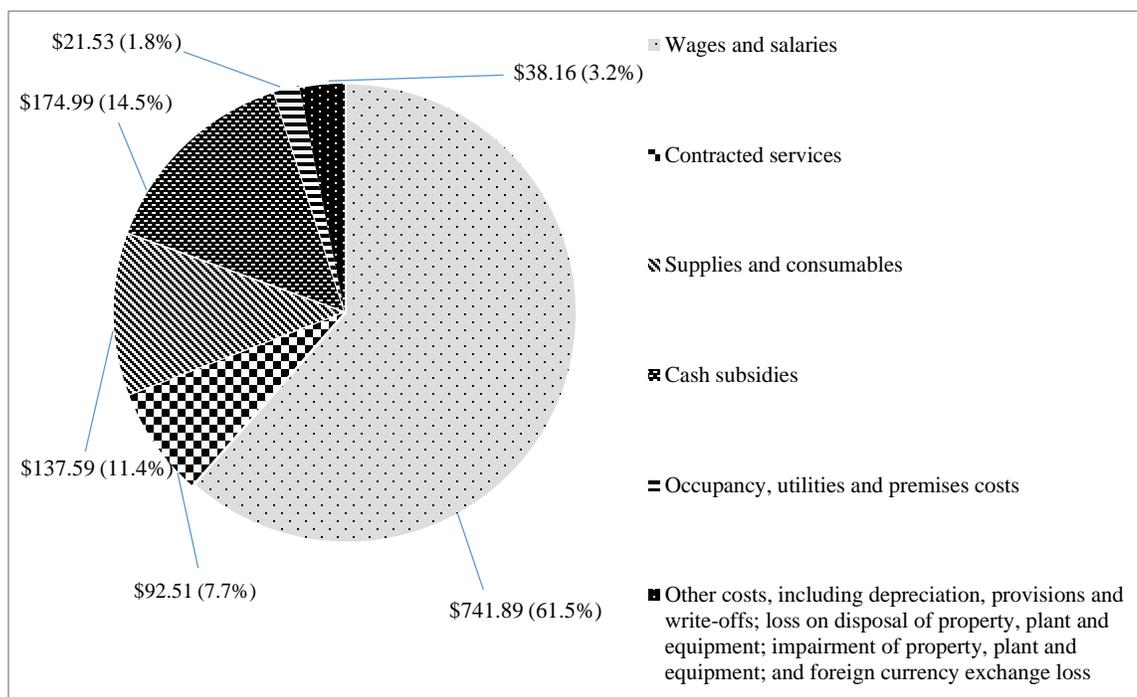
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 76/77), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 74/84) and operations of UNRWA (most recently, resolution 76/78). 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 29 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 \$1,206.7 million in 2021. Staff costs of \$741.9 million represented 61 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. As seen in figure IV.II, a total of \$92.5 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, \$18.9 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 \$29.0 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of \$137.6 million was spent on supplies and consumables, including \$83.5 million for basic commodities and \$0.9 million for fresh food. An amount of \$27.1 million was spent on medical supplies, and \$7.6 million was spent on textbooks and library books. The sum of \$5.5 million was spent on transportation supplies.

16. A total of \$175.0 million was spent on subsidies, including \$149.5 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 \$14.6 million was provided as subsidies for the construction and repair of shelters, and \$5.8 million was provided for patient subsidies.

17. Occupancy and utility costs totalled \$21.5 million in 2021. Other expenses, amounting to \$38.2 million, included depreciation, provisions and write-offs, and loss on disposal.

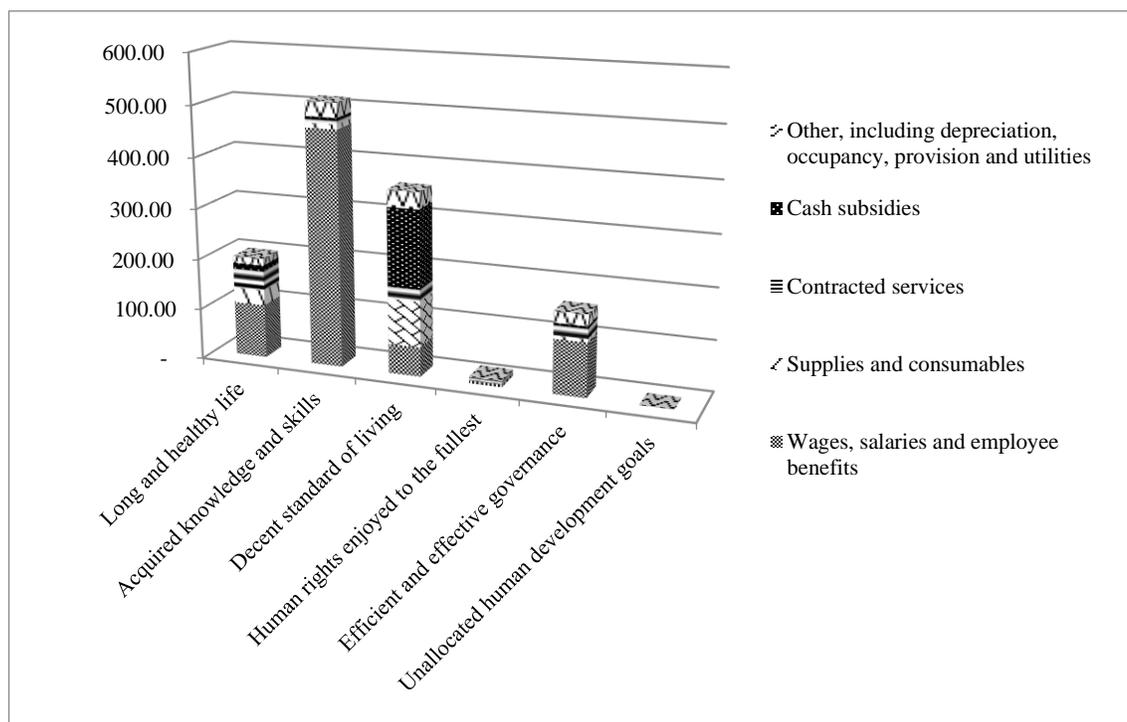
Human development goals and Agency programmes: expense analysis

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^a

(Millions of United States dollars)



^a \$37.3 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 shows the 2021 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.

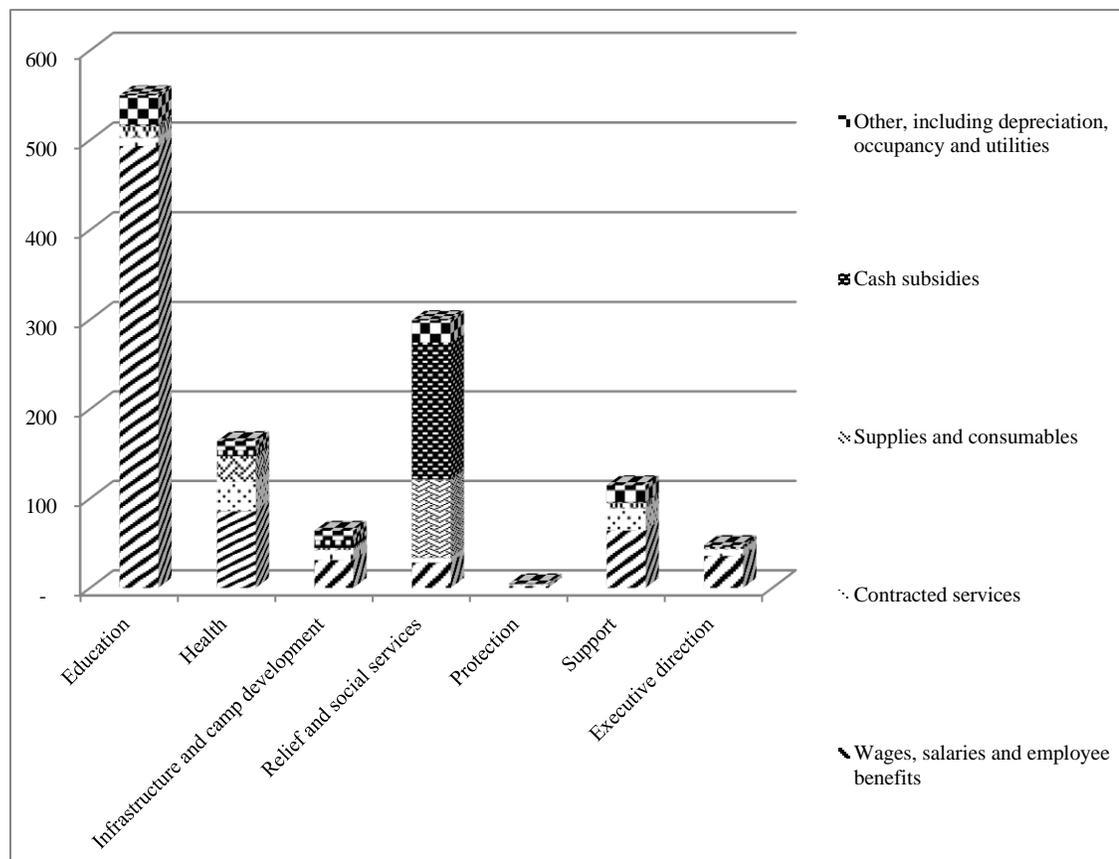
20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of \$199.4 million (16 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme (\$164.0 million). Approximately 52 per cent (\$86.0 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 17 per cent (\$28.6 million) spent on medical supplies and consumables and 20 per cent (\$32.6 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 4 per cent (\$6.9 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 \$513.8 million, representing 41 per cent of the Agency's 2021 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme (\$549.8 million). The objectives are to ensure

universal access to and coverage of basic education, enhance education quality and outcomes against set standards and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

Figure IV.IV
Expense analysis by programme^a

(Millions of United States dollars)



^a \$37.3 million in inter-segment eliminations are excluded from the analysis.

22. An amount of \$358.0 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 (\$299.1 million and \$63.8 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. Of the total expenses (\$90.1 million) dedicated to the pursuit of decent standard of living, 25 per cent was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional \$153.3 million was provided in the form of cash subsidies.

23. An amount of \$159.6 million, or 13 per cent, of the Agency's 2021 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 the 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 the effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to \$47.7 million and \$114.6 million, respectively. Of the expenses for effective and efficient governance (\$106.8 million), 67 per cent 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 \$4.9 million.

Geographical location: expense analysis

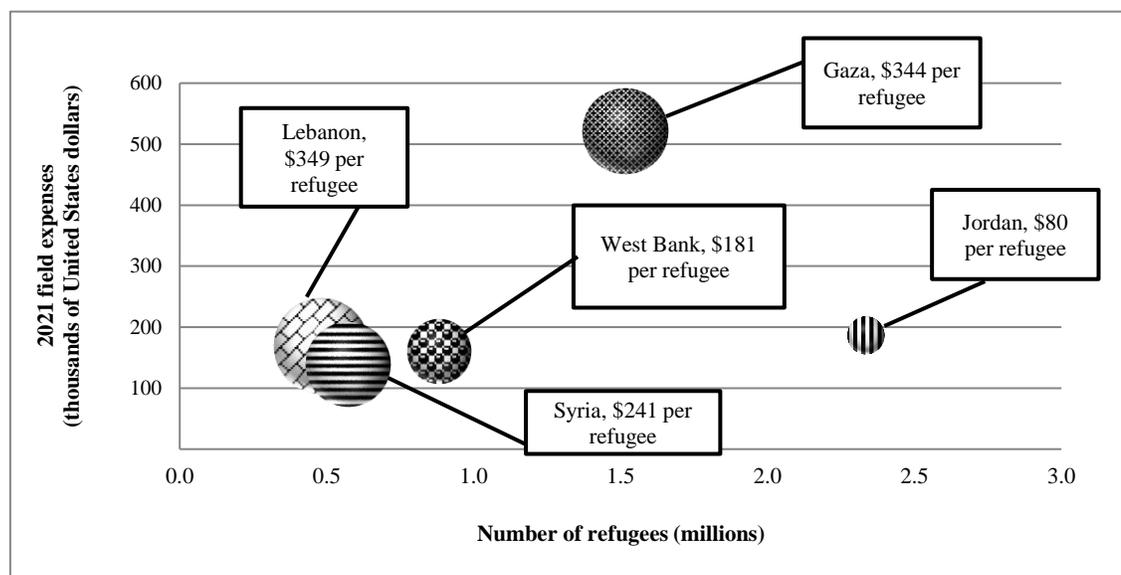
26. Although UNRWA goals and services are delivered primarily within a programme approach, its operations are managed on a field basis. UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic and the Occupied Palestinian Territory (the West Bank, including East Jerusalem, and the Gaza 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 2021 expense per refugee in the Gaza field office was \$344. The Gaza Strip has 1,516,258 registered Palestine refugees. Reconstruction work from the periodic conflicts, including the hostilities of May 2021, continues despite Israeli restrictions on cement imports, machinery, steel, water pumps and elevators, which slowed progress. In addition, 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 the monitoring of the materials the Agency imports into the Gaza Strip. Lack of funding also remains a cause of slow progress on various reconstruction projects. 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 15 years of blockade. The Gaza field office supports 8 camps, 278 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 482,676, and the average expense per refugee in 2021 was \$349. 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 2021 expenses per registered refugee, by field^a



^a \$69.3 million in headquarters expenses and \$37.3 million in inter-segment eliminations are excluded from the analysis.

29. There are more than 883,950 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 2021 expense per registered Palestine refugee in the West Bank was \$181.0. 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 575,234 registered Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2021 expense per registered refugee was \$241. 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, 102 schools, the Damascus Training Centre, 23 primary health centres, 9 community rehabilitation centres and 12 women's programme centres.

31. More than 2,334,789 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan are understood to have citizenship rights, with the exception of some 185,512 Palestine refugees and their descendants displaced from Gaza as a result of the 1967 hostilities ("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. The expense per refugee, at \$80, representing the lowest average in 2021, 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 (\$40.4 million), contracted services (\$17.0 million) and provisions and write-offs (\$5.7 million), as the value added tax (VAT) and contributions receivable are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2021

33. The Agency's net liability decreased from \$217.9 million as at 31 December 2020 to \$101.5 million as at 31 December 2021, owing mainly to the surplus recorded for the year of \$77.0 million and actuarial gain on end-of-service liabilities of \$39.4 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 2021

(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	62.6	16.5	43.8	213.3	182.9	(18.3)	500.9
Non-current assets	459.3	0.6	1.7	1.0	8.2	–	470.7
Total assets	521.9	17.1	45.5	214.3	191.1	(18.3)	971.6
Current liabilities	194.9	0.8	1.6	12.4	21.0	(18.4)	212.3
Non-current liabilities	855.5	–	5.3	–	–	–	860.9
Total liabilities	1 050.4	0.8	6.9	12.4	21.0	(18.4)	1 073.1
Net assets/equity	(528.5)	16.3	38.6	202.0	170.1	–	(101.5)

35. The negative net assets/equity position of the programme budget is owing 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 past few years.

36. The net assets/equity balance of the projects funds showed a balance of \$170.1 million, owing 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 deficit of \$57.7 million and negative reserves of \$43.8 million.

38. The net current liabilities (current assets less current liabilities) balance for the programme budget is \$132.2 million and the net current assets (current assets less current liabilities) of the Agency were \$288.6 million as at 31 December 2021 (compared with \$168.5 million as at 31 December 2020), indicating an increase in short-term liquidity. The Agency's current assets amount to 51.6 per cent of its total assets, whereas current liabilities constitute 19.8 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to \$357.0 million as at 31 December 2021, a small portion of which was held by the programme budget (1.8 per cent), causing significant constraints in managing the cash flow of the portal, and in restricted funds (2.5 per cent), with the majority falling under emergency appeals and projects (47.6 per cent and 40.5 per cent, respectively). UNRWA holds the surplus cash in short-term investments of \$352.3 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 \$28.1 million as at 31 December 2021, owing to the programme budget (\$9.4 million), projects (\$14.0 million) and emergency appeals (\$4.7 million).

41. Accounts receivable, net of provision, were valued at \$11.4 million as at 31 December 2021. This amount relates primarily to significant value added tax refund claims of \$108.7 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 \$2.6 million related to the personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at \$19.1 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, \$16.9 million relates to short-term (current) loans receivable.

Inventories

42. The value of the Agency's inventory at the end of 2021 was estimated at \$83.9 million, reflecting an increase of \$6.0 million compared with 31 December 2020, owing primarily to the increase in shelters under construction. Assets included shelters under construction (\$15.0 million), non-Agency installations (\$3.8 million) and warehouse inventory (\$44.2 million), as well as inventory in transit valued at \$0.6 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at \$20.2 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at \$0.1 million.

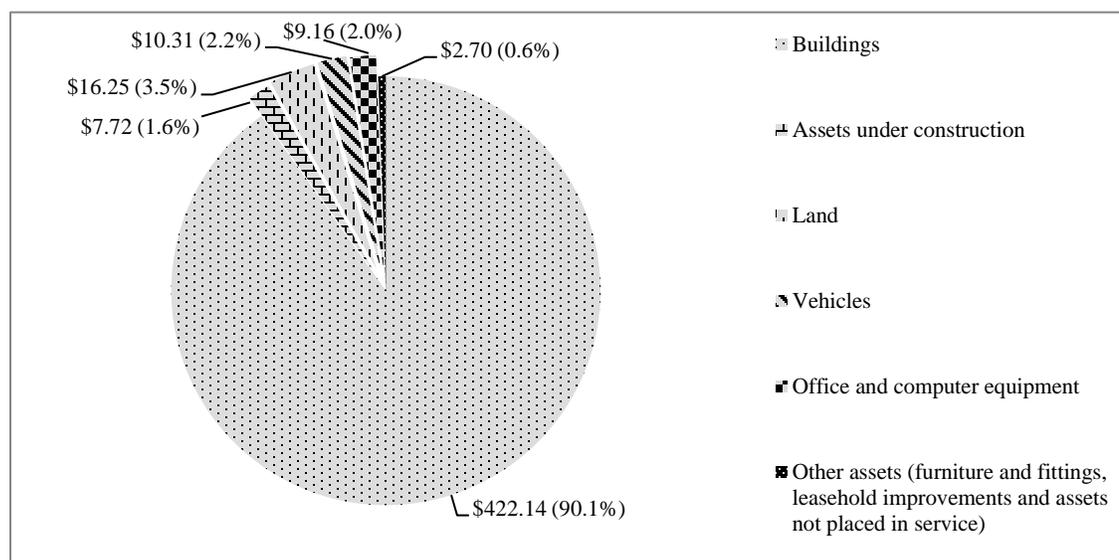
Property, plant and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2021 was \$468.3 million, representing 48.2 per cent of total Agency

assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries (see figure IV.VI).

Figure IV.VI
Property, plant and equipment

(Millions of United States dollars)



44. Assets under construction amounted to \$7.7 million as at 31 December 2021, 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 2021. 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 \$952.5 million as of the end of 2021, reflecting an increase of \$1.5 million during the year. The employee benefits liabilities represent 88.7 per cent of the Agency's liabilities, with \$91.7 million categorized as current liabilities and \$860.9 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 was due to the change in the discount rate from 2.57 per cent to 2.89 per cent, cumulated with the rising interest rates gain of \$34.9 million, payments of \$45.0 million and actuarial gain of \$4.6 million, interest of \$23.6 million and service costs of \$59.1 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 2020–2021 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 2021 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2020–2021, amounted to \$1,080.9 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. The final 2021 programme budget was \$1,033.1 million and is disclosed in financial statement V as “final” budget. The decrease of \$47.9 million, or 4.4 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 into 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, at reducing 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 natures 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 not having 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 that cover 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 \$952.5 million as at 31 December 2021. 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 2021

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

I. Statement of financial position as at 31 December 2021

(Thousands of United States dollars)

	<i>Reference</i>	<i>31 December 2021</i>	<i>31 December 2020</i>
Assets			
Current assets			
Cash and cash equivalents	Note 4	356 967	260 686
Short-term loans receivable	Note 5	16 931	15 630
Contributions receivable	Note 6	28 119	11 365
Accounts receivable	Note 7	11 397	9 444
Other current assets	Note 8	3 609	3 904
Inventories	Note 9	83 872	77 915
Non-current assets			
Long-term loans receivable	Note 5	2 166	2 065
Property, plant and equipment	Note 11	468 281	479 344
Intangible assets	Note 12	296	2 047
Total assets		971 638	862 400
Liabilities			
Current liabilities			
Payables and accruals	Note 13	108 999	126 183
Employee benefits	Notes 14 and 15	91 678	81 275
Other current liabilities	Note 16	838	1 675
Advance contributions	Note 17	10 747	1 312
Non-current liabilities			
Employee benefits	Notes 14 and 15	860 863	869 784
Other non-current liabilities	Note 16	–	69
Total liabilities		1 073 125	1 080 298
Net assets		(101 487)	(217 898)
Net assets/equity			
Revaluation and other reserves		(82 270)	(121 681)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	38 487	38 485
Accumulated surplus		(57 704)	(134 702)
Total net assets/equity		(101 487)	(217 898)

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

II. Statement of financial performance for the year ended 31 December 2021

(Thousands of United States dollars)

	<i>Reference</i>	<i>2021</i>	<i>2020</i>
Revenue			
Cash contributions	Note 20	1 228 256	929 735
In-kind contributions	Note 21	32 428	27 974
Interest on loans	Note 22	6 902	7 059
Interest on bank deposits	Note 23	1 691	2 574
Other revenue			
Foreign currency exchange gain	Note 24	5 510	7 655
Indirect support cost recovery	Note 25	134	156
Miscellaneous revenue	Note 26	8 755	7 363
Total revenue		1 283 676	982 516
Expenses			
Wages, salaries and employee benefits	Note 27	741 890	708 705
Supplies and consumables	Note 28	137 594	111 568
Occupancy, utilities and premises costs	Note 29	21 531	16 827
Contracted services	Note 30	92 508	90 646
Subsidies	Note 31	174 994	158 419
Depreciation and amortization	Notes 11 and 12	31 350	35 981
Provisions and write-offs	Note 32	6 663	5 448
Loss on disposal	Note 11	147	25
Total expenses		1 206 677	1 127 619
Surplus/(deficit) for the year		76 999	(145 103)

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 2021

(Thousands of United States dollars)

	<i>Revaluation and other reserves^a</i>	<i>Reserves, microcredit community support programme and Microfinance Department^b</i>	<i>Accumulated surplus/deficit – unearmarked</i>	<i>Accumulated surplus/deficit – earmarked</i>	<i>Total</i>
Balance at 1 January 2021	(121 681)	38 485	(385 667)	250 965	(217 898)
Reclassification of funds	–	–	31 885	(31 885)	–
Surplus/(deficit) for the period	–	–	(91 300)	168 298	76 999
Changes in revaluation reserve for derivative financial instruments	–	–	–	–	–
Reserves, microcredit community support programme and Microfinance Department, during 2021	–	2	–	–	2
Actuarial gains/(losses) on staff termination liabilities ^c	39 411	–	–	–	39 411
Total net assets/equity	(82 270)	38 487	(445 082)	387 378	(101 487)

^a See note 33.

^b See note 19.

^c 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 2021

(Thousands of United States dollars)

	2021	2020
Cash flows from operating activities		
Surplus/(deficit) for the year	76 999	(145 103)
Adjustment for non-cash items		
Add depreciation and amortization	31 350	35 981
Loss on disposal	106	21
Actuarial gains/(losses) on employee benefit liabilities	39 411	(71 602)
(Decrease)/increase in provision for doubtful debts	3 309	621
Decrease/(increase) in inventories	(5 956)	(3 514)
Decrease/(increase) in contributions receivable	(21 930)	40 385
Decrease/(increase) in accounts receivable	(953)	2 767
Decrease/(increase) in loans receivable	(537)	6 807
Decrease/(increase) in other assets	295	955
(Decrease)/increase in accounts payable and accruals	(17 184)	43 517
(Decrease)/increase in leave encashment and employee benefits	1 481	107 490
(Decrease)/increase in other liabilities	(906)	(5 856)
(Decrease)/increase in advance contributions	9 435	107
Net cash from operating activities	114 920	12 576
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	41	10
Purchase of property, plant, equipment and adjustment	(18 506)	(20 004)
Purchase of intangible assets	(176)	–
Net cash from investing activities	(18 641)	(19 994)
Cash flows from financing activities		
Increase/(decrease) in capital reserve for Microfinance Department and microcredit community support programme	2	(418)
Net cash from financing activities	2	(418)
Net increase/(decrease) in cash	96 281	(7 836)
Cash balance at the beginning of the year	260 686	268 522
Cash balance at the end of the year	356 967	260 686

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 2021**

(Thousands of United States dollars)

	Reference	Budget amounts		Actual on comparable basis	Variances: final budget and actual
		Original	Final		
International staff					
Staff costs		37 252	47 394	38 985	8 409
Area staff					
Basic salary		497 756	429 441	404 221	25 220
Hazard pay and special elements		–	261	631	(370)
Provident Fund Agency contribution		57 244	59 294	61 227	(1 933)
Special professional occupational allowance, special occupational allowance and others		8 690	12 452	12 893	(441)
Overtime and excess hours supplement		–	767	678	89
Currency adjustment factor		–	61	14 622	(14 561)
Special allowance		25 386	25 483	27 856	(2 373)
Health-related expenses		15 107	10 493	11 191	(698)
Other miscellaneous staff costs		–	213	48	165
Severance cash payment out		70 285	41 296	40 533	763
Limited duration contract		755	4 776	2 325	2 451
Temporary staff		17 303	27 381	26 344	1 037
Total staff costs (A)	Note 34	729 778	659 312	641 554	17 758
Non-staff costs					
Supplies		83 994	42 772	37 656	5 116
Utilities		5 515	5 411	5 365	46
Maintenance of premises		20 152	13 729	11 688	2 041
Equipment and non-capital construction		147 402	87 755	50 740	37 015
Training		4 313	1 770	1 214	556
Travel		1 365	1 342	815	527
Administrative support services		3 526	3 578	3 246	332
Consultancy services		3 395	11 430	8 853	2 577
Hospital services		28 967	20 781	20 641	140
Miscellaneous services		16 023	14 120	11 115	3 005
Subsidies to hardship cases		26 891	44 684	39 140	5 544
Subsidies to patients		6 161	3 652	3 565	87
Third-party subsidies		1 764	5 052	5 029	23
Other subsidies		209	6 656	2 970	3 686
Cost recovery		(2 891)	5 952	6 474	(522)
Reserves		4 364	105 057	–	105 057
Prior-year adjustments		–	2	(24)	26
Total non-staff costs (B)	Note 34	351 150	373 743	208 487	165 256
Total resources requirements (A+B)	Note 34	1 080 928	1 033 055	850 041	183 014

**United Nations Relief and Works Agency for Palestine Refugees in the Near East
Notes to the 2021 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 5.7 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 would have been effective 1 January 2022, with earlier application encouraged, but the effective date has been delayed to 1 January 2023 owing to COVID-19. The effective date has also been delayed owing to the amendments to IPSAS 36: Investments in associates and joint ventures, IPSAS 41: Prepayment features with negative compensation and IPSAS 19: Collective and individual services, as well as the improvements to IPSAS, 2019. 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 twice a month for all 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>
Buildings and land improvements	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
Vehicles	
Heavy trucks	5
Sedans, light buses and light trucks/or buses	10
Other vehicles	14

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

Capital work in progress

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

Intangible assets

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

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

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

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

Software acquisition and development

2.45 Acquired computer software licences are capitalized on the basis of costs incurred to acquire the specific software and bring it into use. Costs directly associated with the development of software for use by the Agency are capitalized as

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

Impairment

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

Finance leases

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

Operating leases

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

Payables and accruals

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

Employee benefits

2.50 The Agency recognizes the following categories of employee benefits:

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

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

2.52 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension

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

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

Provisions and contingent liabilities

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

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

Interest revenue

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

Indirect support cost recovery

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

Fund accounting and segment reporting

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

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

- (a) Unearmarked activities, comprising activities under the programme budget;
- (b) Earmarked activities, which include:
 - (i) Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined

budget. This applies to activities related to both cash and in-kind contributions for the regular budget;

(ii) Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;

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

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

Note 3

Budget comparison

3.1 The budget for the biennium 2020–2021 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 2021</i>	<i>31 December 2020</i>
Cash in hand	4 685	4 721
Cash at banks	352 282	255 965
Total	356 967	260 686

4.2 Compared with 2020, cash at banks increased by \$96.317 million. The increase is due to higher year-end contributions for emergency appeals. Emergency appeal balances as at 31 December 2021 were \$169.998 million (compared with \$70.927 million during 2020).

4.3 The Agency held funds for other United Nations entities in the amount of \$0.154 million as at 31 December 2021 (compared with \$0.024 million as at 31 December 2020).

4.4 The balances of cash and cash equivalents on hand as at 31 December 2021 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 2022.

Currency	Balance as at 31 December 2021			Balance as at 31 December 2020		
	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	1 432	1.380	1 038	15	1.313	11
Canadian dollar	869	1.281	678	5 002	1.278	3 914
Swiss franc	19 762	0.915	21 598	696	0.883	788
Danish krone	11 504	6.552	1 756	750	6.059	124
Egyptian pound	18 311	15.668	1 169	11 361	15.720	723
Euro	134 833	0.881	153 045	1 744	0.815	2 139
Pound sterling	14 897	0.742	20 076	414	0.740	559
Jordanian dinar	20 160	0.708	28 474	40 399	0.708	57 061
Japanese yen	1 405 233	114.810	12 239	16 118	103.530	156
Lebanese pound	11 506 761	1 507.500	7 633	5 698 218	1 507.500	3 780
New Israeli shekel	8 174	3.108	2 630	8 469	3.209	2 639
Norwegian krone	810	8.794	92	4 789	8.587	558
Swedish krona	345 847	9.035	38 279	1 022	8.179	125
Syrian pound	332 524	2 500.000	133	321 185	1 250.000	257
United States dollar	63 395	1.000	63 395	183 112	1.000	183 112
Emirati dirham	18	3.672	5	22	3.673	6
Malaysian ringgit	174	4.180	42	54	4.046	13
Total			352 282			255 965

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 Department of Relief and Social Services 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 2021			31 December 2020		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Current	16 104	827	16 931	14 523	1 107	15 630
Non-current	1 626	540	2 166	1 258	807	2 065
Total	17 730	1 367	19 097	15 781	1 914	17 695

Provision for loans receivable

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

(Thousands of United States dollars)

	2021			2020		
	Microfinance Department	Microcredit community support programme	Total	Microfinance Department	Microcredit community support programme	Total
Beginning balance	(1 539)	(32)	(1 571)	(1 157)	(35)	(1 192)
Additions	(839)	(4)	(843)	(1 401)	(3)	(1 404)
Less: write-off/adjustment	1 701	7	1 708	1 019	6	1 025
Ending balance	(677)	(29)	(706)	(1 539)	(32)	(1 571)

5.4 The amount of loans written off increased in 2021 compared with prior periods owing to economic stagnation and small business closures during the pandemic. The loan provisions reserve has improved owing to subsequently increased repayment rates and the improved quality of the loan portfolio due to the recovery of businesses in 2021.

Provision for loan losses

5.5 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.

5.6 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:

Loan status	Provision
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

<i>Loan status</i>	<i>Provision</i>
91–150 days overdue	50% general provision
151–180 days overdue	75% general provision
181–360 days overdue	100% general provision

5.7 Effective from 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 following are the rates of reserve calculation 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
91–150 days overdue	50% special impairment
151–180 days overdue	25% special impairment
181–360 days overdue	0% special impairment

5.8 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 2021	31 December 2020
Due from Governments	25 665	4 196
Due from intergovernmental organizations	7 007	6 785
Due from non-governmental organizations	7 177	7 450
Due from United Nations organizations	1 209	698
Provision against contributions receivable	(12 939)	(7 764)
Total contributions receivable	28 119	11 365

6.2 Contributions receivable increased by \$16.754 million owing to agreements signed towards the end of 2021 and unsettled contributions.

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 2021	31 December 2020
Beginning balance	(7 764)	(9 014)
Reduction in provision/adjustment	27	(15)
Addition during the period	(5 202)	(2)
Less: write-offs	–	1 267
Ending balance	(12 939)	(7 764)

6.6 The increase in the 2021 provision was due to an additional provision for long-outstanding invoices.

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

(Percentage)

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

6.8 After six years for Governments and after three years for other donors, 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 2021</i>	<i>31 December 2020</i>
Value added tax receivable	7.2	108 698	109 182
Other accounts receivable	7.4	7 914	6 478
Less: provisions	7.6	(105 215)	(106 216)
Accounts receivable net of provisions		11 397	9 444

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 2021</i>	<i>31 December 2020</i>
Value added tax receivable from the Palestinian Authority	100 562	100 883
Value added tax receivable from the Government of Israel	6 607	7 392
Value added tax receivable from the Government of Lebanon	1 529	907
Total	108 698	109 182

7.3 The increase in value added tax receivable from the Government of Lebanon is due to the volatility of the economic situation. The decrease in value added tax receivable from the Government of Israel is due to significant efforts by the Agency to collect the refunds on Israeli value added tax during the year.

Other accounts receivable

7.4 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Miscellaneous receivable	5 098	3 580
Personal accounts of staff members	2 629	2 611
Refundable utility deposits	187	162
Due from Area Staff Provident Fund ^a	–	125
Total	7 914	6 478

^a See note 14.1.

7.5 Miscellaneous receivable increased at the end of the year owing to increases in prepaid expenses.

Provisions and write-offs

7.6 Provisions and write-offs comprise the following:

(Thousands of United States dollars)

	31 December 2021				31 December 2020			
	Value added tax	Accounts receivable	Microfinance Department	Total	Value added tax	Accounts receivable	Microfinance Department	Total
Beginning balance	(105 317)	(770)	(129)	(106 216)	(103 640)	(969)	(115)	(104 724)
Additions	(516)	(1)	(7)	(524)	(1 677)	(11)	(14)	(1 702)
Reduction in provision/adjustment	1 432	5	–	1 437	–	44	–	44
Less: write-offs	–	88	–	88	–	166	–	166
Ending balance	(104 401)	(678)	(136)	(105 215)	(105 317)	(770)	(129)	(106 216)

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

(Percentage)

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

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

7.9 The additions for accounts receivable provisions (see note 7.6) during the year reflect a provision of \$0.524 million (compared with \$1.702 million in 2020). The additions for value added tax provisions decreased owing to refunds from the Palestinian Authority and the Government of Israel.

Note 8

Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled \$3.609 million as at 31 December 2021 (compared with \$3.904 million in 2020). Included therein are prepayments to staff in the amount of \$0.026 million as at 31 December 2021 (compared with \$0.045 million in 2020).

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2021 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Current		
Advances to suppliers	3 583	3 859
Prepayment to staff	26	45
Total	3 609	3 904

Note 9 Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	31 December 2021	31 December 2020
Warehouse	44 180	44 435
Pharmacy/clinic	20 162	22 291
In transit	607	1 385
Production unit	126	152
Shelter under construction	15 011	8 072
Non-Agency installations	3 786	1 580
Total	83 872	77 915

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. Warehouse inventory decreased slightly, owing primarily to the reduction resulting from the replacement cost adjustment.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields. The reduction in pharmacy/clinic inventory is due primarily to the decrease in the procurement of medicines and pharmaceutical supplies in the Gaza field compared to the previous year.

9.4 Inventory in transit for the year 2021 decreased owing to the timing of deliveries.

9.5 The inventory of shelter under construction increased by \$6.939 million owing to the ongoing construction of shelters in different areas still not completed.

9.6 The inventory of non-Agency installations increased by \$2.206 million, owing primarily to the ongoing work in Gaza and the West Bank, over which control will be handed over to the local communities upon completion.

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

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Raw materials inventory – embroidery	51	70
Work in progress – embroidery	4	1
Finished goods – embroidery	71	81
Total	126	152

9.8 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.

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; there was no impact on financial position and on financial performance in 2021.

10.4 UNRWA did not enter into any hedging contracts during 2021 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 2021 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. For certain non-United States dollar currencies, banks set their own specific ceilings beyond which they apply interest rates. Interest is calculated on the basis of average balances held with the banks and charged monthly.

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 2021, 39 per cent of contributions to the programme budget were denominated in the United States dollar base currency, and 61 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.

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 2021, 18 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. An amount comprising 6 per cent of UNRWA balances were denominated in local currencies to support operating activities in field offices, 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 2021.

(Thousands of United States dollars)

Description	2021								2020	
	Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	Motor vehicles	Construction in progress	Assets not placed in service	Total	Total
Cost										
As at 1 January	16 250	623 931	675	5 688	55 374	39 737	21 907	5	763 567	745 492
+ Additions in year	–	27 831	–	484	3 642	650	(14 190)	89	18 506	20 004
(-) Disposals/adjustment in year ^a	–	198	–	–	1 422	1 841	–	–	3,461	1 929
(A) Balance as at 31 December	16 250	651 564	675	6 172	57 594	38 546	7 717	94	778 612	763 567
Depreciation										
Balance as at 1 January	–	200 225	675	2 763	46 255	28 039	–	–	277 957	250 323
+ Depreciation in year	–	23 032	–	803	3 557	2 031	–	–	29 423	29 532
(-) Depreciation on disposals/adjustments in year ^a	–	94	–	–	1 380	1 840	–	–	3 314	1 898
(B) Balance as at 31 December	–	223 163	675	3,566	48 432	28 230	–	–	304 066	277 957
Impairment										
Balance as at 1 January	–	6 257	–	–	1	7	–	–	6 265	6 265
+ Impairment in year	–	–	–	–	–	–	–	–	–	–
(-) Impairment reversed and on disposal in year	–	–	–	–	–	–	–	–	–	–
(C) Balance as at 31 December	–	6 257	–	–	1	7	–	–	6 265	6 265
Net book value as at 31 December (A)-(B)-(C)	16 250	422 144	–	2 606	9 161	10 309	7 717	94	468 281	479 344

^a See note 11.2.

11.2 Net cost of assets disposed is \$0.147 million, which comprises the following:

(Thousands of United States dollars)

	2021	2020
Original cost of disposal	3 461	1 929
Accumulated depreciation	(3 314)	(1 898)
Accumulated impairment	–	–
Net cost of assets disposed in accordance with note 11.1	147	31

11.3 The following presentation of the proceeds from the sale of assets and the net cost of assets disposed has been amended from the prior year to better reflect the impact of the disposal:

(Thousands of United States dollars)

	2021	2020
Net cost of assets disposed	147	31
Proceeds from sale of assets	(41)	(10)
Net disposals/adjustments	106	21

11.4 In addition to the active assets valued at \$468.281 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of \$76.057 million. The proceeds from the sale of assets are reported under miscellaneous revenue in the statement of financial performance, while the net result of assets disposed is reported in the cash flow statement.

11.5 The net book value of assets as at year-end decreased by \$11.063 million owing to decreased additions compared with the depreciation charges during the year.

Note 12

Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

Description	2021			2020	
	Software acquired separately	Software developed internally	Licences and rights	Total	Total
Cost					
As at 1 January	3 408	38 396	528	42 332	42 332
+ Additions in year	76	–	100	176	–
(-)/+ Disposals and adjustments in year	–	–	–	–	–
(A) Balance as at 31 December	3 484	38 396	628	42 508	42 332

Description	2021			2020	
	Software acquired separately	Software developed internally	Licences and rights	Total	Total
Amortization and impairment					
Balance as at 1 January	3 381	36 376	528	40 285	33 836
Amortization in year	9	1 918	–	1 927	6 449
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–
(B) Balance as at 31 December	3 390	38 294	528	42 212	40 285
Net book value as at 31 December (A)-(B)	94	102	100	296	2 047

12.2 There were minor additions in intangible assets in 2021. The decrease in the net book value was due to the amortization of the UNRWA enterprise resource planning system.

Note 13

Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	31 December 2021	31 December 2020
Supplier accounts payable	Note 13.2	44 417	28 788
Accrued expenses	Note 13.3	16 943	58 283
Other accounts payable	Note 13.5	44 216	37 648
Miscellaneous provision	Note 13.7	3 423	1 464
Total		108 999	126 183

13.2 Supplier accounts payable represent balances owed to vendors for goods and services received. The balances were high at the end of 2021 compared with 2020 owing to measures taken to manage funding constraints, in particular the delaying of payments to vendors and staff.

Accrued expenses

13.3 Accrued expenses include the following:

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Accrued expenses for services and utilities	10 347	13 741
Area staff group medical insurance	669	236
Accrued salaries, wages and other expenses	113	135
Other salary-related payable	5 380	43 611
Payable – reclassifications of accounts receivable balance staff	434	560
Total	16 943	58 283

13.4 Other salary-related payable decreased in 2021 owing to the settlement of salaries payable from the prior year. The decrease in accrued expenses was due to timing differences in the receipt of basic commodities.

Other accounts payable

13.5 Other accounts payable consist of the following:

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Deposits received	121	87
West Bank water supply, Palestinian Authority	587	518
Funds held for other entities, including United Nations entities	1 395	184
Interest payable for projects	1 140	1 078
Miscellaneous accounts payable	1 345	984
Central Emergency Response Fund	28 000	30 000
Staff liabilities payable	11 225	4 821
Unearned income canteen rent	403	(24)
Total	44 216	37 648

13.6 The increase in staff liabilities payable is due to unpaid liabilities for retired staff as at 31 December 2021.

Miscellaneous provision

13.7 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 2021 amounted to \$96.219 million (compared with \$97.432 million in 2020) and are expected to amount to \$101.030 million in 2022, on the basis of expected increases in staff and Agency contributions. The balances outstanding with the Provident Fund as at 31 December 2021 and 2020 are shown in the table below.

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Opening balance	(124)	(5 189)
Employee contributions and repayments of withdrawals	70 408	66 980
Agency contributions	63 841	64 627
Withdrawals	(110 672)	(82 224)
Area Staff Provident Fund employee loans	(37 665)	(34 932)
Area Staff Provident Fund loan commission	148	142
Current account with Provident Fund	24 681	(9 528)
Total	10 617	(124)

14.3 The increase in Provident Fund liabilities is due to unsettled balances at year-end due to funding constraints.

United Nations Joint Staff Pension Fund: international staff

14.4 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.

14.5 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.

14.6 It is stated in the Regulations of the Fund 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.

14.7 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.

14.8 The latest actuarial valuation for the Fund was completed as at 31 December 2019, and the valuation as at 31 December 2021 is under way. The roll-forward of the participation data as at 31 December 2019 to 31 December 2020 was used by the Fund for its 2020 financial statements.

14.9 The actuarial valuation as at 31 December 2019 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 144.4 per cent. The funded ratio was 107.1 per cent when the current system of pension adjustments was taken into account.

14.10 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2019, 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.

14.11 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 (2018, 2019 and 2020) amounted to \$7,993.15 million, of which 0.29 per cent was contributed by the Agency.

14.12 During 2021, contributions paid to the Fund amounted to \$7.816 million (compared with \$7.675 million in 2020). Expected contributions due in 2022 are approximately \$9.865 million.

14.13 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.

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

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

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

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Current	91 678	81 275
Non-current	860 863	869 784
Total	952 541	951 059

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Annual leave encashment for area staff	41 733	38 634
End-of-service liability for area staff	908 875	910 615
Short-term employee benefits for international staff not funded through the United Nations regular budget	1 162	1 021
Long-term employee benefits for international staff not funded through the United Nations regular budget	771	789
Total	952 541	951 059

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 2021. The total employee annual leave liability as at 31 December 2021 amounted to \$41.733 million (compared with \$38.634 million as at 31 December 2020).

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 2021, total employee benefits liabilities amounted to \$908.875 million (compared with \$910.615 million as at 31 December 2020). 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 2020; the retirement age was returned to 60 in 2021 with exceptional approval to extend; and the current assumption for the purpose of valuation is 92 per cent at age 60, 50 per cent at age 61 and 100 per cent at age 62;

(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 and approved by the Agency; (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 gains presented in the statement of changes in net assets/equity is \$39.411 million, which includes the impact of change in the discount rate and experience gains.

15.12 Interest costs and service costs amounted to \$82.695 million as at 31 December 2021 (compared with \$78.032 million for 2020). The actuarial (gains)/losses are directly accounted for in the statement of changes in net assets/equity. In the 2021 valuation of end-of-service liabilities, actuarial gains were determined to be \$4.557 million owing to experience, actuarial gains from remeasurements to be \$34.854 million owing to discount rate changes during the year.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2021 is conducted using the same demographic assumptions as the valuation for 2020. The discount rate increased to 2.89 per cent from 2.57 per cent, and other financial assumptions remained the same, compared with 2020. The total actuarial gains due to experience and the change in the discount rate amounts to \$39.411 million.

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)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Opening balance as at 1 January	910 615	799 668
Interest costs for the year	23 574	25 447
Service costs for the year	59 121	52 585
Past service costs	–	–
Financial remeasurements ^a	(34 854)	35 047
Payments in the year	(45 024)	(38 687)
Actuarial (gains)/losses	(4 557)	36 555
Total	908 875	910 615

^a For 2021, the discount rate (financial remeasurements) changed from 2.57 to 2.89 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 West Bank and Jordan field offices and the Amman headquarters.

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

(Percentage)

<i>Field</i>	<i>Currency</i>	<i>Currency protection</i>	<i>Discount rate</i>	<i>Future escalation (2022 onward)</i>
Gaza	United States dollar	No	2.89	2.50
Gaza headquarters	United States dollar	No	2.89	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.89	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.89	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	2.89	2.50
Lebanon	United States dollar	No	2.89	2.50
Syrian Arab Republic	United States dollar	No	2.89	2.50

15.17 The discount rate is based on the United Nations AA Corporate Bonds Yield Curves for United States, developed by Aon, which has a duration of 15 years, consistent with the duration of the end-of-service liability of the Agency (15 years). The same benchmark was used in previous year's valuation to set discount rates. Discount rates increased in 2021 to 2.89 per cent from 2.57 per cent in 2020.

15.18 This increase in the discount rate and gains due to experience has resulted in an actuarial gain of \$39.411 million for 2021 (compared with losses of \$71.602 million in 2020), which represents 4.3 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. Area health staff are granted an additional two steps of increments, applied once every two years, until they reach the maximum step level of 26.

Exchange rates as at 31 December 2021

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, 1,507.500; Syrian pound, 2,500.000.

Resignation rates

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

Early retirement rates

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

(Percentage)

Attained age	Number of years since early retirement conditions have been satisfied			
	0	1	2	3+
Less than 45	2.0	1.3	0.8	0.3
45-49	2.0	1.3	0.8	0.3
50-54	2.0	1.3	0.8	0.3
55-59	2.0	1.3	0.8	0.3

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)

Age	Male	Female
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 2.89 per cent, a salary escalation of 2.50 per cent and a provision of \$908.875 million.

(Thousands of United States dollars)

Subject	Variance	Aggregate variance	Total variance
Discount rate	+1%	-10.49%	813 666
	-1%	+12.45%	1 022 138
Salary escalation	+1%	+12.72%	1 024 584
	-1%	-10.88%	810 093
Early voluntary retirement	+1%	-0.46%	904 850
	-1%	+0.22%	911 022
Resignation rates	+1%	-0.68%	902 776
	-1%	+0.72%	915 511

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total variance</i>
Mortality	120%	+0.12%	910 068
	80%	-0.12%	907 904
Disability	120%	+0.01%	909 902
	80%	-0.01%	908 902

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 2021</i>	<i>31 December 2020</i>
Year 1	43 824	39 860
Year 2	46 892	48 214
Year 3	55 039	49 191
Year 4	57 937	56 155
Year 5	62 453	59 595
Years 6 to 10	331 853	328 008
More than 10 years	2 154 829	2 192 411
Duration	15 years	16 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 2021 and 31 December 2020) 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 2021</i>	<i>31 December 2020</i>
Repatriation grant	289	216
Shipment	398	396
Travel	87	96
After-service health insurance	771	788
Outstanding annual leave	388	313
Total	1 933	1 809

International staff assumptions

15.30 The discount rate is assumed to be 2.89 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 after service-health insurance mortality of members of the plan will reflect those in the 2017 United Nations after-service health insurance rates of mortality 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 five 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 \$1.933 million.

(Thousands of United States dollars)

<i>Subject</i>	<i>Variance</i>	<i>Aggregate variance</i>	<i>Total</i>
Discount rate	+1%	-5.88%	1 820
	-1%	+7.39%	2 076
Salary escalation	+1%	+0.14%	1 936
	-1%	-0.14%	1 930
All inflation rates	+1%	+7.51%	2 079
	-1%	-6.12%	1 815
Resignation rates	+1%	–	1 933
	-1%	–	1 933
Mortality	120%	-2.99%	1 876
	80%	+3.91%	2 009

Note 16
Other current liabilities

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Goods in transit payable	765	1 385
Donor refund payable	4	15
Finance lease liability	69	275
Total	838	1 675

16.2 Goods in transit decreased owing primarily to the timing of deliveries.

16.3 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Current	838	1 675
Non-current	0	69
Total	838	1 744

Other non-current liabilities

16.4 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	<i>31 December 2021</i>	<i>31 December 2020</i>
Finance lease liability	–	69
Total	–	69

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 2021</i>	<i>31 December 2020</i>
Received from Governments	616	1 312
Received from intergovernmental organizations	10 000	–
Received from United Nations organizations	131	–
Total	10 747	1 312

17.2 Governmental advances decreased, while intergovernmental organization advances from one donor increased.

Note 18

Contingent liabilities, contingent assets and lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2021 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 \$0.527 million as at 31 December 2021 (compared with \$0.506 million as at 31 December 2020).

18.3 The contingent liabilities for commercial contracts amounted to approximately \$13.670 million as at 31 December 2021 (compared with \$14.037 million as at 31 December 2020).

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 2021 was \$410.303 million (compared with \$498.297 million as at 31 December 2020).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of \$3.135 million recognized as operating lease expenses during 2021 (compared with \$3.292 million in 2020). 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 2021</i>	<i>31 December 2020</i>
Not later than one year	58	52
Later than one year and not later than five years	216	226
Total	274	278

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 \$4.086 million in 2021 (compared with \$3.902 million in 2020) 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 \$1.174 million from sublease payments in 2021 (compared with \$1.096 million in 2020). 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 2017 for medical equipment used in clinics. The present and future values are as follows:

(Thousands of United States dollars)

	2021		2020	
	Present value	Future value	Present value	Future value
Not later than one year	69	70	275	278
Later than one year and not later than five years	–	–	69	70
Ending balance	69	70	344	348

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 2021 and 2020 was as follows:

(Thousands of United States dollars)

	31 December 2021	31 December 2020
Microfinance Department	35 146	35 146
Microcredit community support programme	3 341	3 339
Total	38 487	38 485

Note 20**Cash contributions revenue**

20.1 Total cash contributions revenue by source received in 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Governments	1 007 152	686 846
Intergovernmental organizations	151 370	149 390
Non-governmental organizations and other entities	18 245	12 227
United Nations organizations	45 202	76 954
Sundry	6 287	4 318
Total	1 228 256	929 735

20.2 Governments increased their contributions owing to the resumption of contributions by one of the major donors by \$320.306 million, while United Nations organizations decreased their contributions by \$31.752 million in 2021, owing primarily to a special grant received in the prior year.

Note 21**In-kind contributions revenue**

21.1 Total in-kind contributions revenue by source received in 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Governments	27 437	22 114
Non-governmental organizations and other entities	3 636	4 668
United Nations organizations	1 355	1 192
Total	32 428	27 974

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 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Microfinance Department	6 795	6 961
Microcredit community support programme	107	98
Total	6 902	7 059

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 was \$1.691 million in 2021 (compared with \$2.574 million in 2020).

23.2 Interest on bank deposits decreased in 2021 owing to reduced short-term interest rates on United States dollar and local currency deposits compared with the prior year.

Note 24

Currency exchange (loss)/gain

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

(Thousands of United States dollars)

	2021	2020
Realized currency exchange rate gain	20 447	10 385
Unrealized currency exchange rate (loss)	(12 341)	(2 477)
Accounts receivable income realized exchange rate (loss)	(2 596)	(253)
Total	5 510	7 655

24.2 The realized currency exchange rate gain increased mainly as a result of the preferential exchange rate granted by the Central Bank of Lebanon for Lebanese pounds against United States dollars.

24.3 The unrealized currency exchange rate loss was high in 2021, owing mainly to the strengthening of the United States dollar against other currencies and due to high amounts of non-United States dollar contributions received during the last quarter of 2021 that had not been sold at year-end.

24.4 The accounts receivable income realized exchange rate gain or loss represents the gain or loss due to changes in exchange rates between the dates of invoices and actual receipt during the year. The loss was higher in 2021 owing to the strengthening of the United States dollar against other currencies.

Note 25

Indirect support cost recovery

25.1 The Agency is entitled to a specific percentage of the expenditure incurred on certain projects and emergency appeal in accordance with donor agreements. Indirect support cost recoveries are recognized as income under the programme budget 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 and emergency appeal for 2021 was \$37.869 million (compared with \$26.597 million in 2020). In addition to the recovery from projects and emergency appeals, there was an indirect support cost recovery of \$0.134 million in 2021 (compared with \$0.156 million in 2020) from Junior Professional Officer programmes under the programme budget.

Note 26

Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2021	2020
Canteen lease revenue	1 174	1 096
Sundries	6 577	5 635
Profit on income-producing activities	24	60
Reimbursed provision revenue	1 487	669
Income received from United Nations agencies	77	32
Refunds to donors	(584)	(129)
Total	8 755	7 363

26.2 The reimbursed provision revenue reported in 2021 represents refunds of Israeli and Palestinian value added tax provisioned in previous years.

26.3 Sundries revenue increased in 2021 owing to additional revenue received in exchange for services provided to other agencies.

26.4 Refunds to donors represent amounts that have been recorded as revenue but are refunded to donors in accordance with the terms of donor agreements. Refunds to donors increased in 2021 owing to the inability to complete projects by their deadlines as a result of COVID-19 restrictions.

Note 27

Wages, salaries and employee benefits

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

(Thousands of United States dollars)

	2021	2020
International staff	42 058	41 910
Area staff		
Basic salaries, allowances and benefits	624 693	591 005
Area Staff Provident Fund contributions	63 760	64 612
Health-related expenses	11 379	11 178
Total	741 890	708 705

27.2 Basic salaries and allowances for area staff increased in 2021 owing mainly to currency adjustment factor expenses and the increase in staff costs for daily paid workers and temporary staff resulting from the resumption of in-person attendance following the easing of COVID-19 restrictions.

Note 28
Supplies and consumables

28.1 The composition of supplies and consumables in 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Basic commodities	83 461	65 399
Clothing supplies	800	506
Fresh food	944	1 352
Medical supplies	27 050	26 002
Miscellaneous supplies	12 049	10 312
Sport supplies	187	131
Textbooks and library books	7 598	4 463
Transportation supplies	5 505	3 403
Total	137 594	111 568

28.2 The increase in the consumption of basic commodities in 2021 was due to rising commodities prices and shipping costs and the inclusion of additional commodities in the field in the Syrian Arab Republic for distribution.

28.3 The increase in the consumption of textbooks and library books in 2021 was due to the distribution of additional textbooks in schools after the resumption of in-person attendance.

28.4 The increase in the consumption of transportation supplies in 2021 was due to rising fuel costs as staff returned to the office and as a result of the opening of Agency facilities as shelters for refugees during the Gaza conflict.

Note 29
Occupancy, utilities and premises costs

29.1 Occupancy, utilities and premises costs in 2021 and 2020 included the following:

(Thousands of United States dollars)

	2021	2020
Rental of premises	7 504	7 476
Maintenance of premises	8 980	4 070
Utilities	5 047	5 281
Total	21 531	16 827

29.2 The increase in maintenance of premises costs in 2021 was due to additional repairs as a result of the Gaza conflict.

Note 30

Contracted services

30.1 The composition of services expenses in 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Construction and equipment	18 869	24 806
Contractual costs	10 305	10 856
Hospital costs	28 987	23 724
Miscellaneous, including accruals	4 206	1 162
Consultancy costs	14 099	13 515
Demurrage and port charges	13 022	14 338
Training costs	1 669	1 110
Travel	1 351	1 135
Total	92 508	90 646

30.2 The decrease in construction and equipment costs in 2021 was due to reduced donor contributions to construction projects.

30.3 The increase in hospitalization costs was due to the increase in hospitalization prices and in the number of patients in some areas as a result of COVID-19.

Note 31

Subsidies

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

(Thousands of United States dollars)

	2021	2020
Cash subsidies to beneficiaries	149 499	136 969
Patient subsidies	5 817	4 323
Subsidies for the construction and repair of shelters	14 570	9 158
Subsidies to third parties	5 108	7 969
Total	174 994	158 419

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 rental subsidies. The increase in 2021 was due mainly to increased resources allocated to the job creation programme.

31.3 Subsidies for the construction and repair of shelters increased in 2021, owing mainly to the assistance given for repairs to buildings affected by the Gaza conflict and to the increase in the price of construction materials.

31.4 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. Subsidies to third parties decreased in 2021 owing to reduced donor contributions.

Note 32
Provisions and write-offs

32.1 The composition of provisions and write-off expenses in 2021 and 2020 was as follows:

(Thousands of United States dollars)

	2021	2020
Provisions and write-off expenses on accounts receivable	524	1 702
Provisions and write-off expenses on contributions receivable	5 202	2
Provisions and write-off expenses on loans receivable	843	1 394
Write-off of overstated receivables and others	94	2 350
Total	6 663	5 448

32.2 The increase in the 2021 provisions was due to an additional provision for long-outstanding invoices.

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 2021

(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>	
Assets							
Current assets							
Cash and cash equivalents	6 390	8 810	27 290	169 998	144 451	28	356 967
Short-term loans receivable	–	827	16 104	–	–	–	16 931
Contributions receivable	9 365	–	–	4 730	14 024	–	28 119
Accounts receivable	26 563	1 994	62	465	121	(17 808)	11 397
Other current assets	3 029	4	390	42	144	–	3 609
Operational Microfinance Department account with UNRWA	–	566	–	–	–	(566)	–
Inventories	17 302	4 339	–	38 061	24 170	–	83 872
Non-current assets							
Other non-current assets							
Long-term loans receivable	–	540	1 626	–	–	–	2 166
Property, plant and equipment	459 190	21	19	861	8 190	–	468 281
Intangible assets	104	–	15	177	–	–	296
Total assets	521 943	17 101	45 506	214 334	191 100	(18 346)	971 638
Liabilities							
Current liabilities							
Payables and accruals	92 076	793	610	12 262	21 045	(17 787)	108 999
Employee benefits	91 285	–	393	–	–	–	91 678
Operational Microfinance Department account with UNRWA	–	–	566	–	–	(566)	–
Other current liabilities	746	–	–	90	2	–	838
Advance contributions	10 768	–	–	–	–	(21)	10 747
Non-current liabilities							
Employee benefits	855 539	–	5 324	–	–	–	860 863
Other non-current liabilities	–	–	–	–	–	–	–
Total liabilities	1 050 414	793	6 893	12 352	21 047	(18 374)	1 073 125
Net assets/equity	(528 471)	16 308	38 613	201 982	170 053	28	(101 487)
Revaluation and other reserves	(83 390)	–	–	–	–	1 120	(82 270)
Capital reserve: microcredit community support programme and Microfinance Department	–	3 341	35 146	–	–	–	38 487
Accumulated surplus/(deficit)	(445 081)	12 967	3 467	201 982	170 053	(1 092)	(57 704)
Total net assets/equity	(528 471)	16 308	38 613	201 982	170 053	28	(101 487)

Segment reporting by fund: financial performance as at 31 December 2021

(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>	
Revenue							
Cash contributions	677 426	–	–	422 118	128 712	–	1 228 256
In-kind contributions	–	17 697	–	12 407	2 324	–	32 428
Interest on loans	–	107	6 795	–	–	–	6 902
Interest on bank deposits	787	2	807	84	11	–	1 691
Other revenue							
Foreign currency exchange gain	5 403	2 236	(681)	(1 204)	(244)	–	5 510
Indirect support cost recovery	37 999	4	–	–	–	(37 869)	134
Miscellaneous revenue	3 965	4 356	883	(9)	(450)	10	8 755
Total revenue	725 580	24 402	7 804	433 396	130 353	(37 859)	1 283 676
Expenses							
Wages, salaries and employee benefits	669 985	3 637	5 943	46 121	15 649	555	741 890
Supplies and consumables	29 688	12 607	269	91 952	3 078	–	137 594
Occupancy, utilities and premises costs	8 034	4 164	348	3 144	5 841	–	21 531
Contracted services	37 471	3 095	1 088	30 147	20 696	11	92 508
Indirect support costs	–	67	25	29 741	8 036	(37 869)	–
Subsidies	34 417	709	–	123 458	16 410	–	174 994
Depreciation and amortization	31 325	–	25	–	–	–	31 350
Provisions and write-offs	5 813	4	846	–	–	–	6 663
Loss on disposal	147	–	–	–	–	–	147
Total expenses	816 880	24 283	8 544	324 563	69 710	(37 303)	1 206 677
Surplus/(deficit) for the year	(91 300)	119	(740)	108 833	60 643	(556)	76 999

Segment reporting by human development goal: expenses as at 31 December 2021

(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	105 817	463 513	58 233	7 020	106 752	–	555	741 890
Supplies and consumables	30 427	9 715	90 117	601	6 734	–	–	137 594
Occupancy, utilities and premises costs	2 272	7 982	3 517	199	7 561	–	–	21 531
Contracted services	38 438	6 928	23 824	3 714	19 593	–	11	92 508
Indirect support costs	4 487	3 999	26 100	588	2 695	–	(37 869)	–
Subsidies	11 408	5 123	153 338	715	4 410	–	–	174 994
Depreciation and amortization	6 557	16 442	1 988	320	6 023	20	–	31 350
Provisions and write-offs	–	–	850	–	5 813	–	–	6 663
Loss on disposal	26	83	36	–	2	–	–	147
Total	199 432	513 785	358 003	13 157	159 583	20	(37 303)	1 206 677

Segment reporting by programme: expenses as at 31 December 2021

(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	493 498	85 977	31 142	28 351	2 352	64 191	35 824	555	741 890
Supplies and consumables	12 664	28 630	2 082	87 566	123	6 321	208	–	137 594
Occupancy, utilities and premises costs	9 186	1 589	4 168	1 062	1	5 023	502	–	21 531
Contracted services	9 266	32 603	11 524	5 272	1 700	24 513	7 619	11	92 508
Indirect support costs	5 021	3 203	4 079	22 135	260	2 324	847	(37 869)	–
Subsidies	2 147	6 883	8 868	153 167	397	1 235	2 297	–	174 994
Depreciation and amortization	17 897	5 139	1 920	723	40	5 214	417	–	31 350
Provisions and write-offs	–	–	–	850	–	5 813	–	–	6 663
Loss on disposal	83	2	60	–	–	2	–	–	147
Total	549 762	164 026	63 843	299 126	4 873	114 636	47 714	(37 303)	1 206 677

Segment reporting by geographical location: expenses as at 31 December 2021

(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>
Wages, salaries and employee benefits	309 571	88 470	50 308	135 182	117 387	40 417	555	741 890
Supplies and consumables	95 690	6 403	13 839	13 564	7 851	247	–	137 594
Occupancy, utilities and premises costs	6 403	4 372	1 719	3 822	4 683	532	–	21 531
Contracted services	26 116	24 429	5 510	8 414	11 005	17 023	11	92 508
Indirect support costs	17 057	5 688	9 134	2 289	2 934	767	(37 869)	–
Subsidies	49 747	36 076	56 514	20 210	10 187	2 259	–	174 994
Depreciation	16 232	2 966	1 595	2 550	5 733	2 274	–	31 350
Provisions and write-offs	34	57	2	645	180	5 746	–	6 663
Loss on disposal	139	5	–	–	3	–	–	147
Total	520 989	168 466	138 621	186 676	159 963	69 265	(37 303)	1 206 677

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 2020–2021 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 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; the in-kind donations budget; and the projects budget.

34.5 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.

34.6 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.

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

34.8 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.

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

34.10 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.

34.11 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 2021 is presented below.

(Thousands of United States dollars)

	<i>Operating</i>	<i>Investing</i>	<i>Financing</i>	<i>Total</i>
Actual amounts on a comparable basis (statement V)	799 301	50 740	–	850 041
Basis differences	91 133	(68 384)	–	22 749
Timing differences	–	–	–	–
Entity differences	98 116	(997)	2	97 121
Presentation differences	(873 630)	–	–	(873 630)
Actual amounts in the statement of cash flow (statement IV)	114 920	(18 641)	2	96 281

34.12 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.

34.13 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2020–2021 programme budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	<i>Total expenses</i>
Actual amounts on a comparable basis (statement V)	850 041
Basis differences	54 963
Timing differences	–
Entity differences	301 673
Actual amounts in the statement of financial performance (statement II)	1 206 677

Explanations of material differences

34.14 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)

34.15 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2021 budget allocation at year-end.

34.16 The 2021 programme budget, as reflected in the Blue Book for 2020–2021, amounted to \$1,080.93 million (on a modified cash basis). This is disclosed in financial statement V as “original” budget. On a modified cash basis, the final 2021 budget was \$1,033.06 million, representing a decrease of \$47.87 million, or 4.43 per cent. This is disclosed in financial statement V as “final” budget. The \$47.87 million is a reflection of the decrease in the final budget, owing mainly to a decrease in the final programme budget from \$918.4 million to \$823.3 million (including in-kind) and an increase in the final projects budget from \$162.5 million to \$209.8 million, including restricted funds (earmarked projects).

Utilization of the budget

34.17 The variation in the budgetary utilization of the different budget cost components is the result of various factors, such as management actions to reduce the cash shortfall; cash and food distribution from the social safety net programme; the impact of the COVID-19 pandemic, including lockdowns, restrictions on travel and human gatherings and remote working; and other budget reserves. The utilization rates against the various key cost components rates are as follows:

(a) *Staff costs.* The implementation rate is 97.3 per cent. The underutilization of \$17.76 million is due to: (i) the requirement to maintain a vacancy rate of 9 per cent for international staff (funded by assessed contributions); and (ii) underspending under extrabudgetary funds for international staff, fixed-term area staff and daily paid and limited duration contracts by \$10.5 million, resulting from the low rate of project implementation owing to lockdowns to control the COVID-19 pandemic;

(b) *Supplies.* The implementation rate is 88.0 per cent. The underutilization of \$5.1 million is due to the late receipt of project funds and the commitment of funds at year-end that were carried forward to 2022 and additional austerity measure on supplies;

(c) *Maintenance of premises and equipment.* The implementation rate is 61.5 per cent. The underspending of \$39.056 million is due to timing differences in project lifespans, austerity measures and the severe impact of COVID-19 on maintenance operations;

(d) *Training, travel, administrative services and consultancy.* The implementation rate is 78 per cent. The underutilization is due to cost control measures adopted to manage the cash deficit under the programme budget, the impact of COVID-19 and timing differences for project implementation;

(e) *Hospital and miscellaneous services.* The implementation rate is 91 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 the extension of 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 mainly to the late receipt of project funds and to the timing differences in the distribution of cash that is expected to be carried out in 2022;

(g) *Reserves.* Reserves represent the unfunded unallocated portion of the programme budget for headquarters. This amount is reallocated to other budget line items in accordance with the approval of the Executive Office through the decision notes and policy of the Advisory Committee on Resource Allocation. For projects, reserves are a temporary allocation until a detailed budget breakdown is received from the benefiting fields/headquarters departments.

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 2021 was as follows:

(Thousands of United States dollars)

Description	Total remuneration	Outstanding advances and loans	Number of individuals
Key management personnel	7 383	348	35
Total	7 383	348	35

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 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 and again in 2020. 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 2021 was \$0.025 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.

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

Note 37

Subsequent events

37.1 The Agency's reporting date is 31 December 2021 for the 2021 IPSAS financial statements. As at the date of approval and signing of these accounts, there have been no material events, whether favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have had an impact on these statements.

Note 38

Date and approval

38.1 The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2022.

